

Paragon Secured Finance (No. 1) PLC

(Incorporated with limited liability in England and Wales with registered number 4513329)

£231,000,000

Class A Mortgage Backed Floating Rate Notes Due 2035

Issue price: 100%

£42,000,000

Class B Mortgage Backed Floating Rate Notes Due 2035

Issue price: 100%

£27,000,000

Class C Mortgage Backed Floating Rate Notes Due 2035

Issue price: 100%.

The £231,000,000 Class A Mortgage Backed Floating Rate Notes Due 2035 of Paragon Secured Finance (No. 1) PLC (the "**Issuer**") (the "**Class A Notes**") will be issued by the Issuer together with the £42,000,000 Class B Mortgage Backed Floating Rate Notes Due 2035 of the Issuer (the "**Class B Notes**") and the £27,000,000 Class C Mortgage Backed Floating Rate Notes Due 2035 (the "**Class C Notes**") (the Class A Notes, the Class B Notes and the Class C Notes together being the "**Notes**" and the Class B Notes and the Class C Notes together being the "**Subordinated Notes**").

Interest on the Notes will be payable in pounds sterling quarterly in arrear on 15th May 2005 and thereafter on each subsequent 15th August, 15th November, 15th February and 15th May subject to adjustment in the manner described in this Offering Circular (each date as so adjusted, being an "**Interest Payment Date**"). Interest on the Subordinated Notes will be paid on an Interest Payment Date only if and to the extent that there are sufficient funds available to the Issuer on the Principal Determination Date (as defined herein) applicable to such Interest Payment Date to pay interest on such Notes, as more particularly described herein. To the extent that such funds are not sufficient to pay the full amount of interest on the Class B Notes and/or the Class C Notes on such Interest Payment Date, payment of the shortfall will be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such shortfall, on which Interest Payment Date payment of the shortfall will be made to the extent of such available funds. Such deferred interest will accrue interest at the rate of interest accruing on the relevant Subordinated Notes from time to time. The interest rates applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate ("**LIBOR**") for three month sterling deposits (or, in the case of the first Interest Period, by reference to a linear interpolation between 5 and 6 month sterling deposits) plus a margin which will differ for each class of Notes. The margins per annum applicable to each class of Notes, and the Interest Periods (as defined herein) for which such margins apply, will be as set out below:

- (a) Class A Notes: 0.20% up to and including the Step Up Date and thereafter 0.40%.
- (b) Class B Notes: 0.75% up to and including the Step Up Date and thereafter 1.50%.
- (c) Class C Notes: 1.00% up to and including the Step Up Date and thereafter 2.00%.

The "**Step Up Date**" is the Interest Payment Date falling in November 2009. The first Interest Period is expected to commence on (and include) 15th December 2004 and end on (but exclude) the Interest Payment Date falling in May, 2005. Interest payments on the Notes will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.

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

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

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

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

The Notes of each class will initially be represented by a Temporary Global Note (as defined in "Summary – Global Notes" below), without coupons or talons, which will be deposited with a common depository (the "**Common Depository**") for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**") at the closing of the issues of the Notes (which is expected to be on 15th December 2004). The Temporary Global Note relating to each class of Notes will be exchangeable 40 days after the closing of the issues of the Notes (provided that certification of non-U.S. beneficial ownership has been received) for interests in a Permanent Global Note (as defined in "Summary – Global Notes" below) relating to the same class which will also be deposited with the Common Depository. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

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

Lead Manager and Arranger
Barclays Capital

Co-Managers

ABN AMRO Deutsche Bank HSBC ING JPMorgan The Royal Bank of Scotland

The date of this Offering Circular is 14th December 2004.

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

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

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

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

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

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

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

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

In connection with the issues of the Notes, Barclays Bank PLC may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Closing Date (as defined in “Summary – Interest” below). However, there may be no obligation on Barclays Bank PLC to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

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SUMMARY

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

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

Issuer Paragon Secured Finance (No. 1) PLC, a public company incorporated under the laws of England, registered number 4513329 and a subsidiary of The Paragon Group of Companies PLC ("**PGC**"). The ordinary shares of PGC are listed by the UK Listing Authority and traded on the London Stock Exchange.

PFPLC Paragon Finance PLC ("**PFPLC**" or the "**Administrator**"), a public company incorporated under the laws of England and a wholly owned subsidiary of PGC.

PPF Paragon Personal Finance Limited ("**PPF**"), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.

PSFL Paragon Second Funding Limited ("**PSFL**"), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.

Mortgage Originator All of the Mortgages were, or will have been, originated by PPF.

Administrator PFPLC will be appointed to act as administrator of the Mortgages and to perform certain corporate, administrative and cash management services on behalf of the Issuer.

Trustee Citicorp Trustee Company Limited (the "**Trustee**") will act as trustee for the Noteholders and will hold the benefit of the security created by the Issuer on trust for, among others, the Noteholders.

The Notes £231,000,000 Class A Mortgage Backed Floating Rate Notes Due 2035, £42,000,000 Class B Mortgage Backed Floating Rate Notes Due 2035 and £27,000,000 Class C Mortgage Backed Floating Rate Notes Due 2035.

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

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

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

liabilities in respect of the Class A Notes. The Class B Notes rank after the Class A Notes in point of security.

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

Interest

The interest rates applicable to the Notes from time to time will be determined by reference to LIBOR for three month sterling deposits (or, in the case of the first Interest Period, by reference to a linear interpolation between 5 month and 6 month sterling deposits) plus a margin which will differ for each class of Notes. The margins per annum applicable to each class of Notes, and the Interest Periods for which such margins apply, will be as set out below:

- (a) in relation to the Class A Notes (the **“Class A Note Margin”**) 0.20% up to and including the Step Up Date and thereafter 0.40%;
- (b) in relation to the Class B Notes (the **“Class B Note Margin”**) 0.75% up to and including the Step Up Date and thereafter 1.50%;
- (c) in relation to the Class C Notes (the **“Class C Note Margin”**) 1.00% up to and including the Step Up Date and thereafter 2.00%.

The **“Step Up Date”** is the Interest Payment Date falling in November 2009.

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

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

Interest is payable in respect of the Notes (provided certification of non-U.S. beneficial ownership by the Noteholders has been

received) in pounds sterling quarterly in arrear on 15th May 2005 and thereafter on each subsequent 15th August, 15th November, 15th February and 15th May or, if any such day is not a Business Day (as defined below), on the immediately succeeding Business Day.

The first Interest Period will commence on (and include) the date of the closing of the issue of the Notes, which is expected to be 15th December 2004 or such later date as may be agreed between the Issuer and the Managers for each class of Notes (the “**Closing Date**”), and end on (but exclude) the Interest Payment Date falling in May 2005. Each subsequent Interest Period applicable to the Notes will commence on (and include) an Interest Payment Date and end on (but exclude) the next succeeding Interest Payment Date.

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

“**Business Day**” means a day (other than a Saturday or Sunday) on which banks are generally open for business in London.

Security for the Notes

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

- (i) the Mortgages to be purchased by the Issuer (including any Further Mortgages);
- (ii) various other insurance policies relating to the Mortgages in which the Issuer has an interest;
- (iii) the Issuer’s rights under the Mortgage Sale Agreement, the Administration Agreement, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the Swap Agreement, the Collection Account Declaration of Trust, the Caps (as defined in “Hedging Arrangements” below) and other hedging arrangements entered into by the Issuer, the Substitute Administrator Agreement and the VAT Declaration of Trust;
- (iv) any investments in which the Issuer may place any cash which it owns; and
- (v) the Issuer’s rights to all moneys standing to the credit of the bank account of the Issuer with National Westminster Bank Plc at its branch at 4 High Street, Solihull, West Midlands B91 3WL (or such other bank account as the Issuer, subject to certain restrictions and with the consent of the Trustee, may from time to time select for such purpose) into and out of which all payments to and by the Issuer will be made (the “**Transaction Account**”) and any other bank accounts in which the Issuer has an interest.

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

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

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

Use of Ledgers – the Issuer

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

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

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

Priority of Payments – prior to enforcement

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

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

- (i) *pro rata* according to the respective amounts thereof, payment of amounts (if any) due and payable by the Issuer to the Trustee, and payment of amounts due and payable by the Issuer to the Substitute Administrator pursuant to the Substitute Administrator Agreement (other than the commitment fee referred to therein);
- (ii) *pro rata* according to the respective amounts thereof, payment of all fees (other than the Administration Subordinated Fee) and out-of-pocket expenses due and payable to the Administrator and/or any substitute administrator under the Administration Agreement, certain commissions previously received by the Issuer which have not previously been paid to PPF and the commitment fee due and payable to the Substitute Administrator pursuant to the Substitute Administrator Agreement;
- (iii) *pro rata* according to the respective amounts thereof, (a) payment of any amounts due and payable to the Swap Counterparty under the Swap Agreement or to any Permitted Hedge Provider under any other hedging arrangements entered into by the Issuer, in each case other than (i) any Swap Counterparty Subordinated Amounts and (ii) any Withholding Compensation Amounts; and (b) payment of interest due and payable and all arrears of interest remaining unpaid on the Class A Notes together with (if applicable) interest thereon;
- (iv) if on that Interest Payment Date, any Class A Note remains outstanding and the application of moneys in this priority of payments would, if this paragraph (iv) did not apply, result in the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) following such application exceeding the aggregate of (x) the Principal Amount Outstanding (as defined in Condition 5(b)(i) of the Class B Notes) of the Class B Notes (after deducting the

amount of any Class B Available Redemption Funds on the Principal Determination Date relating to that Interest Payment Date) and (y) the Principal Amount Outstanding (as defined in Condition 5(b)(i) of the Class C Notes) of the Class C Notes (after deducting the amount of any Class C Available Redemption Funds on the Principal Determination Date relating to that Interest Payment Date), then this paragraph (iv) shall apply and an amount shall be applied: (a) first in making a provision for an amount up to that excess, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below) on the immediately following Principal Determination Date; and then (b) in an amount necessary to replenish the First Loss Fund to the Required Amount specified in “First Loss Fund” below;

- (v) payment of interest due and payable and all arrears of interest remaining unpaid (including Additional Interest (as defined in the Terms and Conditions of the Class B Notes below)) on the Class B Notes together with (if applicable) interest thereon;
- (vi) if on that Interest Payment Date, any Class B Note remains outstanding and the application of moneys in this priority of payments would, if this paragraph (vi) did not apply, result in the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) following such application exceeding the Principal Amount Outstanding (as defined in Condition 5(b)(i) of the Class C Notes) of the Class C Notes (after deducting the amount of any Class C Available Redemption Funds on the Principal Determination Date relating to that Interest Payment Date) then this paragraph (vi) shall apply and an amount shall be applied: (a) first in making a provision for an amount up to that excess, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below) on the immediately following Principal Determination Date and then (b) in an amount necessary to replenish the First Loss Fund to the Required Amount specified in “First Loss Fund” below;
- (vii) payment of interest due and payable and all arrears of interest remaining unpaid (including Additional Interest (as defined in the Terms and Conditions of the Class C Notes below)) on the Class C Notes together with (if applicable) interest thereon;
- (viii) *pro rata* according to the respective amounts thereof, payment of sums due and payable to third parties under obligations incurred in the course of the Issuer’s business and provision for and payment of the Issuer’s liability (if any) to value added tax and to corporation tax and/or the balance, if any, of the VAT liability of the Paragon VAT Group following a demand being made by H.M. Customs & Excise on the Issuer where the VAT liability is not satisfied in full in accordance with the Deed of Charge, the Administration Agreement and the VAT Declaration of Trust (see “The Paragon VAT Group” below);
- (ix) (taking into account any reduction of any debit balance on the Principal Deficiency Ledger under paragraphs (iv) and (vi) 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 (as defined below) on the immediately following Principal Determination Date;

- (x) (taking into account any replenishment made in respect of the First Loss Fund under paragraphs (iv) and (vi) above) provision for an amount necessary to replenish the First Loss Fund to the Required Amount specified in “First Loss Fund” below;
- (xi) *pro rata* according to the respective amounts thereof, payment of any Withholding Compensation Amounts and any Swap Counterparty Subordinated Amounts due and payable to the Swap Counterparty under the Swap Agreement or to any Permitted Hedge Provider (as defined under “Hedging Arrangements” below) under any other hedging arrangements entered into by the Issuer;
- (xii) provision for, at the option of the Issuer, a reserve to fund any purchases of Caps and/or other hedging arrangements and/or related guarantees in the next Interest Period;
- (xiii) provision for any Administration Subordinated Fee then due or overdue to the Administrator and/or any substitute administrator under the Administration Agreement;
- (xiv) provision for any amounts then due or overdue to PFPLC under the Fee Letter;
- (xv) provision for interest due under the Subordinated Loan Agreement;
- (xvi) provision for the repayment of the outstanding amount of any advances made under the Subordinated Loan Agreement, subject to a maximum provision of the lesser of (a) the aggregate outstanding amount of all such advances less the Required Amount; and (b) the amount available for application having made in full all provisions and payments referred to in paragraphs (i) to (xv) inclusive above;
- (xvii) provision for payment to the Administrator or PFPLC of such fees as the Issuer and the Administrator or PFPLC, as the case may be, may agree (including, without limitation, in the Services Letter) in respect of facilities or services provided to the Issuer by the Administrator or PFPLC, as the case may be, other than fees provided for above; and
- (xviii) the balance to the Issuer to enable it to pay or provide for the payment of any dividends or other distributions to be made by the Issuer,

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

If and to the extent that the provisions specified in paragraphs (xiv) to (xvii) (inclusive) are made on such Interest Payment Date, the relevant amounts shall be paid to the persons entitled thereto on or (with the prior consent of PFPLC) after the first Business Day after such Interest Payment Date to the extent that the amounts credited to the Transaction Account representing a credit balance on the Revenue Ledger are sufficient for such purpose.

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

Priority of Payments – post enforcement

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

- (i) (a) remuneration payable to any receiver appointed under the Deed of Charge and any costs, charges, liabilities and expenses incurred by such receiver together with interest as provided in the Deed of Charge; (b) amounts due from the Issuer to the Trustee, together with interest thereon as provided in the Deed of Charge; and (c) amounts due from the Trustee to borrowers relating to Mandatory Further Advances;
- (ii) all fees (other than the Administration Subordinated Fee) and out-of-pocket expenses due and payable to the Administrator and/or any substitute administrator under the Administration Agreement, certain commissions previously received by the Issuer which have not previously been paid to PPF and all moneys due and payable under the Substitute Administrator Agreement (including the commitment fee payable to the Substitute Administrator);
- (iii) (a) any amounts due and payable by the Issuer to the Swap Counterparty or to any Permitted Hedge Provider, in each case other than (i) any Swap Counterparty Subordinated Amounts and (ii) any Withholding Compensation Amounts; (b) all interest unpaid in respect of the Class A Notes (together with any unpaid interest thereon); (c) all principal moneys due in respect of the Class A Notes; and (d) any other amounts due in respect of the Class A Notes;
- (iv) (a) all interest unpaid in respect of the Class B Notes (together with any unpaid interest thereon); (b) all principal moneys due in respect of the Class B Notes; and (c) any other amounts due in respect of the Class B Notes;
- (v) (a) all interest unpaid in respect of the Class C Notes (together with any unpaid 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;
- (vi) any Withholding Compensation Amounts and any Swap Counterparty Subordinated Amounts due and payable by the Issuer to the Swap Counterparty or to any Permitted Hedge Provider;
- (vii) provision for any Administration Subordinated Fee then due or overdue to the Administrator and/or any substitute administrator under the Administration Agreement;
- (viii) all amounts due and payable by the Issuer (a) to PFPLC under the Fee Letter, the Services Letter, the Deed of Charge and the Subordinated Loan Agreement; (b) to PPF under the Mortgage Sale Agreement, the Administration Agreement and the Deed of Charge; and (c) to any other lender under the Subordinated Loan Agreement; and
- (ix) the surplus (if any) to the Issuer.

Mandatory Redemption in Part

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

Up to and including the later of the Interest Payment Date falling in November 2009 and the first Interest Payment Date on which the ratio of the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes to the sum of (a) the aggregate Principal Amount Outstanding of the Class A Notes and (b) the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes is 1 : 2.169 or more (such circumstance constituting the “**Determination Event**”), all Available Redemption Funds will be applied in mandatory redemption of the Class A Notes.

After the occurrence of the Determination Event, on each Interest Payment Date, provided that (a) on the immediately preceding Interest Payment Date, after the application of the moneys in the Transaction Account representing the credit balance on the Revenue Ledger in accordance with the priority of payments set out in “Priority of Payments – prior to enforcement” (including any amounts debited from the First Loss Ledger and applied in accordance with the priority of payments as specified in “First Loss Fund” below) on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, (i) there is a balance of zero on the Principal Deficiency Ledger and (ii) the amount of the First Loss Fund is not less than the Required Amount; and (b) on the immediately preceding Principal Determination Date the then outstanding balance, including arrears of interest and all other sums due and payable but unpaid (the “**Current Balance**”), of Mortgages which are more than three months in arrears represents less than 10% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time), Available Redemption Funds will be applied in *pro rata* redemption of the Class A Notes, the Class B Notes and the Class C Notes, where the Class A Notes have not been redeemed in full, so as to achieve and then maintain the ratio referred to in the preceding paragraph provided that:

- (i) if all Class A Notes have been redeemed in full, all Available Redemption Funds will be applied to redeem the Class B Notes;
- (ii) while any Class A Note remains outstanding, the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes may not be less than £14,280,000; and
- (iii) if all Class B Notes have been redeemed in full, all Available Redemption Funds will be applied in redemption of the Class C Notes.

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

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

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

less

- (b) the aggregate of:
 - (i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the Relevant

Collection Period (or expected to be made on or prior to the Principal Determination Date immediately succeeding the Relevant Collection Period) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;

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

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

Optional Redemption of Class A Notes

In the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class A Notes, or in the event that the Issuer or the Swap Counterparty or any Permitted Hedge Provider is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under the Swap Agreement or other relevant hedging arrangements, or in the event of certain other United Kingdom taxation changes then, provided that all the Subordinated Notes are to be redeemed in full at the same time, all (but not some only) of the Class A Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date. The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer has agreed under the Swap Agreement that it will, subject to and in accordance with the agreed order of priority of payments referred to under "Priority of Payments – prior to enforcement" above, pay Withholding Compensation Amounts to the Swap Counterparty (see "The Issuer – Hedging Arrangements" below). Furthermore, the Issuer will also be entitled, but not obliged, to redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after November 2008 provided that all

the Subordinated Notes are to be redeemed in full at the same time.

All (but not some only) of the Class A Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes then outstanding is less than £60,000,000 provided that all the Subordinated Notes are to be redeemed in full at the same time.

Optional Redemption of Class B Notes

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

Provided that (i) the Class C Notes are to be redeemed in full at the same time and (ii) either there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes may, at the option of the Issuer, be redeemed in full at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after November 2008 or, if the Class A Notes have already been redeemed in full, on any Interest Payment Date falling on or after the date on which all the Class A Notes were redeemed in full.

Optional Redemption of Class C Notes

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

under “Priority of Payments – prior to enforcement” above, pay Withholding Compensation Amounts to the Swap Counterparty (see “The Issuer – Hedging Arrangements” below).

Provided that there are no Class A Notes or Class B Notes then outstanding or all the Class A Notes and the Class B Notes are to be redeemed in full at the same time, all (but not some only) of the Class C Notes may, at the option of the Issuer, be redeemed in full at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after November 2008 or, if the Class A Notes and Class B Notes have already been redeemed in full, on any Interest Payment Date falling on or after the date on which all the Class A Notes and the Class B Notes were redeemed in full.

Purchase of Notes

The Issuer may not purchase Notes of any Class at any time.

Final Redemption

To the extent not otherwise redeemed (i) the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in November 2035; (ii) the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in November 2035; and (iii) the Class C Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in November 2035.

Principal Amount Outstanding and Pool Factor

The Principal Amount Outstanding of a Note, irrespective of class, will be its initial principal amount less the aggregate amount of the principal repayments that have been made or fallen due (whether or not paid) on that Note. The Pool Factor for each Note during an Interest Period will be determined by dividing the Principal Amount Outstanding of such Note on the first day of that Interest Period (after deducting any principal repayment due on that day) by the initial Principal Amount Outstanding of that Note and expressing the quotient to the sixth decimal place.

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

The Mortgages

The mortgages, and the loans secured thereby (together the “**Mortgages**”) the beneficial interest in which will be acquired by the Issuer and which will form part of the security for the Notes, were or will be originated as loans secured by second or subsequent ranking mortgages or (in Scotland) standard securities by PPF and PPF will remain the legal owner of the Mortgages. The borrowers in respect of the Mortgages are individuals.

The Mortgages will be acquired by the Issuer pursuant to a mortgage sale agreement to be dated on or before the Closing Date, between the Issuer, PPF, PFPLC, the Trustee and PSFL (the “**Mortgage Sale Agreement**”). The Mortgages acquired by the Issuer on the Closing Date are referred to as the “**Initial Mortgages**”. No notice of the transfer of the Initial Mortgages will be given to borrowers nor will the transfer of the Mortgages relative thereto to the Issuer be perfected unless, *inter alia*, there has been a breach of the Administration Agreement that gives rise to the Trustee’s rights to terminate the Administration Agreement or the

Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Mortgage, PFPLC is in breach of its purchase obligations (as described below) under the Mortgage Sale Agreement.

Under the Mortgage Sale Agreement the Issuer may purchase Further Mortgages from PPF at any time up to and including the Interest Payment Date falling in November 2008 in accordance with, and to the extent permitted by, the Mortgage Sale Agreement and the Administration Agreement, provided that the conditions precedent to such further purchase set out in the Mortgage Sale Agreement and the Administration Agreement have been met.

Location of the properties secured by the Mortgages

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

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

Accruals and arrears in respect of the Mortgages

As at the Closing Date (or, in the case of a Further Mortgage, on the date of purchase by the Issuer), there will be Mortgages which are to be sold to the Issuer which will have outstanding arrears in excess of one current monthly payment under such Mortgages (“**Arrears Mortgages**”). As at the Provisional Pool Date, Arrears Mortgages comprised £7,157,585.93 by aggregate principal balance of the Provisional Mortgage Pool. Any arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any Mortgage other than an Arrears Mortgage (“**Retained Pre-Closing Accruals and Arrears**”) will not be purchased by the Issuer, and any payments received in respect of such Mortgage after the date of its purchase will be applied first to those arrears, other amounts and accrued interest and will be accounted for to PPF.

The maximum aggregate principal amount of Arrears Mortgages which may be purchased by the Issuer (whether at or after the Closing Date) (when aggregated with any other Arrears Mortgages previously purchased) is £15,000,000 at the time of purchase.

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

Selection of Mortgages

The Mortgages to be purchased by the Issuer on the Closing Date will be selected from the pool of mortgages to which the statistical

and other information contained in this Offering Circular relates (see “The Provisional Mortgage Pool” below) and from other mortgages not included in the Provisional Mortgage Pool. Mortgages purchased by the Issuer after the Closing Date but on or prior to the Interest Payment Date falling in November 2008 (the “**Further Mortgages**”) must meet the criteria specified in the section “Further Mortgages” below.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 25 years. Principal payments may be made in whole or in part at any time during the term of a Mortgage at the option of the relevant borrower. Any such payments received by the Issuer in respect of a Mortgage (whether or not scheduled) will form part of the moneys included in the calculation of Available Redemption Funds. The calculation of Available Redemption Funds also includes deductions from the foregoing amounts to the extent of Mandatory Further Advances or Discretionary Further Advances.

All of the Mortgages will comprise Variable Rate Mortgages or Non-Standard Mortgages (see “The Mortgages” below) which meet or, in respect of Further Mortgages, will meet certain lending criteria (see “Current Lending Guidelines” below) at the time of origination by PPF. The Issuer will have the benefit of warranties given by PFPLC in relation to the Mortgages. PFPLC will be required to purchase from the Issuer any Mortgage sold to the Issuer by PPF if there is, at the relevant purchase date, a material breach of any of such warranties.

Pre-Funding Reserve

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

It is expected that the Pre-Funding Reserve, as at the Closing Date, will be approximately £59,000,000.

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

Further Mortgages

The Issuer will be entitled to purchase Further Mortgages at any time up to and including the Interest Payment Date falling in November 2008 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 Further Mortgages by the Issuer will be subject to, *inter alia*:

- (i) the confirmation of the Rating Agencies that such purchase will not adversely affect any of the then current ratings of the Notes, if purchased using funds standing to the credit of the Pre-Funding Reserve Ledger;

- (ii) the Further Mortgages meeting substantially the same lending criteria as those which applied to similar Mortgages purchased on the Closing Date;
- (iii) the sum of all Mandatory Further Advances which could be required to be made pursuant to such Further Mortgages not, when aggregated with all outstanding Mandatory Further Advances which the Issuer could be required to make under all other Mortgages purchased by the Issuer on or after the Closing Date, exceeding £5,000,000;
- (iv) (a) the aggregate of the then Current Balances of Mortgages which are more than three months in arrears representing 10% or less (taking into account the effect on the Mortgages of such purchase and the purchase of any other Mortgage by the Issuer on the same day) (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of the then Current Balances of all of the Mortgages; and (b) the aggregate of payments of interest received from borrowers in respect of all Mortgages during the period of three months ending on the immediately preceding Principal Determination Date being 95% or more (taking into account the effect on the Mortgages of such purchase and the purchase of any other Mortgage by the Issuer on the same day) (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of interest which fell due for payment by borrowers in respect of all Mortgages in such period;
- (v) the balance on the Principal Deficiency Ledger being not less than zero;
- (vi) the current balance of the First Loss Fund being not less than the Required Amount;
- (vii) the product of the weighted average foreclosure frequency (“**WAFF**”) and the weighted average loss severity (“**WALS**”) for the Mortgages which are current, not having completed the arrears and default procedures referred to under “Mortgage Administration – Arrears and Default Procedures” below, (taking into account the effect on the Mortgages of such purchase and the purchase of any other Mortgage by the Issuer on the same day), calculated on the same basis as applied to the WAFF and WALS which the Rating Agencies required to be calculated for the Mortgages on the Closing Date (or as otherwise agreed with the Rating Agencies from time to time) not exceeding the product of the WAFF and WALS for the Mortgages as calculated on the Closing Date by more than 0.25% (or such other percentage as may be agreed with the Ratings Agencies from time to time); and
- (viii) the provision, by each of the Issuer, PPF and PFPLC, of solvency certificates, each dated the date of such purchase and signed by an authorised officer of the relevant company.

PPF and PFPLC (in its capacity as administrator) must provide a certificate to the Trustee dated the date of such purchase of any Further Mortgages, to the effect that, among other things, the conditions precedent listed in items (i) to (vii) above in this paragraph, and such other conditions precedent as are specified in the Administration Agreement, have been satisfied as at the date of such certificate. In addition, PFPLC will be required, pursuant to the terms of the Mortgage Sale Agreement, to make, as at the date of

purchase, the same representations and warranties (including a warranty that at least one payment in respect of each Mortgage has fallen due and that the full amount of such payment was received) in respect of any purchases of Further Mortgages which PFPLC gave as at the Closing Date in relation to the similar Mortgages purchased on such date.

A Further Mortgage may be purchased on any Business Day on or before the Interest Payment Date falling in November 2008 but only to the extent of any funds standing to the credit of the Principal Ledger, which will include funds retained for this purpose under (b)(iii) of the definition of Available Redemption Funds, on that day, or, in the case of the period from the Closing Date to the first Principal Determination Date, only to the extent of the funds standing to the credit of the Pre-Funding Ledger plus the Principal Ledger.

No notice of the transfer of Further Mortgages will be given to borrowers nor will the transfer of Further Mortgages relative thereto to the Issuer be perfected unless, *inter alia*, there has been a breach of the Administration Agreement that gives rise to the Trustee's rights to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Further Mortgage, PFPLC is in breach of its repurchase obligations under the Mortgage Sale Agreement.

Further Advances in respect of the Mortgages

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

The Issuer will be restricted under the terms of the Administration Agreement from purchasing Further Mortgages if, as a consequence of such purchase, the aggregate of all outstanding Mandatory Further Advances which the Issuer could be required to make under the Mortgages would exceed £5,000,000.

Subject to the satisfaction of certain conditions, the Issuer may make or fund Discretionary Further Advances provided that (a) there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date (or, to the extent that there is not, before any such Discretionary Further Advance is made a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the Principal Deficiency Ledger, is sufficient to reduce to zero any such debit balance on the Principal Deficiency Ledger), (b) the First Loss Fund is at least equal to the Required Amount on the immediately preceding Interest Payment Date (or, to the extent that it is not, before any such Discretionary Further Advance is made a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the First Loss Ledger, is sufficient to replenish the First Loss Fund to the Required Amount); and (c) the sum of (i) all Discretionary Further Advances (other than by way of capitalisation of arrears) which have been made since the Closing Date or which are proposed to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made; (ii) all Mandatory Further Advances which have been made since the Closing Date or which are to be made on or before the date on

which the relevant Discretionary Further Advance is proposed to be made which, in the case of each of sub-paragraphs (i) and (ii) above, have been or are to be funded by the Issuer out of principal received or recovered or deemed to have been received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose; and (iii) all Mandatory Further Advances which may be required to be made after the making of the relevant Discretionary Further Advance, would not, on the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £15,000,000.

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

Conversion of Mortgages

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

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

Receipt of moneys in respect of Mortgages

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages will be paid into a collection account in the name of PPF and specified as the "Collection Account" in the Trust Deed (the "**Collection Account**"). All moneys received in respect of the Mortgages will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

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

Mortgage Administration

Pursuant to an agreement to be entered into between PFPLC, PPF, the Issuer and the Trustee (the "**Administration Agreement**"), PFPLC will administer the Mortgages on behalf of the Issuer. The Administrator will set the rates of interest applicable to the Mortgages (where relevant). The Issuer will pay the Administrator fees for its services as an Administrator as follows: (i) a fee of not more than 0.15% per annum, the "**Administration Senior Fee**"; and (ii) a fee of not more than 0.15% per annum, the "**Administration Subordinated Fee**" in each case such rates being inclusive of VAT and each such fee being calculated by applying such rate to the aggregate interest charging balances of

the Mortgages administered by the Administrator at the beginning of each Relevant Collection Period. Each such fee will be payable quarterly in arrear by the Issuer. Any substitute administrator appointed (other than as administrator of last resort) would receive a fee consistent with that commonly charged at that time for the provision of mortgage administration services. Pursuant to an agreement to be entered into on the Closing Date with the Substitute Administrator (the “**Substitute Administrator Agreement**”), the Substitute Administrator will agree to be administrator of last resort and, in the event that it became the administrator, it would become entitled (in place of PFPLC) to the Administration Senior Fee at the rate of 0.30% per annum and the Administration Subordinated Fee at the rate of nil% per annum, in each case such rates being exclusive of VAT and each such fee being calculated by applying such rate to the aggregate interest charging balances of the outstanding Mortgages at the beginning of each Relevant Collection Period. Each such fee will be payable quarterly in arrear by the Issuer.

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

Insurances

The Security for the Notes will include the relevant interests of the Issuer in respect of certain insurances as described in the section entitled “Insurance Coverage” below.

First Loss Fund

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount which equals 4.5% of the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes as at the Closing Date and will credit such amount to the First Loss Ledger for the purpose of establishing a fund (the “**First Loss Fund**”). The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of or provision for the amounts referred to in items (i) to (iii) inclusive and, subject to the next paragraph, items (v), (vii) and (viii), and, in any event (and not subject to the next paragraph), item (ix) in the priority of payments set out in “Priority of Payments – prior to enforcement” above where the income of the Issuer and the amount available to the Issuer (if any) on such Interest Payment Date in any Shortfall Fund as described below, is insufficient to pay such amounts.

The First Loss Fund will not be applied towards payment of items (v), (vii) or (viii) in the priority of payments set out in “Priority of Payments – prior to enforcement” above if on that Interest Payment Date an amount is payable at item (iv) in that priority of payments. The First Loss Fund will not be applied towards payment of item (vii) or (viii) in that priority of payments if on that Interest Payment Date an amount is payable at item (vi) in that priority of payments (as set out in “Priority of Payments – prior to enforcement” above).

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

On each Interest Payment Date revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (ix) inclusive

(or, (a) if on that Interest Payment Date an amount is payable at item (iv) in the priority of payments, items (i) to (iv)(a) inclusive; and (b) if on that Interest Payment Date an amount is payable at item (vi) in the priority of payments, items (i) to (vi)(a) inclusive) will be applied to replenish the First Loss Fund to the Required Amount.

Subject as provided in the next sentence of this paragraph and in the next paragraph, the Required Amount (the “**Required Amount**”) will be the amount of the First Loss Fund on the first Principal Determination Date or such other amount (including a reduction thereof) as may have been agreed with the Rating Agencies. If, on any Principal Determination Date, (a) the aggregate of the then Current Balances of Mortgages which are more than three months in arrears represent more than 10% (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of the then Current Balances of all of the Mortgages; or (b) the aggregate of payments of interest received from borrowers in respect of all Mortgages during the period of three months ending on the immediately preceding Principal Determination Date is less than 95% (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of interest which fell due for payment by borrowers in respect of all Mortgages in such period, then the Required Amount will be increased to an amount which equals 5.3% of the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes as at the Closing Date.

If at any time, as a result of the rate at which amounts are received in respect of Purchased Pre-Closing Accruals and Arrears, Fitch and/or Standard & Poor’s notifies the Issuer that the then current Required Amount would have to be increased to a higher amount (the “**Increased Required Amount**”) in order to maintain the then current ratings of the Notes, the Required Amount shall be so increased to such higher amount with effect from the date on which Fitch and/or Standard & Poor’s so notifies the Issuer and such Increased Required Amount (or any subsequent Increased Required Amount specified by Fitch and/or Standard & Poor’s) shall continue to apply as the Required Amount until such time as Fitch and Standard & Poor’s confirms to the Issuer that the Required Amount may be reduced to the amount which would otherwise have applied, or otherwise specifies a new Increased Required Amount. If, after application of any funds required to be applied from the First Loss Fund on any Interest Payment Date, there remains on that Interest Payment Date a surplus over the Required Amount in the First Loss Fund, that surplus will be released from the First Loss Fund and applied in repayment of principal amounts outstanding under the Subordinated Loan Agreement.

Shortfall Fund

The Issuer may at any time, with the prior consent of PFPLC, draw down under the Subordinated Loan Agreement for the purpose of establishing a shortfall fund (the “**Shortfall Fund**”). If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer, all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account (as to which see “Reinvestment of Income” below) and all amounts recovered in respect of early redemption amounts is less than 4.5% (or such higher percentage as the Issuer may from time to time select and

notify to the Trustee) above the LIBOR applicable to the Notes for the then current Interest Period, then the Administrator may do so only if there is a sufficient credit balance in the Shortfall Fund (net of all provisions previously made during the then current Interest Period) in order to provide for the shortfall which would arise at the end of the then current Interest Period and the Issuer makes a provision in the Shortfall Fund equal to such shortfall.

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

Hedging Arrangements

On or about the Closing Date, the Issuer will enter into an ISDA master agreement (together with any confirmations for specific transactions, the "**Swap Agreement**") with Barclays Bank PLC as swap counterparty (the "**Swap Counterparty**" or the "**Swap Provider**"). Under this, the Issuer may in the future enter into one or more interest rate swaps or caps or other hedging arrangements thereunder, each in accordance with Fitch's and Standard & Poor's requirements to hedge any Fixed Rate Mortgages, Capped Rate Mortgages and/or Collared Rate Mortgages that are acquired by the Issuer.

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

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

Reinvestment of Income

Cash in the Transaction Account must be invested in sterling denominated securities, bank accounts or other obligations of or rights against entities whose long term debt is rated AAA by Fitch and AAA by Standard & Poor's or whose short term debt is rated at least F1 by Fitch and at least A-1 by Standard & Poor's (or in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes then outstanding, the Class C Notes) ("**Authorised**

Investments"). Any investments made by the Issuer must also satisfy certain further criteria described in "Mortgage Administration – Reinvestment of Income" below.

Until such time as the Notes are redeemed in full, an amount equal to the First Loss Fund must be invested in accordance with the criteria applicable to cash held in the Transaction Account specified in the preceding paragraph, save that the relevant short term debt rating by Fitch and Standard & Poor's of the entity in which the investment or investments is or are made must, in the case of the First Loss Fund, be at least F1+ by Fitch and A-1+ by Standard & Poor's.

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

Further, any moneys invested as Authorised Investments in entities rated F1 by Fitch may not be invested for a period of more than 30 days.

Global Notes

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

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

Note of the relevant class for the Permanent Global Note of that class, which date shall be no earlier than the Exchange Date (as defined in the relevant Temporary Global Note); or (ii) the first Interest Payment Date in relation to the Notes, in order to obtain any payment due on the Notes.

Relationship between Noteholders

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

The trust deed constituting the Notes will also contain provisions requiring the Trustee to have regard only to the interests of the Class B Noteholders if, in its opinion, there is a conflict between the interests of the Class B Noteholders and the interests of the Class C Noteholders. The trust deed will also contain provisions limiting the powers of the Class C Noteholders, among other things, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution if such action or the effect of such Extraordinary Resolution would be materially prejudicial to the interests of the Class B Noteholders. The Class C Noteholders will not be entitled to request or direct the Trustee to accelerate payment by the Issuer of the Class C Notes upon the occurrence of an Event of Default unless payment of the Class A Notes (if any) and the Class B Notes is also accelerated or there are no Class A Notes or Class B Notes outstanding.

Fee Letter

PFPLC has agreed to arrange the issue of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issue of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. PFPLC will pay, on behalf of the Issuer, or reimburse to the Issuer, the management and underwriting commissions and selling commissions due to the Managers referred to in "Subscription and Sale" below and any expenses payable by the Issuer in connection with the issues of the Notes. The Issuer will agree under a fee letter to be entered into on the Closing Date (the "**Fee Letter**") that it will pay PFPLC an arrangement fee of 0.4% of the aggregate principal amount of the Notes and that it will repay PFPLC such

commissions and such expenses in 16 quarterly instalments beginning on the first Business Day after the first Interest Payment Date. Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR (or such other rate which PFPLC and the Issuer agree to be a fair commercial rate at the time) payable quarterly in arrear.

Services Letter

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

Subordinated Loan Agreement

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

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

In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (a) (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances; and (b) (subject to the other conditions applicable to the purchasing of Further Mortgages) to purchase Further Mortgages; (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Ledger, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (a) (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances; and (b) (subject to the other conditions applicable to the purchasing of Further Mortgages) to purchase Further Mortgages; and/or (iii) to enable the Issuer to make any Discretionary Further Advances when the cumulative limit of £15,000,000 referred to under “Further Advances in respect of the Mortgages” above is exceeded.

PFPLC will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have

sufficient funds available to it, after making the payments and provisions specified in items (i) to (x) inclusive in the priority of payments set out in “Priority of Payments – prior to enforcement” above, by paying directly to the Swap Provider or relevant Permitted Hedge Provider any Swap Counterparty Subordinated Amounts due and payable on such Interest Payment Date; and (ii) to enable the Issuer to pay that part of the purchase price for Further Mortgages represented by unamortised commissions.

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

In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement in order to fund (if necessary) purchases by the Issuer of Caps or other hedging arrangements (and any related guarantee) to hedge the Issuer’s interest rate exposure on Fixed Rate Mortgages, Capped Rate Mortgages or Collared Rate Mortgages.

On any Interest Payment Date, sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (see “Priority of Payments – prior to enforcement” above) (provided that while any Notes remain outstanding no such repayment may be made if it would result in the principal amount outstanding in respect of the Subordinated Loan Agreement being less than the Required Amount and provided further that the Issuer and PFPLC may agree that any such repayment may be waived or deferred in whole or in part).

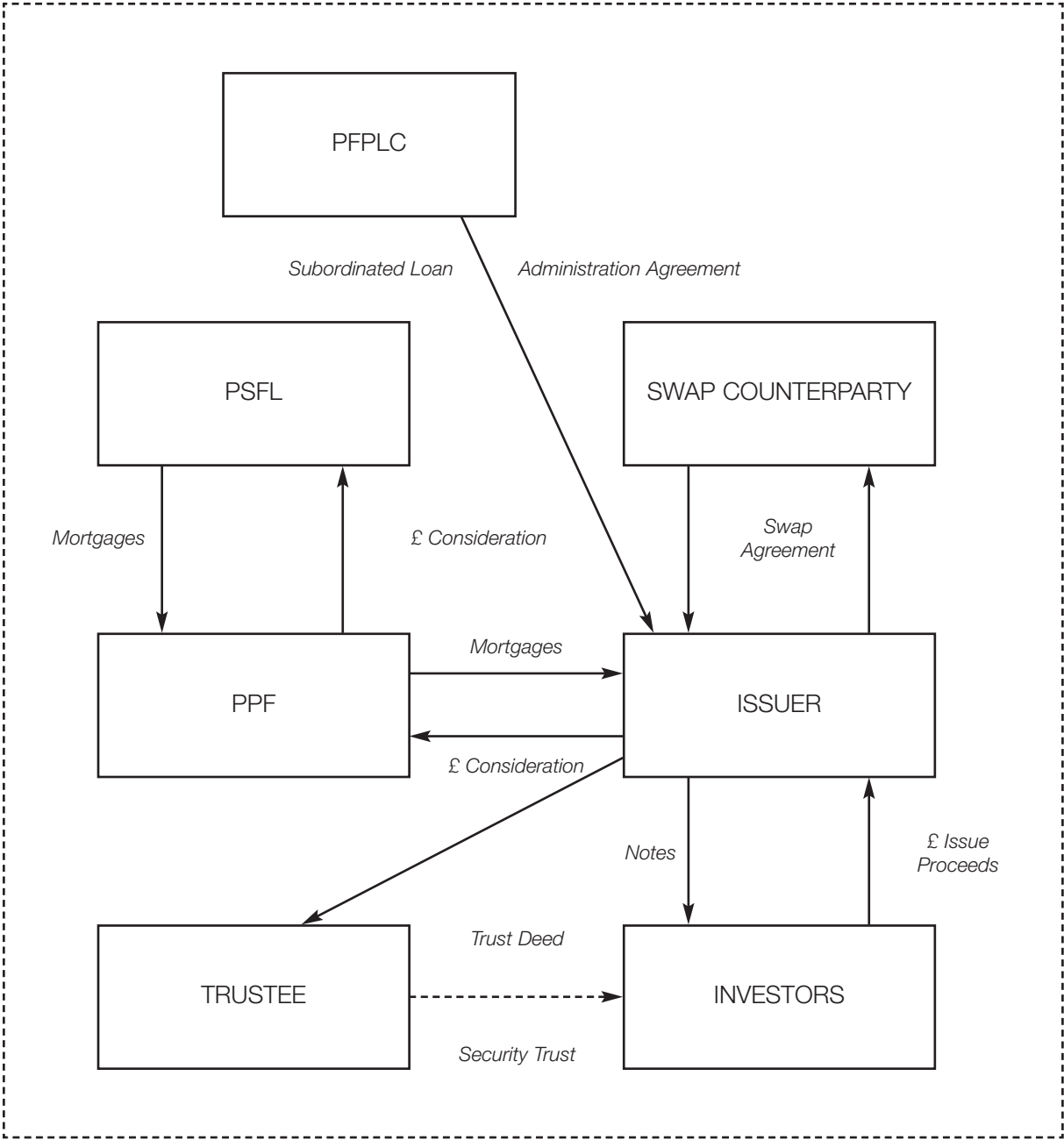
Post Enforcement Call Option

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

authorised to enter into the Post Enforcement Call Option Deed as agent for the Class B Noteholders and the Class C Noteholders.

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

STRUCTURE DIAGRAM



SPECIAL CONSIDERATIONS

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

The Notes solely obligations of the Issuer

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

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

Funds available to the Issuer

The ability of the Issuer to meet its obligations to pay principal of and interest on the Notes and its operating and administration expenses will be dependent on funds being received under the Mortgages, the Transaction Account deposit arrangements, any hedging arrangements whether entered into under the Swap Agreement or otherwise, any Caps and any related guarantees, any permitted investments, the Subordinated Loan Agreement and the insurances in which the Issuer has an interest. 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 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 liquidity – Notes

There is not, at present, an active and liquid secondary market for the Notes. There can be no assurance that a secondary market for the Notes will develop or, if a secondary market does develop, that it will provide holders of the Notes with liquidity of investment, or that it will continue for the life of the Notes.

Matters relating to the Mortgages

Second Mortgages

The Mortgages are secured by second (or in certain circumstances subsequent) charges over the Properties. The consent of the first mortgagee may (except in the case of Scottish Mortgages) be required in order to sell or transfer the Property and any proceeds from enforcement of a Mortgage over the relevant Property will (in all cases) be applied first in satisfying any prior existing mortgages; only once these have been paid in full will the proceeds be applied in discharging the Mortgage. In addition, where a prior ranking mortgagee enforces its security over a Property in accordance with the terms of its mortgage, an automatic default will occur under the Mortgage and such prior mortgagee will be entitled to recover the costs of the enforcement from the proceeds realised. This may reduce funds available to the Issuer to meet its obligations under the Notes, and will result in none of the Administrator, PPF, the Issuer or the Trustee having any control over the enforcement proceedings. Where both the prior ranking mortgagee and the Issuer are entitled to take enforcement proceedings, the Issuer will have no control over the enforcement proceedings if the prior ranking mortgagee takes action with a view to enforcing its security.

The initial advance under the Mortgages may be made where the ratio of the sums advanced under the Mortgage and any prior ranking mortgages to the value of the Property does not exceed 160%. Therefore, unless prior to enforcement of a Mortgage, (i) the sums owed under the Mortgage and any prior ranking mortgages have been repaid by a customer such that these are now less than the value of the Property and any costs of enforcement incurred by any prior ranking mortgagees and/or (ii) the value of the Property has increased such that the amounts owing under the Mortgage and any prior ranking mortgages together with any such costs of enforcement are less than the value of the Property, the Issuer will have an unsecured claim as against the borrower for such excess.

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 by the Trustee may not, therefore, be able to sell Mortgages on appropriate terms should it be required to do so.

Setting of rates of interest in respect of the Mortgages

The Administrator will, on behalf of the Issuer and the Trustee, set, where relevant, the rates of interest applicable to the relevant Mortgages (other than Fixed Rate Mortgages, Capped Rate Mortgages or Collared Rate Mortgages during the applicable fixed rate, capped rate or collared rate period and other than LIBOR-Linked Mortgages and Base Rate Tracker Mortgages). The Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages, taking account of all hedging arrangements entered into by the Issuer, all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and all amounts recovered in respect of early redemption amounts, is not less than 4.5% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) above the LIBOR applicable to the Notes at that time. The Administrator may set or maintain a lower weighted average mortgage interest rate if and to the extent that the resultant shortfall can be provided for out of an available credit balance in any Shortfall Fund.

In respect of Fixed Rate Mortgages, the Administrator is unable to vary the rate of interest during the fixed rate period set out in the relevant Mortgage Conditions; in respect of Capped Rate Mortgages and Collared Rate Mortgages, the Administrator is unable to increase the rate of interest above the capped or maximum rate during the capped rate or collared rate period set out in the relevant Mortgage Conditions; in respect of LIBOR-Linked Mortgages, the interest rate is set at a fixed margin over LIBOR for three month sterling deposits (determined quarterly in accordance with the Mortgage Conditions); and in respect of Base Rate Tracker Mortgages, the interest rate is set at a fixed margin over the Bank of England base rate from time to time. As a result, the Issuer may be exposed to the risk of an adverse interest differential between the rate of interest receivable in respect of the Fixed Rate Mortgages, Capped Rate Mortgages, Collared Rate Mortgages, LIBOR-Linked Mortgages and Base Rate Tracker Mortgages, on the one hand, and the rate of interest payable on the Notes on the other hand. In relation to any Fixed Rate Mortgages, Capped Rate Mortgages and/or Collared Rate Mortgages that are acquired by the Issuer on the Closing Date, the Issuer will on the Closing Date have entered into hedging arrangements in accordance with the requirements of the Rating Agencies. If and to the extent that, after the Closing Date, Mortgages are converted into Fixed Rate Mortgages, Capped Rate Mortgages or Collared Rate Mortgages, or where the Issuer acquires Further Mortgages at any time after the Closing Date, the Issuer will be required to enter into hedging arrangements in respect of the relevant Mortgages but only if not to do so would adversely affect any of the then current ratings of the Notes.

In limited circumstances and other than in relation to Fixed Rate Mortgages, Capped Rate Mortgages and Collared Rate Mortgages (during the applicable fixed rate, capped rate or collared rate period) and LIBOR-Linked and Base Rate Tracker Mortgages, the Trustee or the Issuer or any substitute administrator appointed by the Trustee or the Substitute Administrator (when acting in its capacity as administrator of last resort) will be entitled to set the rates of interest applicable to the Mortgages. These circumstances include a breach by the Administrator of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders. In such circumstances, the Trustee may, subject to the terms of the Administration Agreement, terminate the Administrator's authority to set the rates of interest applicable to the Mortgages and/or terminate the appointment of the Administrator.

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

Representations and warranties

PFPLC will warrant in the Mortgage Sale Agreement, among other things: that each Mortgage is a valid and binding obligation of the relevant borrower; that each advance (including any further advance) is secured by a Mortgage; that, subject to the completion of any registration or recording of the Mortgage which may be pending at the Land Registry, the Land Registry of Northern Ireland, the Registry of Deeds of Northern Ireland or the Registers of Scotland, each Mortgage constitutes a valid and subsisting legal mortgage (in the case of an English Mortgage or a Northern Irish Mortgage) or standard security (in the case of a Scottish Mortgage) over the relevant property; that all necessary steps with a view to perfecting the title of the mortgagee to the Mortgage are being or have been taken without undue delay and with all due diligence on the part of the mortgagee; that, subject to the foregoing, PPF is the absolute beneficial owner of each Mortgage free and clear of security interests other than those that will be created by the Deed of Charge; that, prior to making the original advance or any further advance, the lending criteria of the originator were satisfied so far as applicable; that, before the Mortgage advance was made, the mortgagee carried out such written searches and investigations of the title to the relevant property which a reasonably prudent provider of secured consumer finance would carry out, which searches and investigations disclosed nothing which would cause a reasonably prudent provider of secured consumer finance to decline to proceed with the Mortgage advance on the proposed terms; that, before the Mortgage advance was made, the relevant property was valued by a valuer acting for the mortgagee or on an indexation basis which might be used by a reasonably prudent provider of secured consumer finance, which valuation disclosed nothing which would cause a reasonably prudent provider of secured consumer finance to decline to proceed with the Mortgage advance on the proposed terms, that no lien or right of set-off or counterclaim is exercisable against PPF by any borrower which would entitle such borrower to reduce the amount of any payment otherwise due under his Mortgage; that where any agreement for a Mortgage is in whole or in part a regulated agreement or a consumer credit agreement (as defined in section 8 of the Consumer Credit Act 1974) or, to the extent that any Mortgage is in whole or in part a regulated agreement or consumer credit agreement, the procedures and requirements set out in the Consumer Credit Act 1974 have been complied with in all material respects and PPF has not done anything which would cause the Mortgage to be invalid or irrecoverable; as to the records maintained by PPF; and that each Mortgage is in a form which would be acceptable to a reasonably prudent mortgage lender. Except as described under "The Mortgages – Acquisition of Mortgages" below, neither the Issuer, the Managers nor the Trustee have undertaken or will undertake any 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 PFPLC. For further information on the representations and warranties to be given by PFPLC in respect of the Mortgages, see "The Mortgages – Searches and Warranties in respect of the Mortgages" below.

The sole remedy of the Issuer in respect of breach of warranty shall be to require PFPLC to purchase any relevant Mortgage provided that this shall not limit any other remedies available if PFPLC fails to purchase, or procure the repurchase of, a Mortgage when obliged to do so. PFPLC will also agree in the Mortgage Sale Agreement that, if a term of any Mortgage is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the Director General of Fair Trading or otherwise, to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, it shall purchase or procure the purchase of the Mortgage concerned. There can be no assurance that PFPLC will have the financial resources to meet its obligations to purchase, or procure the purchase of, any Mortgage whether such obligation arises because of a breach of warranty or otherwise.

Perfection of title

The sales by PPF to the Issuer of the Mortgages will only be perfected in certain circumstances by the execution of transfers and assignments of Mortgages to the Issuer, the carrying out of requisite registrations and the giving of notice to any borrower or guarantor. In the meantime, neither the Issuer nor the Trustee will acquire legal title to any of the English Mortgages, the Scottish Mortgages or the Northern Irish Mortgages and they will not be able to apply to the Land Registry, the Central Land Charges Registry, the Land Registry of Northern Ireland, the Registry of Deeds of Northern Ireland or the Registers of Scotland to register transfers or assignments of the Mortgages to perfect and/or protect their interests. They will not be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages. For further information, see "The Mortgages – Perfection of title" below.

The effect of the agreement to transfer the Mortgages from PPF to the Issuer pursuant to the Mortgage Sale Agreement (and, in relation to Scottish Mortgages, to the execution of a declaration of trust over such Mortgages) remaining unperfected is that the rights of the Issuer (and, therefore, in turn, the Trustee) may

be, or may become, subject to equities as well as to the interests of third parties who perfect a legal interest or title prior to the Issuer acquiring and perfecting its legal interests or title. 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.

Further Mortgages

Each Further Mortgage will be subject to representations and warranties given by PFPLC to the Issuer under the Mortgage Sale Agreement and, when Mortgages are purchased with funds standing to the credit of the Pre-Funding Reserve Ledger, the Rating Agencies will have analysed and reviewed data provided to them relating, among other things, to the credit quality and characteristics of the relevant Further Mortgages being acquired by the Issuer, and confirmed that such acquisition will not adversely affect any of the then current ratings of the Notes. There can be no certainty that all Further Mortgages acquired by the Issuer will have similar proportions or similar concentration characteristics as set out in the tables in "The Provisional Mortgage Pool" below in relation to the Mortgages comprising the Provisional Mortgage Pool.

Other matters

Consumer Credit Act 1974

Each loan agreement in respect of any Mortgage with an individual borrower for an amount of £25,000 or less (other than a loan secured by a first ranking legal mortgage at the time of origination) (a "**CCA Loan**") is regulated by the Consumer Credit Act 1974 (the "**CCA**").

If a CCA Loan has not been executed in accordance with the provisions of the CCA, the CCA provides that such an agreement will be unenforceable without a court order being obtained. Examples of improper execution in accordance with the CCA include a failure to comply with the provisions of the Consumer Credit (Agreements) Regulations 1983 which govern the form and content of agreements regulated by the CCA.

Mortgages on land securing an agreement regulated by the CCA may only be enforced on an order of the court. A court order is not necessary, however, where the relevant borrower consents to enforcement at the time enforcement is sought. The CCA provides no sanction for enforcement of a mortgage without the requisite court order, but the court retains the power to grant an injunction restraining such action.

If certain default or enforcement proceedings are taken or notice of early termination is served on a borrower under a CCA Loan, the court may, on application by such borrower or where any action is brought to enforce any security or recover possession of land to which a CCA Loan applies and, in each case if it appears to the court just to do so, make a time order to permit such borrower to make payments under the relevant CCA Loan by such instalments, payable at such times, or to remedy any breach at such times as the court thinks reasonable, having regard to the means of such borrower.

The court will also have regard to the prejudice caused to any person by the relevant contravention of the CCA and the degree of culpability of the relevant creditor. The court has powers to amend any agreement or security which is regulated by the CCA or impose conditions on the performance of, or suspend the operation of, an enforcement order made by it in relation to any such agreement.

A number of the loan agreements in respect of the Mortgages constitute "DCS" (debtor/creditor/supplier) agreements for the purposes of the CCA. A DCS agreement is one where, *inter alia*, under pre-existing arrangements between creditor and supplier, the creditor provides finance for the purchase by the debtor of goods or services from the supplier. The loan agreements in respect of the Mortgages are DCS agreements only by virtue of PPF advancing funds for the payment of the premiums under creditor insurance policies, the supplier in such case being the insurer. In relation to a DCS agreement, PPF may be liable, by virtue of Section 56 of the CCA, for any misrepresentations, acts, omissions or statements made by the supplier to the borrower during negotiations prior to execution of the relevant loan agreement. In addition, pursuant to Section 75 of the CCA and in respect of any DCS agreements, PPF (as well as the supplier) may be liable to the borrower for misrepresentation, breach of an express or implied warranty or breach of contract. Examples of possible liability of this sort which may attach to PPF include cases where services to be supplied are not supplied at all (perhaps because the insurer under the creditor insurance

is insolvent) or are supplied but not supplied within a reasonable time and with reasonable care and skill. The requirement to supply services within a reasonable time and with reasonable care and skill can, in certain circumstances, be implied into a contract for the supply of services under the Supply of Goods and Services Act 1982.

Where Sections 56 and 75 of the CCA are applicable, borrowers will have the right to claim directly against PPF and/or set off an amount in respect of that claim against their obligation to make payments under any loan or other financing agreement made to them by PPF. These rights will continue to subsist notwithstanding the sale of the Mortgages to the Issuer and may give rise to a number of consequences including the following:

- (a) a borrower, in certain circumstances, may make a direct claim against PPF or exercise a right of set-off against a loan which is not in respect of a Mortgage as a result of liabilities arising under a loan agreement with the borrower which is subject to Section 56 or 75 of the CCA;
- (b) a borrower, in certain circumstances, may exercise a right of set-off against a CCA Loan as a result of liabilities arising under a different loan agreement with the borrower which is subject to Section 56 or 75 of the CCA; and
- (c) a borrower may, in certain circumstances, exercise a right of set-off in respect of his or her obligations under a loan agreement as a result of liabilities arising in relation to a loan agreement or other financing agreement with the borrower which is a DCS agreement which is subject to Section 56 or 75 of the CCA and which does not relate to a CCA Loan but which is made by PPF to the same borrower,

provided that any of the above rights of set-off will only be exercisable if, in the case of a set-off described in sub-paragraph (a) or (c), it arose prior to the date (if any) on which notice is given to the borrower of the assignment to the Issuer of the benefit of the relevant CCA Loan or, in the case of a set-off described in sub-paragraph (b), it arose before the date (if any) on which notice is given to the borrower of the assignment to the Issuer of the benefit of one but not the other of the relevant CCA Loans in favour of that borrower.

Any Mortgages which are Scottish Mortgages will be held on trust by PPF for the Issuer, rather than being equitably assigned. As a consequence, the types of set-off claim described in sub-paragraph (a) or (c) above will arguably not be available to the relevant borrower if it derives from a DCS agreement entered into after the relevant Mortgage is held on trust. The available Scots law authorities do not settle the issue conclusively however.

In the case of a claim brought by a borrower under Section 75 of the CCA, PPF has, subject to any agreement to the contrary, a statutory right under Section 75 of the CCA to be indemnified by the supplier for any loss suffered, including any costs reasonably incurred in defending an action by a borrower. In addition, under the Civil Liability (Contribution) Act 1978 PPF has, subject to any agreement to the contrary, a statutory right to a contribution from the supplier.

Although the Supply of Goods and Services Act 1982 and the relevant provisions of the Civil Liability (Contribution) Act 1978 do not apply in Scotland, the position of PPF under Scots law is broadly similar to that stated in the preceding paragraph relating to the law of England and Wales.

It is possible that a borrower may settle early (or terminate) the loan agreement in respect of a Mortgage to which it is a party. This may happen at any time, either by ad hoc agreement, pursuant to the terms of the relevant contract or in accordance with the provisions of the CCA (if the relevant contract is CCA-regulated). The commercial effect of any such early settlement or termination will differ according to whether or not the relevant loan agreement is regulated by the CCA.

Where the relevant agreement is CCA-regulated, the borrower may complete the agreement by payment of all outstanding amounts due thereunder in advance of their scheduled payment dates less any statutory rebate of charges to which the borrower may be entitled.

The statutory rebate is currently that prescribed by the Consumer Credit (Rebate on Early Settlement) Regulations 1983 and is calculated on the direct ratio method, more commonly known as the Rule of 78. The Consumer Credit (Early Settlement) Regulations 2004 ("**the 2004 Regulations**") come into force on 31 May 2005 ("**the Implementation Date**"). Subject to certain exclusions, where a CCA regulated agreement is entered into on or after the Implementation Date the creditor under that agreement shall allow

the debtor, where he is entitled to a rebate, a rebate calculated on the actuarial basis prescribed by the 2004 Regulations. This actuarially calculated rebate is typically greater than would be payable to a debtor in similar circumstances under the direct ratio method.

The 2004 Regulations also apply to CCA regulated agreements (“**Extant Agreements**”) entered into before the Implementation Date. However, application of the 2004 Regulations to Extant Agreements is deferred until 31 May 2007 if the agreement is for a term of 10 years or less and until 31 May 2010 if the agreement is for a term of more than 10 years. For the purposes of determining the term of an Extant Agreement, the term is that originally provided for, or, in the case where the term was varied before the Implementation Date, the term provided for on that date.

The effect of the 2004 Regulations is that for Extant Agreements where the debtor exercises his statutory right to settle on or after 31 May 2007 or, as the case may be, 31 May 2010, the rebate to which he is entitled may be greater than would be the case if settlement had occurred prior to 31 May 2007 or, as the case may be, 31 May 2010.

Third party rights

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

Mandatory Further Advances

In respect of certain of the Mortgages, Mandatory Further Advances are required to be made to borrowers. The aggregate total amount of Mandatory Further Advances which the Issuer may be required to make at any time will be restricted to £5,000,000. The Issuer expects to fund Mandatory Further Advances to be made by it for any given period from the moneys referred to in paragraph (A) of the definition of “Available Redemption Funds” in Condition 5(a) of the Class A Notes. The Issuer may not, however, receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off the amounts of any Mandatory Further Advances which the Issuer has failed to make against amounts owing by those borrowers and/or to sue the Issuer for damages for breach of contract. Accordingly, if and to the extent that the Issuer does not have sufficient funds to make any such Mandatory Further Advances, the Issuer will be entitled to borrow further amounts from PFPLC under the Subordinated Loan Agreement and PFPLC will be under an obligation to make any such amounts available to the Issuer.

Relationship between classes of Noteholders

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

Directors’ certificates

The directors of each of PSFL and PPF consider the relevant company of which they are directors to be solvent and it is a condition to the closing of the issue of the Notes that a duly authorised officer of the relevant company certifies (i) that, in his or her opinion, such company is not unable to pay its debts within

the meaning of section 123 of the Insolvency Act 1986 and will not become unable to do so within the meaning of that section in consequence of entering into the Relevant Documents (as defined in Condition 3(A)(1)(b) of the Class A Notes below) to which such company is a party and the performance of its obligations under such Relevant Documents; and (ii) that, in his or her opinion, there is no reason to believe this state of affairs will not continue thereafter.

Regulatory Framework

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

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

A contract is a “**regulated mortgage contract**” for the purposes of the Regulated Activities Order if it is originated after the Mortgage Regulation Date, or originated prior to the Mortgage Regulation Date but varied after the Mortgage Regulation Date such that a new contract is entered into, and at the time it is entered into, (i) the contract is one under which the lender provides credit to an individual or to trustees, (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage or charge (or, in Scotland, a first ranking standard security) on land (other than timeshare accommodation) in the United Kingdom and (iii) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

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

The Issuer does not itself propose to be an authorised person under the FSMA. When mortgage business regulation came into force the Issuer, the Administrator or any substitute administrator did not need to be authorised to administer the Mortgages as they were entered into before the Mortgage Regulation Date or, to the extent they were entered into after the Mortgage Regulation Date, they were not contracts secured by a first legal charge or mortgage (or, in Scotland, a first ranking standard security) on land in the United Kingdom. However, in the event that a Mortgage is varied after the Mortgage Regulation Date, such that a new contract is entered into, and that contract constitutes a regulated mortgage contract then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity. As a result, the Administration Agreement will contain an undertaking on the part of the Administrator to the effect that, to the extent that the services which it has agreed in the Administration Agreement to perform require it or the Issuer to obtain any authorisation under the FSMA, the Administrator will obtain, and use its reasonable endeavours to keep in force, such an authorisation in respect of itself. The Administration Agreement will also provide that the appointment of the relevant Administrator will, unless the Issuer and the Trustee agree otherwise, be terminated with immediate effect if at any time that Administrator does not have any authorisation under the FSMA which it is required to have in order to perform the services which it has agreed in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in circumstances where the Issuer is itself not so authorised.

It is also possible that the provision of any further advance under a mortgage could, depending on the circumstances in which it is made, constitute entering into a regulated mortgage contract as lender. As a result unless certain authorisation requirements are complied with, a Further Advance in respect of a Mortgage made after the Mortgage Regulation Date could, if the circumstances are such that the Issuer may be said to be entering into a regulated mortgage contract as lender, be unenforceable in whole or in

part against the borrower and/or result in the Issuer carrying on a regulated activity when neither authorised to do so nor exempt from authorisation. It will be a condition to the making of any Further Advance by the Issuer (or the Administrator or PPF on its behalf) in respect of a Mortgage that the making of that advance will not involve the Issuer in carrying on a regulated activity in the United Kingdom if the Issuer would be required to be authorised under the FSMA to do so.

Matters relating to the European Union

European Monetary Union

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

Provision of information

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

The European Union has adopted a Directive regarding the taxation of savings income. Subject to a number of important conditions being met, each Member State will be required from 1st July 2005 to provide to the tax authorities of another Member State details of payments of interest and other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State, except that Austria, Belgium and Luxembourg may instead impose a withholding system for a transitional period in relation to such payments.

CREDIT STRUCTURE

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

<i>Class of Notes</i>	<i>Rating</i>	
	<i>Fitch</i>	<i>Standard & Poor's</i>
Class A	AAA	AAA
Class B	A	A
Class C	BBB	BBB

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

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

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

To the extent that on any Interest Payment Date prior to the enforcement of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in priority to item (ix) of the priority of payments specified under “Summary – Priority of Payments – prior to enforcement” above, such excess (after making payments or provisions of a higher priority) is available to be applied towards reducing any debit balance on the Principal Deficiency Ledger. To the extent that on any Interest Payment Date prior to the enforcement of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in priority to item (x) of the priority of payments specified under “Summary – Priority of Payments – prior to enforcement” above, such excess (after making payments or provisions of a higher priority), to the extent that it is sufficient, is available to replenish the First Loss Fund to the Required Amount. In addition, on any Interest Payment Date, amounts standing to the credit of the Revenue Ledger will be applied (a) to the extent that paragraph (iv) of that priority of payments applies, (x) in reducing any debit balance on the Principal Deficiency Ledger; and (y) replenishing the First Loss Fund, in each case in priority to the payments specified in items (v) to (viii) of such priority of payments; and (b) to the extent that paragraph (vi) of that priority of payment applies, (x) in reducing any debit balance on the Principal Deficiency Ledger; and (y) replenishing the First Loss Fund, in each case in priority to the payments specified in items (vii) to (viii) of such priority of payments.

2. First Loss Fund

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount equal to 4.5% of the aggregate of the Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes as at the Closing Date for the purpose of establishing the First Loss Fund. The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of or provision for (a) the amounts referred to in items (i) to (iii) inclusive and (ix) in the priority of payments specified under “Summary – Priority of Payments – prior to enforcement” above; and (b) (x) save where on that Interest Payment Date an amount is payable at item (iv) in that priority of priority of payments, item (v) in such priority of payments; and (y) save where on that Interest Payment Date an amount is payable at item (iv) or (vi) in that priority of payments, items (vii) and (viii) in such priority of payments, in each case where the income of the Issuer, and the amount available to the Issuer on such Interest Payment Date in the Shortfall Fund, is insufficient to pay such amounts.

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

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

3. Shortfall Fund

The Issuer may at any time, with the prior consent of PFPLC, draw down under the Subordinated Loan Agreement for the purpose of establishing the Shortfall Fund. If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages, taking account of all hedging arrangements entered into by the Issuer, all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and all amounts recovered in respect of early redemption amounts, is less than 4.5% above the LIBOR applicable to the Notes at that time, then the Administrator may do so provided that (1) there is a sufficient credit balance in the Shortfall Fund (net of all provisions previously made during the then current Interest Period) in order to provide for the shortfall which would arise at the end of the then current Interest Period and (2) the Issuer makes a provision in the Shortfall Fund equal to such shortfall. On each Interest Payment Date, the full amount of the Shortfall Fund will be available to the Issuer to be applied, together with the Issuer's other net income, to the items referred to in "Summary – Priority of Payments – prior to enforcement" above.

4. Transfer of Funds from the Collection Account

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

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

5. Principal Deficiency Ledger

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

If on any Interest Payment Date there are insufficient funds standing to the credit of the Revenue Ledger, the First Loss Fund and the Shortfall Fund to pay interest on the Class A Notes, to pay amounts (other than Withholding Compensation Amounts or Swap Counterparty Subordinated Amounts) payable to the Swap Counterparty under the Swap Agreement or to any Permitted Hedge Provider under any other hedging arrangements entered into by the Issuer (as referred to in item (iii) of the priority of payments set out in "Summary – Priority of Payments – prior to enforcement" above) and to meet certain other expenses of the Issuer (as referred to in items (i), (ii) and (viii) of such priority of payments), the Issuer may apply funds standing to the credit of the Principal Ledger in the payment of such interest, amounts and expenses. In addition, the Issuer may receive an amount in respect of the Mortgages under a direct debit which subsequently has to be repaid to the bank making the payment if that bank is unable to recoup such amount itself from its customer's account. If the Issuer has insufficient revenue funds to make the repayment, such an amount may be repaid by applying funds standing to the credit of the Principal Ledger. Either of these events may lead to the consequences set out in the following paragraph. The Issuer will also keep a Principal Deficiency Ledger. Amounts will be debited from the Principal Deficiency Ledger representing principal losses incurred on the Mortgages and funds standing to the credit of the Principal Ledger applied as described in the preceding provisions of this paragraph in paying interest on the Class A Notes or amounts ranking *pari passu* therewith or in priority thereto, in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Mortgages.

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

Ledger shall, to the extent of available funds, be applied at items (iv)(a) and (vi)(a) of such priority of payments to reduce any debit balance on the Principal Deficiency Ledger to an amount equal to the aggregate principal amount outstanding of the Class B Notes and the Class C Notes (where item (iv) applies) or to the principal amount outstanding of the Class C Notes (where item (vi) applies) (in each case after deduction of relevant Available Redemption Funds on the applicable date).

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

6. The Class B Notes

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

7. The Class C Notes

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

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

8. Subordinated Loan Agreement

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

PFPLC will also agree to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (a) (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances; and (b) (subject to the other conditions applicable to the purchase of Further Mortgages) to purchase Further Mortgages; (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Ledger, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (a) (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances; and (b) (subject to the other conditions applicable to the purchase of Further Mortgages) to purchase Further Mortgages; and/or (iii) to enable the Issuer to make any Discretionary Further Advances when the cumulative limit of £15,000,000, referred to under “Further Advances in respect of the Mortgages” above, is exceeded.

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

- (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions specified in items (i) to (x) inclusive set out in “Summary – Priority of Payments – prior to enforcement” above, to pay any Swap Counterparty Subordinated Amounts due and payable to the Swap Provider or any Permitted Hedge Provider on such Interest Payment Date;
- (ii) at any time where the Issuer, or the Administrator on the Issuer’s behalf, waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge; and
- (iii) to fund (if necessary) purchases of amounts represented by unamortised commissions in relation to Further Mortgages by the Issuer up to the Interest Payment Date falling in November 2008.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of PFPLC (1) for the purpose of establishing or increasing the Shortfall Fund and (2) to fund the purchase of Caps or other hedging arrangements (or any related guarantees) to hedge the Issuer’s interest rate exposure on the Issuer acquiring, or upon conversion of any Mortgages into, Fixed Rate Mortgages, Capped Rate Mortgages or Collared Rate Mortgages. The Issuer may from time to time borrow further sums from PFPLC or other lenders on the terms of the Subordinated Loan Agreement.

On any Interest Payment Date, sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (see “Summary – Priority of Payments – prior to enforcement” above) (provided that, while any Notes remain outstanding, no such repayment may be made if it would result in the Principal Amount Outstanding in respect of the Subordinated Loan being less than the Required Amount and provided further that PFPLC, or the relevant Subordinated Lender, and the Issuer may agree that any such repayment may be waived or deferred in whole or in part).

9. Hedging Arrangements

PFPLC, in its capacity as the Administrator, will have responsibility for setting the interest rates on the Mortgages in accordance with the provisions of the Administration Agreement and the terms and conditions of the Mortgages. The interest rates payable by the Issuer with respect to the Notes (save for the first Interest Period) are calculated as a margin over 3 month sterling LIBOR.

On or about the Closing Date, the Issuer will enter into the ISDA master agreement forming part of the Swap Agreement. Under this, it may in the future enter into hedging arrangements in accordance with the requirements of the Rating Agencies, to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages and/or Collared Rate Mortgages which were acquired by it. In addition, in relation to any Fixed Rate Mortgages, Capped Rate Mortgages or Collared Rate Mortgages which arise upon conversion of any Mortgages subsequent to the Closing Date, or which are acquired by the Issuer subsequent to the Closing Date, the Issuer will be obliged to enter into hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes.

10. Pre-Funding Reserve

The Issuer will be entitled to apply any amount standing to the credit of the Pre-Funding Reserve Ledger of the Transaction Account in purchasing Further Mortgages if and to the extent that the Issuer is permitted to do so by, and in accordance with, the Mortgage Sale Agreement and the Administration Agreement. In particular, any such purchase of Further Mortgages will require the confirmation from the Rating Agencies that such purchase will not adversely affect any of the then current ratings of the Notes if purchased using funds standing to the credit of the Pre-Funding Reserve Ledger.

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

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

The issue of the Class A Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on 30th November 2004 and 10th December 2004. The Class A Notes will be constituted by a trust deed (the "**Trust Deed**") expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class A Notes (the "**Class A Noteholders**"), the holders for the time being of the Class B Notes (the "**Class B Noteholders**") and the holders for the time being of the Class C Notes (the "**Class C Noteholders**" and, together with the Class A Noteholders and the Class B Noteholders, the "**Noteholders**"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Paragon Personal Finance Limited ("**PPF**") of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement to be dated the Closing Date (the "**Mortgage Sale Agreement**").

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PFPLC, PPF, the Administrator, GHM Mortgage Services Limited (the "**Substitute Administrator**") and the Swap Provider (the "**Deed of Charge**"). The Trust Deed will include the form of the Global Class A Notes and the definitive Class A Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "**Agency Agreement**") expected to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the "**Principal Paying Agent**", which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the "**Reference Agent**", which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class A Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class A Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection from the date hereof at the principal London office of the Trustee, being Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, and at the specified offices for the time being of the Paying Agents.

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

Global Class A Notes

The Class A Notes (which shall be in minimum denominations of £50,000 each and increments of £1,000 thereafter) will be initially represented by a Temporary Global Class A Note in bearer form, without coupons or talons, in the principal amount of £231,000,000. The Temporary Global Class A Note will be deposited on behalf of the subscribers of the Class A Notes with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, société anonyme, Luxembourg ("**Clearstream, Luxembourg**"), (the "**Common Depositary**") on the Closing Date. Upon deposit of the Temporary Global Class A Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class A Notes with the principal amount of Class A Notes for which it has subscribed and paid. Interests in the Temporary Global Class A Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class A Noteholders has been received) for interests in the Permanent Global Class A Note, in bearer form, without coupons or talons, in an equivalent

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

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

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

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

If (i) the principal amount of the Class A Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 14th December 2004, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class A Notes which would not be required were the Class A Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class A Notes represented by the Permanent Global Class A Note in exchange for the whole outstanding interest in the Permanent Global Class A Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

Security

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

- (i) a sub-charge over the Mortgages (including any Further Mortgages) which comprise English Mortgages and Northern Irish Mortgages and an assignation in security of the Issuer's interest in the Mortgages (including any Further Mortgages) which comprise Scottish Mortgages purchased by the Issuer from PPF under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment or assignation in security of the benefit of the guarantee;
- (ii) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (iii) an assignment of the Issuer's rights under the Mortgage Sale Agreement, the Services Letter, the Subordinated Loan Agreement, the Fee Letter, the Administration Agreement, the Substitute Administrator Agreement, the VAT Declaration of Trust, the Collection Account Declaration of Trust, the Swap Agreement and any Caps or other hedging arrangements entered into by the Issuer;
- (iv) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at National Westminster Bank Plc (the "**Transaction Account**") and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (v) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and
- (vi) 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 (but extending over all of the Issuer's Scottish rights and assets, including those subject to fixed security).

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

Terms and Conditions

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

1. Form, Denomination and Title

The £231,000,000 Class A Mortgage Backed Floating Rate Notes Due 2035 of the Issuer (the "**Class A Notes**") are serially numbered and are issued in bearer form in denominations of £50,000 and increments of £1,000 thereafter with, at the date of issue, interest coupons ("**Interest Coupons**") and principal coupons ("**Principal Coupons**") (severally or together "**Coupons**") and talons ("**Talons**") attached. Notes of one denomination may not be exchanged for Notes of any other denomination. Title to the Class A Notes, the Coupons and the Talons shall pass by delivery.

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

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the "**Trust Deed**") dated 15th December 2004 or such later date agreed between the Issuer and the Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (the

“**Class A Noteholders**”) and the holders for the time being of the Class B Notes (as defined below) (the “**Class B Noteholders**”) and the holders for the time being of the Class C Notes (as defined below) (the “**Class C Noteholders**”) may treat the holder of any Class A Note, Coupon or Talon as the absolute owner thereof (whether or not such Class A Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class A Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “**Deed of Charge**”) dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Paragon Personal Finance Limited, GHJ Mortgage Services Limited (the “**Substitute Administrator**”) and the Swap Provider) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

The £42,000,000 Class B Mortgage Backed Floating Rate Notes Due 2035 of the Issuer (the “**Class B Notes**”) and the £27,000,000 Class C Mortgage Backed Floating Rate Notes Due 2035 (the “**Class C Notes**”) are constituted by the Trust Deed and are secured by the same security as secures the Class A Notes but the Class A Notes will rank in priority to the Class B Notes and the Class C Notes in the event of the security being enforced. The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee in any such case to have regard only to the interests of the Class A Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and/or the Class C Noteholders or the other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

- (A) So long as any of the Class A Notes, the Class B Notes or the Class C Notes remains outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:
- (1) carry on any business other than as described in the Offering Circular dated 14th December 2004 relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
 - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class A Notes, the Coupons and Talons and the Class B Notes and the Class C Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declaration of Trust, the Swap Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, each Scottish Declaration of Trust, each Scottish Supplemental Charge and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Trust Deed, the Deed of Charge or the Mortgage Sale Agreement) (together the “**Relevant Documents**”);

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

Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales, Northern Ireland and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, among other things, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the Mortgage Sale Agreement.

4. Interest

(a) *Interest Payment Dates*

Each Class A Note bears interest on its Principal Amount Outstanding (as defined in Class A Condition 5(b)) from and including the Closing Date. Provided certification of non-U.S. beneficial ownership has been received with respect to the Class A Notes, interest in respect of such Class A Notes is payable quarterly in arrear on 15th May 2005 and thereafter on each subsequent 15th August, 15th November, 15th February and 15th May (or, if such date is not a Business Day (as defined below), the next succeeding Business Day) (each an “**Interest Payment Date**”). As used in these Class A Conditions except Class A Condition 6, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an “**Interest Period**”. Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the Interest Payment Date falling in May 2005 in respect of the period from (and including) the Closing Date to (but excluding) that Interest Payment Date.

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

(b) *Coupons and Talons*

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

(c) *Rate of Interest*

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

- (i) On the Closing Date (an “**Interest Determination Date**”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on a linear interpolation between sterling deposits for a period of 5 months and sterling deposits for a period of 6 months, in each case quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) or,

if that service ceases to display the information, such other screen service as may be determined by the Administrator (with the approval of the Trustee, in its sole discretion) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “**Interest Determination Date**”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) or, if that service ceases to display the information such other screen service as may be determined by the Administrator (with the approval of the Trustee, in its sole discretion) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable to the Class A Notes for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.20% per annum up to and including the Interest Period ending in November 2009 and thereafter the margin of 0.40% per annum;

- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for 5 month and 6 month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i) above, on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the Class A Notes for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) above or the foregoing provisions of this sub-paragraph (ii) shall have applied.

- (iii) There shall be no maximum or minimum Rate of Interest.

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

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

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

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

(f) *Determination or Calculation by Trustee*

If the Reference Agent at any time for any reason does not determine the Rate of Interest or calculate an Interest Payment in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest for the Class A 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 shall calculate the Interest Payment for the Class A Notes in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

(g) *Reference Banks and Reference Agent*

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

5. **Redemption and Purchase**

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

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

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

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

(A) the aggregate of:

- (i) all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Accruals and Arrears relating thereto received by or on behalf of the Issuer but excluding any such amount which under the Mortgage

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

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

less

(B) the aggregate of:

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

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

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the later of the Interest Payment Date falling in November 2009 and the first Interest Payment Date on which the ratio of (a) the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes to (b) the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes, is 1 : 2.169 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The Subordinated Available Redemption Funds shall equal:

- (i) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls prior to the occurrence of the Determination Event or (thereafter) if (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, (i) there is any debit balance on the Principal Deficiency Ledger; or (ii) the amount of the First Loss Fund is less than the Required Amount; or (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 10% or more of the then Current Balances of all of the Mortgages, nil; and
- (ii) on any other Principal Determination Date, provided (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, (i) there is a balance of zero on the Principal Deficiency Ledger; and (ii) the amount of the First Loss Fund is not less than the Required Amount; and (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances of Mortgages which are more than three months in arrears represent less than 10% of the then Current Balances of all of the Mortgages, that amount of the Available Redemption Funds determined as at such date which, if applied *pro rata* to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of (a) the aggregate Principal Amount Outstanding of the Class A Notes and (b) the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and (c) the aggregate Principal Amount Outstanding of the Class C Notes (defined as aforesaid) (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 1 : 2.169; provided that the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £14,280,000.

If the Issuer does not for any reason determine the aggregate principal amount of the Class A Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon

determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

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

- (i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Class A Note due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class A Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class A Note on the next Interest Payment Date) and (z) the fraction in respect of each Class A Note expressed as a decimal to the sixth point (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Class A Note (as referred to in (y) above) and the denominator is the principal amount of that Class A Note upon issue. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class A Note and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons. The “**Principal Amount Outstanding**” of a Class A Note on any date shall be the principal amount of that Class A Note upon issue less the aggregate amount of all Principal Payments in respect of that Class A Note that have become due and payable (whether or not paid) prior to such date.
- (ii) The Issuer, by not later than the seventh Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date, will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class A Notes are listed by the UK Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange and will cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class A Condition 12 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Class A Notes on any Interest Payment Date a notice to this effect will be given to the Class A Noteholders.
- (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding or the Pool Factor applicable to Class A Notes in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) *Redemption for Taxation or Other Reasons*

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

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

(d) *Optional Redemption in Full*

On giving not more than 60 or less than 20 days' notice to the Trustee and the Class A Noteholders, and provided no Enforcement Notice has been served following an Event of Default, the Issuer may redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after November 2008 provided that on the Interest Payment Date on which redemption is to be made the Issuer also redeems in full all of the Class B Notes and the Class C Notes outstanding in accordance with the terms and conditions thereof and provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and all its liabilities in respect of the Class B Notes and the Class C Notes (including the full amount of interest payable on the Class B Notes and the Class C Notes on such Interest Payment Date and the full amount of any Deferred Interest and Additional Interest (as defined in the terms and conditions of the Class B Notes and the Class C Notes) which has not been paid on any previous Interest Payment Date pursuant to the terms and conditions thereof) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, the Class B Notes and the Class C Notes, or the Trustee is otherwise directed by Extraordinary Resolutions (as defined in the Trust Deed) of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders.

All (but not some only) of the Class A Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the sum of (1) the aggregate of the Principal Amount Outstanding of the Class A Notes, and (2) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and (3) the aggregate Principal Amount outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes is less than £60,000,000 provided that on the Interest Payment Date on which redemption is to be made the Issuer also redeems in full all of the Class B Notes and the Class C Notes outstanding in accordance with the terms and conditions thereof and provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and all its liabilities in respect of the Class B Notes and Class C Notes (including the full amount of interest payable on the Class B Notes and Class C Notes on such Interest Payment Date and the full amount of any Deferred Interest and Additional Interest (as defined in the terms and conditions of the Class B Notes and Class C Notes) which has not been paid on any previous Interest Payment Date pursuant to the terms and conditions thereof) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, the Class B Notes and the Class C Notes, or the Trustee is otherwise directed by Extraordinary Resolutions (as defined in the Trust Deed) of the Class A Noteholders, the Class B Noteholders and Class C Noteholders.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in November 2035.

(f) *Purchases*

The Issuer may not purchase Class A Notes.

(g) *Cancellation*

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

(h) *Certification*

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

6. Payments

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

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

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

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

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

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

7. Taxation

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

8. Prescription

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

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

9. Events of Default

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

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

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

10. Enforcement

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

11. Replacements of Class A Notes, Coupons and Talons

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

12. Notices

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

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to

have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently page PGCPSTF1) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Class A Noteholders (the “**Relevant Screen**”). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class A Condition shall be given in accordance with the preceding paragraph.

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

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

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

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

Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class A Noteholders in accordance with Class A Condition 12 as soon as practicable thereafter.

14. Indemnification of the Trustee

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

15. Notifications and Other Matters to be Final

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

16. The Contracts (Rights of Third Parties) Act 1999

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

17. Governing Law

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

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

The issue of the Class B Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on 30th November 2004 and 10th December 2004. The Class B Notes will be constituted by a trust deed (the “**Trust Deed**”) expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class B Notes (the “**Class B Noteholders**”), the holders for the time being of the Class A Notes (the “**Class A Noteholders**”) and the holders for the time being of the Class C Notes (the “**Class C Noteholders**”). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Paragon Personal Finance Limited (“**PPF**”) of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement to be dated the Closing Date (the “**Mortgage Sale Agreement**”).

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PPF, the Administrator, GHL Mortgage Services Limited (the “**Substitute Administrator**”) and the Swap Provider (the “**Deed of Charge**”). The Trust Deed will include the form of the Global Class B Notes and the definitive Class B Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the “**Agency Agreement**”) expected to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “**Reference Agent**”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class B Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class B Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, and at the specified offices for the time being of the Paying Agents.

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

Global Class B Notes

The Class B Notes (which shall be in minimum denominations of £50,000 each and increments of £1,000 thereafter) will be initially represented by a Temporary Global Class B Note in bearer form, without coupons or talons, in the principal amount of £42,000,000. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”), (the “**Common Depositary**”) on the Closing Date. Upon deposit of the Temporary Global Class B Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class B Notes with the principal amount of Class B Notes for which it has subscribed and paid. Interests in the Temporary Global Class B Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received) for interests in the Permanent Global Class B Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class B Note (the expression “**Global Class B Notes**” and

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

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

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

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

If (i) the principal amount of the Class B Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 14th December 2004, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class B Notes which would not be required were the Class B Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class B Notes represented by the Permanent Global Class B Note in exchange for the whole outstanding interest in the Permanent Global Class B Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

Security

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

- (i) a sub-charge over the Mortgages (including any Further Mortgages) which comprise English Mortgages and Northern Irish Mortgages and an assignation in security of the Issuer's interest in the Mortgages (including any Further Mortgages) which comprise Scottish Mortgages purchased by the Issuer from PPF under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment or assignation in security of the benefit of the guarantee;
- (ii) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (iii) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the Services Letter, under the Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the Collection Account Declaration of Trust, under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (iv) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at National Westminster Bank Plc (the "**Transaction Account**"), and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (v) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and
- (vi) 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 (but extending over all of the Issuer's Scottish rights and assets, including those subject to fixed security).

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

Terms and Conditions

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

1. Form, Denomination and Title

The £42,000,000 Class B Mortgage Backed Floating Rate Notes Due 2035 of the Issuer (the "**Class B Notes**") are serially numbered and are issued in bearer form in denominations of £50,000 and increments of £1,000 thereafter with, at the date of issue, interest coupons ("**Interest Coupons**") and principal coupons ("**Principal Coupons**") (severally or together "**Coupons**") and talons ("**Talons**") attached. Notes of one denomination may not be exchanged for Notes of any other denomination. Title to the Class B Notes, the Coupons and the Talons shall pass by delivery.

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

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the "**Trust Deed**") dated 15th December 2004 or such later date agreed between the Issuer and the Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (as

defined below) (the “**Class A Noteholders**”) and the holders for the time being of the Class B Notes (the “**Class B Noteholders**”) and the holders for the time being of the Class C Notes (the “**Class C Noteholders**”) may treat the holder of any Class B Note, Coupon or Talon as the absolute owner thereof (whether or not such Class B Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class B Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “**Deed of Charge**”) dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, GHM Mortgage Services Limited (the “**Substitute Administrator**”) and the Swap Provider) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class B Notes are subordinated to, among other things, payments of principal and interest on the £231,000,000 Class A Mortgage Backed Floating Rate Notes Due 2035 of the Issuer (the “**Class A Notes**”) in accordance with the provisions of Class B Condition 7, the Trust Deed and the Deed of Charge.

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

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

3. **Covenants of the Issuer**

- (A) So long as any of the Class A Notes, the Class B Notes or the Class C Notes remain outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:
- (1) carry on any business other than as described in the Offering Circular dated 14th December 2004 relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
 - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class B Notes, the Coupons and Talons and the Class A Notes and the Class C Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declaration of Trust, the Swap

Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, each Scottish Declaration of Trust, each Scottish Supplemental Charge and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Trust Deed, the Deed of Charge or in the Mortgage Sale Agreement) (together the “**Relevant Documents**”);

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

- (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Account (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.
- (B) So long as any of the Class B Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the “**Administrator**”). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales, Northern Ireland and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, among other things, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the Mortgage Sale Agreement.

4 Interest

(a) *Interest Payment Dates*

Each Class B Note bears interest on its Principal Amount Outstanding (as defined in Condition 5(b)) from and including the Closing Date. Provided certification of non-U.S. beneficial ownership has been received with respect to the Class B Notes, interest in respect of the Class B Notes is (subject to Class B Condition 7) payable quarterly in arrear on 15th May 2005 and thereafter on each subsequent 15th August, 15th November, 15th February and 15th May (or, if such date is not a Business Day (as defined below), the next succeeding Business Day) (each an “**Interest Payment Date**”). As used in these Class B Conditions except Class B Condition 6, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

To the extent that the funds available to the Issuer to pay interest on the Class B Notes on the Principal Determination Date immediately preceding an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall (“**Deferred Interest**”), which will be borne by each Class B Note in a proportion equal to the proportion that the Principal Amount Outstanding of that Class B Note bears to the aggregate Principal Amount Outstanding of the Class B Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not then fall due but will instead, subject to Class B Condition 7, be deferred until the first Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available (after allowing for the Issuer’s liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. Such Deferred Interest will accrue interest (“**Additional Interest**”) at the Rate of Interest (as defined below) applicable from time to time to the Class B Notes and, subject to Class B Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest (and any interest and Deferred Interest) to the extent of such available funds. To the extent that any such Deferred Interest or Additional Interest is not subsequently paid, the Issuer’s obligation to the Class B Noteholders in respect of any such Deferred Interest and/or Additional Interest will be subject to Class B Condition 7.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an “**Interest Period**”. Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the Interest Payment Date falling in May 2005 in respect of the period from (and including) the Closing Date to (but excluding) that Interest Payment Date.

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

(b) *Coupons and Talons*

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

(c) *Rate of interest*

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

- (i) On the Closing Date (an “**Interest Determination Date**”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on a linear interpolation between sterling deposits for a period of 5 months and sterling deposits for a period of 6 months, in each case quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) or, if that service ceases to display the information, such other screen service as may be determined by the Administrator (with the approval of the Trustee, in its sole discretion) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “**Interest Determination Date**”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) or, if that service ceases to display the information, such other screen service as may be determined by the Administrator (with the approval of the Trustee, in its sole discretion) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.75% per annum up to and including the Interest Period ending in November 2009 and thereafter the margin of 1.50% per annum;
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for 5 month and 6 month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i) above, on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest

Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which subparagraph (i) or the foregoing provisions of this subparagraph (ii) shall have applied.

(iii) There shall be no maximum or minimum Rate of Interest.

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

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable, subject to Class B Condition 7, on a Class B Note (an “**Interest Payment**”) for the relevant Interest Period. The Interest Payment for a Class B Note shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of a Class B Note taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). On (or as soon as practicable after) each Principal Determination Date (as defined in Class B Condition 5(a)), the Issuer shall determine (or cause the Administrator to determine) the actual amount of interest which will be paid on each Class B Note on the Interest Payment Date next following such Principal Determination Date and the amount of Deferred Interest (if any) on each Class B Note in respect of the Interest Period ending on such Interest Payment Date and the amount of Additional Interest (if any) which will be paid on such Interest Payment Date. The amount of Additional Interest shall be calculated by applying the relevant Rate of Interest to the Deferred Interest relating to the Class B Notes and any Additional Interest from prior Interest Periods which remains unpaid, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 (or, in the case of an Interest Period ending in a leap year, 366) and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). In the event that on any Principal Determination Date the funds then available to the Issuer are insufficient to pay in full the Interest Payment, any outstanding Deferred Interest and any Additional Interest due on the Interest Payment Date next following such Principal Determination Date, such funds will be applied first to the payment of any Interest Payment, secondly to the payment of any outstanding Deferred Interest and thereafter to the payment of any Additional Interest.

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

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

(f) *Determination or Calculation by Trustee*

If the Reference Agent at any time for any reason does not determine the Rate of Interest or calculate an Interest Payment or the Additional Interest (if any) in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest for the Class B 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 shall calculate the Interest Payment or the Additional Interest (if any) in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

(g) *Reference Banks and Reference Agent*

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

5. Redemption and Purchase

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

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

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

"**Available Redemption Funds**" on any Principal Determination Date means:

(A) the aggregate of:

- (i) all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Accruals and Arrears relating thereto received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the "**Relevant Collection Period**"));
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Class A Notes, the Class B Notes and the Class C Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid

by the Issuer to PPF by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement; and (b) the amount applied to establish the First Loss Fund on the Closing Date;

- (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes, Class B Notes and/or Class C Notes on the Interest Payment Date relative thereto; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances or in purchasing Further Mortgages or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, in each case on or prior to the preceding Interest Payment Date;

less

(B) the aggregate of:

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

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

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the later of the Interest Payment Date falling in November 2009 and the first Interest Payment Date on which the ratio of (a) the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes to (b) the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes, is 1 : 2.169 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The Subordinated Available Redemption Funds shall equal:

- (i) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls prior to the occurrence of the Determination Event or (thereafter) if (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, (i) there is any debit balance on the Principal Deficiency Ledger; or (ii) the amount of the First Loss Fund is less than the Required Amount; or (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 10% or more of the then Current Balances of all of the Mortgages, nil; and
- (ii) on any other Principal Determination Date, provided (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, (i) there is a balance of zero on the Principal Deficiency Ledger; and (ii) the amount of the First Loss Fund is not less than the Required Amount; and (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances of Mortgages which are more than three months in arrears represent less than 10% of the then Current Balances of all of the Mortgages, that amount of the Available Redemption Funds determined as at such date which, if applied *pro rata* to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes (as defined in the terms and conditions of the Class C Notes) to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes and the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes (defined as aforesaid) (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 1 : 2.169; provided that the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £14,280,000.

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

The Class B Available Redemption Funds:

- (a) on any Principal Determination Date on which there are Class A Notes outstanding, shall be determined in accordance with the following formula:

$$\text{BARF} = \text{SARF} \times 42/69$$

where:

- (i) "BARF" means the Class B Available Redemption Funds on such Principal Determination Date; and
 - (ii) "SARF" means the Subordinated Available Redemption Funds on such Principal Determination Date; and
- (b) on any Principal Determination Date on which there are no Class A Notes outstanding, shall equal the lesser of the Available Redemption Funds and the aggregate Principal Amount Outstanding of the Class B Notes on such date.

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

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

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

(c) *Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class B Notes, or the Issuer or the Swap Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under the Swap Agreement or any Permitted Hedge Agreement, any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class B Condition 13, redeem all, but not some only, of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date provided that on the Interest Payment Date on which redemption is to be made the Issuer also redeems in full all of the Class C Notes outstanding in accordance with the terms and conditions thereof and either there are no Class A Notes outstanding or the Issuer redeems in full all

of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes and all its liabilities in respect of the Class A Notes (if applicable) and the Class C Notes (including the full amount of interest payable on the Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest (as defined in these conditions and the terms and conditions of the Class C Notes) which has not been paid on any previous Interest Payment Date pursuant to such terms and conditions) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes, or the Trustee is otherwise directed by Extraordinary Resolutions (as defined in the Trust Deed) of the Class A Noteholders, the Class B Noteholders or the Class C Noteholders (as applicable).

(d) *Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class B Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding and (in either case) the Issuer redeems in full all of the Class C Notes outstanding in accordance with the terms and conditions thereof and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes and all its liabilities in respect of the Class A Notes and the Class C Notes (including the full amount of interest payable on the Class A Notes, Class B Notes and Class C Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 7) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, Class B Notes and Class C Notes or the Trustee is otherwise directed by Extraordinary Resolutions of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders, the Issuer may, on any Interest Payment Date falling in or after November 2008 or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full, redeem all (but not some only) of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in November 2035.

(f) *Purchases*

The Issuer may not purchase Class B Notes.

(g) *Cancellation*

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

(h) *Certification*

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

6. **Payments**

Subject to Class B Condition 7, Interest Payments and Principal Payments on Class B Notes will be made against presentation and surrender of, or, in the case of partial redemption, endorsement of, respectively, Interest Coupons and Principal Coupons (except where, after such surrender, the unpaid principal amount of a Class B Note would be reduced to zero (including as a result of any other

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

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

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

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

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

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

7. Deferral of Interest Payments

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

In the event that the aggregate funds, if any (computed in accordance with the provisions of the Deed of Charge), available to the Issuer on any Interest Payment Date for application in or towards the payment of interest which is, subject to this Class B Condition 7, due on the Class B Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class B Condition 7 as the “**Residual Amount**”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Class B Condition 7, due on the Class B Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Class B Note, a *pro rata* share of the Residual Amount on such Interest Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class B Notes on any Interest Payment Date in accordance with Class B Condition 4 and this Class B Condition 7 falls short of the aggregate amount of interest which would have been due and payable on the Class B Notes on that

date pursuant to Class B Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Class B Condition 4. Any such shortfall, together with any accrued interest thereon will, subject to this Class B Condition 7, be payable on the next following Interest Payment Date. Any accrued but unpaid interest (together with any interest thereon) outstanding on the Interest Payment Date falling in November 2035 or on any earlier date upon which the Class B Notes are redeemed in full shall be due and payable on such Interest Payment Date or other earlier date.

8. Taxation

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

9. Prescription

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

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

10. Events of Default

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

- (i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Class B Notes or any of them or for a period of 15 days or more in the payment on the due date of any interest upon the Class B Notes or any of them; or

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

11. Enforcement and Post Enforcement Call Option

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

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

12. Replacements of Notes, Coupons and Talons

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

13. Notices

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

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, any Deferred Interest, any Additional Interest, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently page PGCPFS1) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Class B Noteholders (the “**Relevant Screen**”). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class B Condition shall be given in accordance with the preceding paragraph.

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

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

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

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

15. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to realise the Security and to obtain repayment of the Class B Notes unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and/or any other party to the Relevant Documents

without accounting for any profit resulting from such transactions. The Trustee will not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

16. Notifications and Other Matters to be Final

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

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

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

18. Governing Law

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

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

The issue of the Class C Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on 30th November 2004 and 10th December 2004. The Class C Notes will be constituted by a trust deed (the “**Trust Deed**”) expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class C Notes (the “**Class C Noteholders**”), the holders for the time being of the Class A Notes (the “**Class A Noteholders**”) and the holders for the time being of the Class B Notes (the “**Class B Noteholders**”). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Paragon Personal Finance Limited (“**PPF**”) of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement to be dated the Closing Date (the “**Mortgage Sale Agreement**”).

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PPF, the Administrator, GHL Mortgage Services Limited (the “**Substitute Administrator**”) and the Swap Provider (the “**Deed of Charge**”). The Trust Deed will include the form of the Global Class C Notes and the definitive Class C Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the “**Agency Agreement**”) expected to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. as principal paying agent (the “**Principal Paying Agent**”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “**Reference Agent**”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “**Paying Agents**”, which expression shall include the successors of each paying agent as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class C Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class C Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, and at the specified offices for the time being of the Paying Agents.

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

Global Class C Notes

The Class C Notes (which shall be in minimum denominations of £50,000 each and increments of £1,000 thereafter) will be initially represented by a Temporary Global Class C Note in bearer form, without coupons or talons, in the principal amount of £27,000,000. The Temporary Global Class C Note will be deposited on behalf of the subscribers of the Class C Notes with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”), (the “**Common Depositary**”) on the Closing Date. Upon deposit of the Temporary Global Class C Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class C Notes with the principal amount of Class C Notes for which it has subscribed and paid. Interests in the Temporary Global Class C Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class C Noteholders has been received) for interests in the Permanent Global Class C Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class C Note (the expression “**Global Class C Notes**” and

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

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

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

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

If (i) the principal amount of the Class C Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 14th December 2004, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class C Notes which would not be required were the Class C Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class C Notes represented by the Permanent Global Class C Note in exchange for the whole outstanding interest in the Permanent Global Class C Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

Security

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

- (i) a sub-charge over the Mortgages (including any Further Mortgages) which comprise English Mortgages and Northern Irish Mortgages and an assignation in security of the Issuer's interest in the Mortgages (including any Further Mortgages) which comprise Scottish Mortgages purchased by the Issuer from PPF under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment or assignation in security of the benefit of the guarantee;
- (ii) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (iii) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the Services Letter, under the Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the Collection Account Declaration of Trust, under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (iv) an assignment of the Issuer's rights to all moneys standing to the credit of the Issuer's bank account at National Westminster Bank Plc (the "**Transaction Account**"), and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (v) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and
- (vi) 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 (but extending over all of the Issuer's Scottish rights and assets, including those subject to fixed security).

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

Terms and Conditions

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

1. Form, Denomination and Title

The £27,000,000 Class C Mortgage Backed Floating Rate Notes Due 2035 of the Issuer (the "**Class C Notes**") are serially numbered and are issued in bearer form in denominations of £50,000 and increments of £1,000 thereafter with, at the date of issue, interest coupons ("**Interest Coupons**") and principal coupons ("**Principal Coupons**") (severally or together "**Coupons**") and talons ("**Talons**") attached. Notes of one denomination may not be exchanged for Notes of any other denomination. Title to the Class C Notes, the Coupons and the Talons shall pass by delivery.

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

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents (as defined in a trust deed (the "**Trust Deed**") dated 15th December 2004 or such later date agreed between the Issuer and the Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (as

defined below) (the “**Class A Noteholders**”) and the holders for the time being of the Class B Notes) (as defined below) (the “**Class B Noteholders**”) and the holders for the time being of the Class C Notes (the “**Class C Noteholders**”) may treat the holder of any Class C Note, Coupon or Talon as the absolute owner thereof (whether or not such Class C Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

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

The Class C Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in a deed of charge (the “**Deed of Charge**”) dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, GHM Mortgage Services Limited (the “**Substitute Administrator**”) and the Swap Provider) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class C Notes are subordinated to, among other things, payments of principal and interest on the £231,000,000 Class A Mortgage Backed Floating Rate Notes Due 2035 of the Issuer (the “**Class A Notes**”) and payments of principal and interest on the £42,000,000 Class B Mortgage Backed Floating Rate Notes Due 2035 of the Issuer (the “**Class B Notes**”) in accordance with the provisions of Class C Condition 7, the Trust Deed and the Deed of Charge.

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

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

3. Covenants of the Issuer

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

- (1) carry on any business other than as described in the Offering Circular dated 14th December 2004 relating to the issues of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
 - (a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class C Notes, the Coupons and Talons and the Class A Notes and the Class B Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to

the issues of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declaration of Trust, the Swap Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, each Scottish Declaration of Trust, each Scottish Supplemental Charge and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Trust Deed, the Deed of Charge or in the Mortgage Sale Agreement) (together the “**Relevant Documents**”);

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

- (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
 - (7) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Account (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it.
- (B) So long as any of the Class C Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Mortgages (the “**Administrator**”). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales, Northern Ireland and Scotland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, among other things, the Administrator is in breach of its obligations under the Administration Agreement which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class B Notes have been redeemed in full, the Class C Noteholders. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the Mortgage Sale Agreement.

4. Interest

(a) *Interest Payment Dates*

Each Class C Note bears interest on its Principal Amount Outstanding (as defined in Condition 5(b)) from and including the Closing Date. Provided certification of non-U.S. beneficial ownership has been received with respect to the Class C Notes, interest in respect of the Class C Notes is (subject to Class C Condition 7) payable quarterly in arrear on 15th May 2005 and thereafter on each subsequent 15th August, 15th November, 15th February and 15th May (or, if such date is not a Business Day (as defined below), the next succeeding Business Day) (each an “**Interest Payment Date**”). As used in these Class C Conditions except Class C Condition 6, “**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for business in London.

To the extent that the funds available to the Issuer to pay interest on the Class C Notes on the Principal Determination Date immediately preceding an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall (“**Deferred Interest**”) which will be borne by each Class C Note, in a proportion equal to the proportion that the Principal Amount Outstanding of that Class C Note bears to the aggregate Principal Amount Outstanding of the Class C Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not then fall due but will instead, subject to Class C Condition 7, be deferred until the first Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available (after allowing for the Issuer’s liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. Such Deferred Interest will accrue interest (“**Additional Interest**”) at the Rate of Interest (as defined below) applicable from time to time to the Class C Notes and, subject to Class C Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest (and any interest and Deferred Interest) to the extent of such available funds. To the extent that any such Deferred Interest or Additional Interest is not subsequently paid, the Issuer’s obligation to the Class C Noteholders in respect of any such Deferred Interest and/or Additional Interest will be subject to Class C Condition 7.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an “**Interest Period**”. Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the Interest Payment Date falling in May 2005 in respect of the period from (and including) the Closing Date to (but excluding) that Interest Payment Date.

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

(b) *Coupons and Talons*

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

(c) *Rate of interest*

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

- (i) On the Closing Date (an “**Interest Determination Date**”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on a linear interpolation between sterling deposits for a period of 5 months and sterling deposits for a period of 6 months, in each case quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) or, if that service ceases to display the information, such other screen service as may be determined by the Administrator (with the approval of the Trustee, in its sole discretion) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “**Interest Determination Date**”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) or, if that service ceases to display the information, such other screen service as may be determined by the Administrator (with the approval of the Trustee, in its sole discretion) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 1.00% per annum up to and including the Interest Period ending in November 2009 and thereafter the margin of 2.00% per annum;
- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “**Reference Banks**”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for 5 month and 6 month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i) above, on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest

Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) above or the foregoing provisions of this sub-paragraph (ii) shall have applied.

(iii) There shall be no maximum or minimum Rate of Interest.

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

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable, subject to Class C Condition 7, on a Class C Note (an “**Interest Payment**”) for the relevant Interest Period. The Interest Payment for a Class C Note shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of a Class C Note taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). On (or as soon as practicable after) each Principal Determination Date (as defined in Class C Condition 5(a)), the Issuer shall determine (or cause the Administrator to determine) the actual amount of interest which will be paid on each Class C Note on the Interest Payment Date next following such Principal Determination Date and the amount of Deferred Interest (if any) on each Class C Note in respect of the Interest Period ending on such Interest Payment Date and the amount of Additional Interest (if any) which will be paid on such Interest Payment Date. The amount of Additional Interest shall be calculated by applying the relevant Rate of Interest to the Deferred Interest relating to the Class C Notes and any Additional Interest from prior Interest Periods which remains unpaid, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 (or, in the case of an Interest Period ending in a leap year, 366) and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). In the event that on any Principal Determination Date the funds then available to the Issuer are insufficient to pay in full the Interest Payment, any outstanding Deferred Interest and any Additional Interest due on the Interest Payment Date next following such Principal Determination Date, such funds will be applied first to the payment of any Interest Payment, secondly to the payment of any outstanding Deferred Interest and thereafter to the payment of any Additional Interest.

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

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

(f) *Determination or Calculation by Trustee*

If the Reference Agent at any time for any reason does not determine the Rate of Interest or calculate an Interest Payment or the Additional Interest (if any) in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest for the Class C 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 shall calculate the Interest Payment or the Additional Interest (if any) in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

(g) *Reference Banks and Reference Agent*

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

5. Redemption and Purchase

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

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

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

"**Available Redemption Funds**" on any Principal Determination Date means:

(A) the aggregate of:

- (i) all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Accruals and Arrears relating thereto received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the "**Relevant Collection Period**"));
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Class A Notes, the Class B Notes and the Class C Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid

by the Issuer to PPF by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement; and (b) the amount applied to establish the First Loss Fund on the Closing Date;

- (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes, Class B Notes and/or Class C Notes on the Interest Payment Date relative thereto; and
- (iv) any part of the amount deducted pursuant to (B)(i), (ii), (iii) and (iv) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances or in purchasing Further Mortgages or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, in each case on or prior to the preceding Interest Payment Date;

less

(B) the aggregate of:

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

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

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

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the later of the Interest Payment Date falling in November 2009 and the first Interest Payment Date on which the ratio of (a) the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes to (b) the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes is 1 : 2.169 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The Subordinated Available Redemption Funds shall equal:

- (i) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls prior to the occurrence of the Determination Event or (thereafter) if (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, (i) there is any debit balance on the Principal Deficiency Ledger; or (ii) the amount of the First Loss Fund is less than the Required Amount; or (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 10% or more of the then Current Balances of all of the Mortgages, nil; and
- (ii) on any other Principal Determination Date, provided (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, (i) there is a balance of zero on the Principal Deficiency Ledger; and (ii) the amount of the First Loss Fund is not less than the Required Amount; and (b) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances of Mortgages which are more than three months in arrears represent less than 10% of the then Current Balances of all of the Mortgages, that amount of the Available Redemption Funds determined as at such date which, if applied *pro rata* to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the aggregate Principal Amount Outstanding of the Class B Notes (as defined in the terms and conditions of the Class B Notes) and the aggregate Principal Amount Outstanding of the Class C Notes (as defined in the terms and conditions of the Class C Notes) to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes and the aggregate Principal Amount Outstanding of the Class B Notes (defined as aforesaid) and the aggregate Principal Amount Outstanding of the Class C Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 1 : 2.169; provided that the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £14,280,000.

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

The Class B Available Redemption Funds:

- (a) on any Principal Determination Date on which there are Class A Notes outstanding, shall be determined in accordance with the following formula:

$$\text{BARF} = \text{SARF} \times 42/69$$

where:

- (i) "BARF" means the Class B Available Redemption Funds on such Principal Determination Date; and
- (ii) "SARF" means the Subordinated Available Redemption Funds on such Principal Determination Date; and

- (b) on any Principal Determination Date on which there are no Class A Notes outstanding, shall equal the lesser of the Available Redemption Funds and the aggregate Principal Amount Outstanding of the Class B Notes on such date.

The Class C Available Redemption Funds:

- (a) on any Principal Determination Date on which there are Class A Notes outstanding, shall be the Subordinated Available Redemption Funds on such Principal Determination Date less the Class B Available Redemption Funds on that date;
- (b) on any Principal Determination Date on which there are Class B Notes outstanding, but no Class A Notes outstanding, shall equal nil; and
- (c) on any Principal Determination Date on which there are no Class A Notes and no Class B Notes outstanding, shall equal the lesser of the Available Redemption Funds and the aggregate Principal Amount Outstanding of the Class C Notes on such date.

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

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

(c) *Redemption for Taxation or Other Reasons*

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class C Notes, or the Issuer or the Swap Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under the Swap Agreement or any Permitted Hedge Agreement, any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that on the Interest Payment Date on which such notice expires either there are no Class A Notes or Class B Notes outstanding or the Issuer redeems in full all of the Class A Notes and the Class B Notes outstanding in accordance with the terms and conditions thereof and provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class C Notes (including the full amount of interest payable on the Class C Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class C Condition 7) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class C Notes, or the Trustee is otherwise directed by Extraordinary Resolution (as defined in the Trust Deed) of the Class C Noteholders, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class C Condition 13, redeem all, but not some only, of the Class C Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date.

(d) *Optional Redemption in Full*

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class C Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes or Class B Notes outstanding or the Issuer redeems in full all of the Class A Notes or Class B Notes outstanding in accordance with the terms and conditions thereof and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes, the Class B Notes and the Class C Notes (including the full amount of interest payable on the Class A Notes, the Class B Notes and the Class C Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class C Condition 7) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, the Class B Notes and the Class C Notes or the Trustee is otherwise directed by Extraordinary Resolutions of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders, the Issuer may, on any Interest Payment Date falling in or after November 2008 or, if earlier, falling on or after the date on which all the Class A Notes and the Class B Notes are redeemed in full, redeem all (but not some only) of the Class C Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption.

(e) *Redemption on Maturity*

If not otherwise redeemed, the Class C Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in November 2035.

(f) *Purchases*

The Issuer may not purchase Class C Notes.

(g) *Cancellation*

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

(h) *Certification*

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

6. Payments

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

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

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

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

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

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

7. Deferral of Interest Payments

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

In the event that the aggregate funds, if any (computed in accordance with the provisions of the Deed of Charge), available to the Issuer on any Interest Payment Date for application in or towards the payment of interest which is, subject to this Class C Condition 7, due on the Class C Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class C Condition 7 as the “**Residual Amount**”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Class C Condition 7, due on the Class C Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Class C Note, a *pro rata* share of the Residual Amount on such Interest Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class C Notes on any Interest Payment Date in accordance with Class C Condition 4 and this Class C Condition 7 falls short of the aggregate amount of interest which would have been due and payable on the Class C Notes on that date pursuant to Class C Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Class C Condition 4. Any such shortfall, together with any accrued interest thereon will, subject to this Class C Condition 7, be payable on the next following Interest Payment Date. Any accrued but unpaid interest (together with any interest thereon) outstanding on the Interest Payment Date falling in November 2035 or on any earlier date upon which the Class C Notes are redeemed in full shall be due and payable on such Interest Payment Date or other earlier date.

8. Taxation

All payments in respect of the Class C 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 Class C Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agents will be obliged to make any additional payments to holders of Class C Notes or Coupons in respect of such withholding or deduction.

9. Prescription

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

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

10. Events of Default

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

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

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

11. Enforcement and Post Enforcement Call Option

At any time after the Class C Notes become due and repayable at their Principal Amount Outstanding, the Trustee may, at its discretion and without further notice, take such steps and/or

institute such proceedings as it may think fit to enforce the security for the Class C Notes and Coupons and to enforce repayment of the Class C Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class C Noteholders or so requested in writing by Class C Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing but provided that all of the Class A Notes and all of the Class B Notes have been redeemed in full, so long as any of the Class C Notes remains outstanding, if the Class C Notes have become due and payable pursuant to Class C Condition 10 otherwise than by reason of a default in payment of any amount due on the Class C Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class C Noteholders and the Couponholders and to other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cashflow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class C Noteholders and the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class C Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

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

12. Replacements of Notes, Coupons and Talons

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

13. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class C Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the

Financial Times) or, if this is not practicable, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above.

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, any Deferred Interest, any Additional Interest, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently page PGCPSTF1) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Class C Noteholders (the “**Relevant Screen**”). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class C Condition shall be given in accordance with the preceding paragraph.

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

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

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

Noteholders or at any meeting of the Class B Noteholders shall be binding on all Class C Noteholders and Couponholders, irrespective of its effect upon such holders or their interests.

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

15. Indemnification of the Trustee

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

16. Notifications and Other Matters to be Final

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

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

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

18. Governing Law

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

USE OF PROCEEDS

The gross proceeds from the issue of the Class A Notes will be £231,000,000 and those from the issue of the Class B Notes will be £42,000,000 and those from the issue of the Class C Notes will be £27,000,000. Commissions of 0.10% of the principal amount of the Class A Notes and of 0.10% of the principal amount of the Class B Notes and of 0.10% of the principal amount of the Class C Notes will be payable on the issues of the Notes. These commissions, together with certain other expenses of the issues, will be paid on behalf of or reimbursed to the Issuer by PFPLC as described in “The Issuer – Fee Letter” below. The net proceeds from the issue of the Notes, which will be approximately £299,700,000, and the sums paid by PFPLC to the Issuer in respect of such commissions and expenses on the Closing Date, will be applied in acquiring Mortgages on or (as described in the next sentence) during the four years immediately after the Closing Date. It is expected that approximately £59,000,000 of the gross proceeds of the Notes will not be applied in acquiring Mortgages on the Closing Date but will be applied in the subsequent acquisition of Further Mortgages.

RATINGS

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

THE ISSUER

Introduction

The Issuer was incorporated in England (registered number 4513329) as a public limited company under the Companies Act 1985 on 16th August 2002 as Paragon Mortgages (No. 13) PLC. It changed its name to Paragon Secured Finance (No. 1) PLC on 20th October 2004. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The Issuer is a wholly owned subsidiary of PGC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed by the UK Listing Authority and is traded on the London Stock Exchange.

The authorised and issued share capital of the Issuer is £50,000 divided into 50,000 ordinary shares of £1 each, all of which are held by PGC save for one share which is held by a nominee on trust for PGC.

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

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

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

Since 16th August 2002, being the date of incorporation of the Issuer, there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer.

Directors and Secretary

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

<i>Name</i>	<i>Business Address</i>	<i>Principal activities</i>
John Gemmell	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Director of Financial Accounting and Secretary of PGC and Director and Secretary of PFPLC, PPF and PSFL
Nicholas Keen	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Finance Director of PGC, PFPLC, PPF and PSFL
Richard Shelton	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Solicitor and Director of PFPLC, PPF and PSFL
Adem Mehmet	30-34 Moorgate London EC2R 6PQ	Director of PFPLC, PPF and PSFL
James Fairrie	Tower 42 25 Old Broad Street London EC2N 1HQ	Managing Director of SPV Management Limited

Nicholas Keen is Chairman of the Issuer. John Gemmell is Secretary of the Issuer. The Issuer has no employees.

Management and Activities

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

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

Fee Letter

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

Subordinated Loan Facility from PFPLC

By the Subordinated Loan Agreement (which is to be made between PFPLC, the Issuer and the Trustee and to be dated the Closing Date), PFPLC will agree to make available to the Issuer a loan facility, under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund and to achieve the initial ratings on the Notes. Under the terms of the Subordinated Loan Agreement, PFPLC will also agree to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make. PFPLC may also, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (a) (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances; and (b) (subject to the other conditions applicable to the purchase of Further Mortgages) to purchase Further Mortgages; (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Fund, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (a) (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances; and (b) (subject to the other conditions applicable to the purchase of Further Mortgages) to purchase Further Mortgages; and/or (iii) to enable the Issuer to make any

Discretionary Further Advances when the cumulative limit of £15,000,000, referred to under “Further Advances in respect of the Mortgages” above, is exceeded. Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of PFPLC, for the purpose of establishing or increasing the Shortfall Fund and, in addition, PFPLC may lend further sums to the Issuer under the Subordinated Loan Agreement to be used by the Issuer to purchase Caps or other hedging arrangements and related guarantees (where required) in respect of Converted Mortgages. The Issuer may from time to time borrow further sums from PFPLC or others on the terms of the Subordinated Loan Agreement. Amounts owing to PFPLC and any Subordinated Lenders under the Subordinated Loan Agreement will be subordinated in the manner described in “Summary – Priority of Payments – prior to enforcement” above.

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

In addition, further drawings will be made by the Issuer under the Subordinated Loan Agreement in order to fund (if necessary) purchases by the Issuer of amounts represented by unamortised commissions in relation to Further Mortgages.

Interest under the Subordinated Loan Agreement will be payable by the Issuer quarterly on or after the first Business Day after each Interest Payment Date commencing with the Interest Payment Date falling in May 2005 on the amount of the loan at the rate of 4% per annum above LIBOR (or such other rate which PFPLC and the Issuer agree is a fair commercial rate at the relevant time). Principal will be repayable on the earlier of (i) the day following the last Interest Payment Date falling in November 2035; and (ii) the first day on which there are no Notes outstanding, except that on any Interest Payment Date sums borrowed under the Subordinated Loan Agreement may be repaid to the extent of the funds available to the Issuer to do so (see “Summary – Priority of Payments – prior to enforcement” above) (provided that, while any Notes remain outstanding, no such repayment may be made if it would result in the principal amount outstanding in respect of the Subordinated Loan Agreement being less than the Required Amount). Payments of interest under the Subordinated Loan Agreement may only be made by the Issuer if, after applying its net income (other than principal receipts in respect of the Mortgages) in making a number of other payments or provisions, the Issuer still has sufficient funds for the purpose as more particularly described in “Summary – Priority of Payments – prior to enforcement” above. PFPLC and the Issuer may agree that any payments of interest and repayments of principal under the Subordinated Loan Agreement may be waived or deferred (in whole or in part).

Hedging Arrangements

On or about the Closing Date, the Issuer will enter into the ISDA master agreement forming part of the Swap Agreement. Under this, it may in the future enter into hedging arrangements in accordance with the Rating Agencies’ requirements to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages and/or Collared Rate Mortgages which are acquired by it.

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

Hedging arrangements may be provided by any bank or financial institution provided that on the date on which it makes such arrangements available to the Issuer, such bank or financial institution has a rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Notes unless such arrangements are guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge. Hedging

arrangements may, but need not, include one or more Caps which will be made available to the Issuer by means of one or more cap agreements entered into with a Cap Provider or may comprise other hedging arrangements entered into with the Swap Counterparty under the Swap Agreement.

Under the terms of the Administration Agreement the Issuer may be required to terminate all or part of any swap or other hedging arrangement entered into with the Swap Counterparty or any Permitted Hedge Provider due to early redemption, enforcement or sale of Fixed Rate Mortgages, Capped Rate Mortgages and/or Collared Rate Mortgages prior to the redemption of the Notes. Furthermore, total termination of any swap or other hedging arrangement may occur independently of an Event of Default.

The Swap Agreement may be terminated by the Swap Counterparty in circumstances including, broadly, where the Issuer is in default by reason of failure by the Issuer to make payments, 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. The Swap Agreement may be terminated by the Issuer in circumstances including, broadly, where the Swap Counterparty is in default by reason of failure by the Swap Counterparty to make payments, where the Swap Counterparty is otherwise in breach of the Swap Agreement or has made a misrepresentation and where certain insolvency related or corporate reorganisation events affect the Swap Counterparty.

Any termination of any swap or other hedging arrangements (whether in full or in part) may give rise to a termination payment due either to or from the Issuer. Any such payments due from the Issuer to the Swap Counterparty or any Permitted Hedge Provider will rank in order of priority as described in “Summary – Priority of Payments – prior to enforcement” or “Summary – Priority of Payments – post-enforcement” above, as applicable, and for the purposes of the relevant priority of payments “**Swap Counterparty Subordinated Amounts**” means, on any Interest Payment Date, in relation to any such swap or other hedging arrangement the amount, if any, due to the Swap Counterparty or Permitted Hedge Provider on that Interest Payment Date (excluding the amount of any swap collateral which is not to be applied towards any termination payment from the Swap Counterparty) in connection with a termination of the Swap Agreement where such termination has arisen as a result of an Event of Default where the Swap Counterparty is the Defaulting Party or as a result of a Termination Event where the Swap Counterparty is the Affected Party (and for these purposes Event of Default, Defaulting Party, Termination Event and Affected Party have the meanings indicated in the Swap Agreement).

Where the Issuer enters into a further agreement to replace all or part of any swap or other hedging arrangement which terminated early, the Issuer shall upon receipt apply the amount, if any, received in consideration for entry into that replacement swap agreement in or towards payment of any termination payment then payable by the Issuer to the Swap Counterparty or any Permitted Hedge Provider in respect of the swap or other hedging arrangement 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, Capped Rate Mortgage or Collared 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.

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

However, under the Swap Agreement, the Issuer will agree that on each Interest Payment Date it will, subject to and in accordance with the agreed order of priority of payments referred to in “Summary – Priority of Payments – prior to enforcement” above, pay to the Swap Counterparty an amount or amounts (“**Withholding Compensation Amounts**”) equal to (i) any Additional Amounts so paid by the Swap

Counterparty to the Issuer on such Interest Payment Date together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the Swap Counterparty under the Swap Agreement on any previous Interest Payment Date; and (ii) any Withheld Amount on such Interest Payment Date, together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Withheld Amount applicable to any previous Interest Payment Date.

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

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

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

Capitalisation and indebtedness

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

<i>Share Capital</i>		£
Authorised		
50,000 ordinary shares of £1 each		50,000.00
Issued		
50,000 ordinary shares of £1 each (two fully paid and 49,998 paid up as to 25 pence each)		12,501.50
Loan Capital		
£231,000,000 Class A Mortgage Backed Floating Rate Notes due 2035 (now being issued)		231,000,000.00
£42,000,000 Class B Mortgage Backed Floating Rate Notes due 2035 (now being issued)		42,000,000.00
£27,000,000 Class C Mortgage Backed Floating Rate Notes due 2035 (now being issued)		27,000,000.00

Note:

- (1) In addition, an advance under the Subordinated Loan Agreement will be made on the Closing Date in an amount sufficient, among other things, to enable the Issuer to achieve the initial ratings on the Notes. The amount of this advance is expected to be approximately £23,500,000. The Subordinated Loan Agreement will be an obligation solely of the Issuer (without the benefit of any guarantee from any third party) but will have the benefit of security.

The current financial period of the Issuer will end on 30th September 2005. The balance sheet of the Issuer as at 26th November 2004 is set out below. As at the date of this Offering Circular, save as disclosed above, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities which are material.

The following is the text of a report received by the Directors of the Issuer from Deloitte & Touche LLP of Stonecutter Court, 1 Stonecutter Street, London EC4A 4TR, Chartered Accountants, the Auditors to the Issuer:

The Board of Directors
Paragon Secured Finance (No.1) PLC
St. Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE

Our Ref: PSF1

14th December 2004

Dear Sirs

PARAGON SECURED FINANCE (NO.1) PLC ("PSF1 PLC") or the "Company"

We report on the financial information set out below. This financial information has been prepared for inclusion in the Listing Particulars dated 14th December 2004 relating to the Admission of the Company's Notes to the official list maintained by the UK Listing Authority (the "**Offering Circular**").

Basis of preparation

The financial information set out in this report, which has been prepared in accordance with applicable United Kingdom accounting standards, is based on the audited non-statutory accounts of PSF1 PLC for the period from 30th September 2004 to 26th November 2004, to which no adjustments were considered necessary.

Responsibility

Such financial statements are the responsibility of the directors of PSF1 PLC who approved their issue.

PSF1 PLC is responsible for the contents of the Offering Circular in which this report is included.

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

Basis of opinion

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

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

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

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of PSF1 PLC as at 26th November 2004.

Balance sheet of PSF1 PLC at 26th November 2004

	<i>Note</i>	<i>26th November 2004 £</i>	<i>30th September 2004 £</i>
ASSETS EMPLOYED			
CURRENT ASSETS			
Debtors due within one year – amounts owed by ultimate parent undertaking		–	12,501.50
Cash at bank and in hand		12,501.50	–
		<u>12,501.50</u>	<u>12,501.50</u>
FINANCED BY			
EQUITY SHAREHOLDERS' FUNDS			
Called up share capital	4	<u>12,501.50</u>	<u>12,501.50</u>

Notes to the Financial Information for the period ending 26th November 2004

1. ACCOUNTING POLICIES

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

Accounting convention

The financial information is prepared under the historical cost convention.

2. HISTORY

The Company was incorporated on 16th August 2002 under the name of Paragon Mortgages (No. 13) PLC. On 20th October 2004, the Company changed its name to Paragon Secured Finance (No. 1) PLC. The Company has issued 50,000 shares for a consideration of £12,501.50. No material contracts or transactions have been entered into. The Company has not yet traded and no dividends have been declared or paid.

3. PROFIT AND LOSS ACCOUNT

The Company has been dormant since incorporation on 16th August 2002 to 26th November 2004. Accordingly no profit and loss account and no statement of total recognised gains and losses are presented for either period.

4. CALLED UP SHARE CAPITAL

	<i>26th November 2004</i>		<i>30th September 2004</i>	
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Authorised				
Ordinary shares of £1 each	50,000	50,000.00	50,000	50,000.00
		<u>50,000.00</u>		<u>50,000.00</u>
Allotted				
Ordinary shares of £1 each (25p paid)	49,998	12,499.50	49,998	12,499.50
Ordinary shares of £1 each (fully paid)	2	2.00	2	2.00
		<u>12,501.50</u>		<u>12,501.50</u>
	<u>50,000</u>	<u>12,501.50</u>	<u>50,000</u>	<u>12,501.50</u>

Authorised share capital consists of 50,000 ordinary shares of £1 each. The issued share capital consists of 2 shares allotted with £1 paid, issued on 16th August 2002 to form the initial share capital, and 49,998 ordinary shares allotted with 25p paid, issued on 29th August 2002.

5. ULTIMATE PARENT UNDERTAKING

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

6. POST BALANCE SHEET EVENT

PSF1 PLC is intending to enter into a transaction for the purchase of mortgages, and the sale of loan notes backed by these mortgages, as described in the Offering Circular dated 14th December 2004.

Yours faithfully

Deloitte & Touche LLP
Chartered Accountants

THE PARAGON VAT GROUP

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

Citicorp Trustee Company Limited (as successor to Morgan Guaranty Trust Company of New York) is the trustee of the fund which currently amounts to approximately £205,000. The Issuer will on the Closing Date become one of the beneficiaries of the trust over the VAT Account, such trust being constituted by a declaration of trust dated 19th March 1993, as subsequently amended and restated (the "**VAT Declaration of Trust**").

SWAP COUNTERPARTY

As at the Closing Date, the Swap Counterparty will be Barclays Bank PLC. Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered and head office at 54 Lombard Street, London EC3P 3AH. Barclays Bank PLC was incorporated on 7th August 1925 under the Colonial Bank Act 1925 and on 4th October 1971 was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1st January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank PLC".

Barclays Bank PLC and its subsidiary undertakings (taken together, the "Group") is an international financial services group engaged primarily in banking, investment banking and asset management. In terms of assets employed, it is one of the largest financial services groups in the United Kingdom. The Group also operates in many other countries around the world and is a leading provider of co-ordinated global services to multinational corporations and financial institutions in the world's main financial centres. The whole of the issued ordinary share capital of Barclays Bank PLC is owned by Barclays PLC, which is the ultimate holding company of the Group.

The short term unsecured obligations of Barclays Bank PLC are rated F1+ by Fitch, P-1 by Moody's Investors Service Limited and A-1+ by Standard & Poor's and the long-term obligations of Barclays Bank PLC are rated AA+ by Fitch, Aa1 by Moody's Investors Service Limited and AA by Standard & Poor's.

As at 30th June 2004, the Group had total assets of £498,127 million, total net loans and advances of £323,750 million, total deposits of £322,040 million and equity shareholders funds of £17,067 million. The profit before taxation of the Group in respect of the six months ended 30 June 2004 was £2,411 million after charging net provisions for bad and doubtful debts of £589 million.

As at 31st December 2003, the Group had total assets of £443,373 million (31st December 2002: £403,066 million), total net loans and advances of £288,743 million (31st December 2002: £260,572 million), total deposits of £278,960 million (31st December 2002: £258,932 million) and equity shareholders funds of £16,485 million (31st December 2002: £15,205 million). The profit before taxation of the Group in respect of the year ended 31st December 2003 was £3,845 million (31st December 2002: £3,203 million) after charging net provisions for bad and doubtful debts of £1,347 million (31st December 2002: £1,484 million).

THE MORTGAGES

Origination of the Mortgages

All of the Mortgages forming part of the initial security for the Notes have been originated by PPF and sold by it to PSFL (although certain of the Mortgages have in the past been sold by PPF to other subsidiaries of PGC in connection with securitisation transactions which have now been unwound and subsequently sold back to PSFL). PPF will repurchase such Mortgages from PSFL on the Closing Date and sell them to the Issuer. PPF is a private company and both PFPLC and PPF are wholly owned subsidiaries of PGC. The ordinary share capital of PGC is listed by the UK Listing Authority. The registered address of PPF is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. PPF's principal activities are to invest in mortgage loans secured on residential or other properties within the British Isles or elsewhere and to acquire mortgage loans from third parties.

Introduction of Mortgage Business

PPF derives its mortgage lending business through intermediaries.

Information on the Mortgages

General

The Mortgages will all have had original maturities of between 3 years and 25 years. No Mortgage will fall to be repaid later than 30th November 2033.

All the Mortgages upon origination consist, or will consist, of mortgage loans which meet or will meet certain lending criteria, and are secured by charges over freehold or leasehold properties located in England or Wales ("**English Mortgages**") or by standard securities over heritable or long leasehold residential properties located in Scotland ("**Scottish Mortgages**") or by mortgages or charges over freehold or long leasehold properties located in Northern Ireland ("**Northern Irish Mortgages**"). The Issuer will have the benefit of warranties from PFPLC in relation to the Mortgages, including warranties in relation to the lending criteria applied in advancing the loans.

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

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

Repayment Types

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

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

Mortgage Interest Rate Types

The Mortgages will comprise any one of the following:

- (i) a Mortgage under which for a fixed period or periods the rate of interest payable by the borrower is not capable of being reset monthly or quarterly at will by the Issuer or the Administrator but the borrower is required to pay interest at a fixed rate or a series of fixed rates (being, during each such period, a **“Fixed Rate Mortgage”**);
- (ii) a Mortgage under which the borrower is required to pay interest at a fixed margin over three month LIBOR for sterling deposits (**“Mortgage LIBOR”**) determined quarterly (being, during each period in which interest accrues in that manner, a **“LIBOR-Linked Mortgage”**);
- (iii) a Mortgage under which the borrower is required to pay interest at a fixed margin over the Bank of England base rate (being, during each period in which interest accrues in that manner, a **“Base Rate Tracker Mortgage”**);
- (iv) a Mortgage under which the borrower is required to pay interest at a rate equal to either Mortgage LIBOR plus a fixed margin or a variable rate determined by the Issuer or Administrator up to a specified rate for a specified period of the loan (being, during each such period, a **“Capped Rate Mortgage”**);
- (v) a Mortgage under which the borrower is required to pay interest at a rate equal to either Mortgage LIBOR plus a fixed margin or a variable rate determined by the Issuer or Administrator between two specified rates for a specified period of the loan (being, during such period, a **“Collared Rate Mortgage”**); or
- (vi) a Mortgage which is not at the relevant time a Fixed Rate Mortgage, LIBOR-Linked Mortgage, Base Rate Tracker Mortgage, Capped Rate Mortgage or Collared Rate Mortgage and under which the rate of interest payable by the borrower is variable and is capable of being reset by the Issuer or the Administrator (being, during each period in which interest accrues in that manner, a **“Variable Rate Mortgage”**).

In this Offering Circular, a **“Non-Standard Mortgage”** is a Mortgage which is either a Fixed Rate Mortgage, LIBOR-Linked Mortgage, Base Rate Tracker Mortgage, Capped Rate Mortgage or Collared Rate Mortgage at the relevant time. In addition, some of the Non-Standard Mortgages and Variable Rate Mortgages are subject to a discounted rate of interest for a specified period. The terms of a Mortgage may provide that a Non-Standard Mortgage shall change to being another type of Non-Standard Mortgage or to a Variable Rate Mortgage after a specified period of time. A Variable Rate Mortgage may be converted into a Non-Standard Mortgage.

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

Redemption Provisions

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

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

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

Scottish Mortgages

A proportion of the Mortgages forming part of the initial security for the Notes are, and a proportion of any Further Mortgages acquired by the Issuer may be, Scottish Mortgages. These are secured over the relevant Scottish Properties by way of standard security, being the only means of creating a fixed charge or security over heritable property in Scotland. In respect of Scottish Mortgages, references in this Offering Circular to a “mortgage” and “mortgagee” are to be read as references to such a standard security and the heritable creditor (being the technical term under Scots law for a mortgagee) thereunder respectively.

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

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

Prior to December 2001, once a default by the borrower had been constituted by one of the methods detailed in the preceding paragraph, the Scottish courts were bound, except in very limited circumstances, to grant the enforcement remedies sought. However, this position has been altered by the Mortgage Rights (Scotland) Act 2001, which was brought into force on 3rd December 2001. The principal effect of this Act is to confer on the court a discretion, on the application of the borrower (or the borrower’s spouse or partner) within certain time limits, to suspend the exercise of the lender’s enforcement remedies for such period and to such extent as the court considers reasonable in the circumstances, having regard amongst other factors to the nature of the default, the applicant’s ability to remedy it and the availability of alternative accommodation. This now brings the position in Scotland broadly into line with that which applies in England and Wales in this area.

Acquisition of Mortgages

Pursuant to the Mortgage Sale Agreement, PPF will agree to re-purchase certain Mortgages from PSFL on the Closing Date. The Issuer will, in turn, agree to purchase (and PPF will agree to sell) these Mortgages on the Closing Date. In addition, the Issuer may, subject to certain conditions to be specified in the Mortgage Sale Agreement and the Administration Agreement, purchase Further Mortgages on any date following the Closing Date up to and including the Interest Payment Date falling in November 2008, as described below under “Acquisition of Further 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 Further Mortgages purchased on any date following the Closing Date up to and including the Interest Payment Date falling in November 2008, will be paid on the date of such purchase.

Legal title to each of the Mortgages has since origination remained with PPF and will remain with PPF until completion of the transfers of the English Mortgages (and in the case of registered land, their registration at the Land Registry) and of the transfers of the Northern Irish Mortgages (and in the case of registered land, their registration at the Land Registry of Northern Ireland and, in the case of unregistered land, their registration at the Registry of Deeds of Northern Ireland) and of the assignments of the Scottish Mortgages (and their registration or recording in the Registers of Scotland) and notification to any borrower or

guarantor. Until these steps are taken, the sale of the English Mortgages and the Northern Irish Mortgages will take effect in equity only and in relation to Scottish Mortgages, the transfer of the beneficial interest therein will be effected by a declaration or declarations of trust (each a “**Scottish Declaration of Trust**”) by PPF in favour of the Issuer. Save in the circumstances to be set out in the Administration Agreement and described below, neither the Issuer nor the Trustee will apply to the Land Registry, the Land Registry of Northern Ireland, the Registry of Deeds of Northern Ireland or to the Registers of Scotland to register or record the Issuer as the new registered or heritable proprietor of any Mortgages and, accordingly, in relation to the relevant Mortgages the situation described above as regards title thereto will continue to apply. (See “Perfection of title” below.)

Acquisition of Further Mortgages

In accordance with the Mortgage Sale Agreement, PPF may, but is not obliged to, from time to time, require the Issuer (subject to certain conditions) to purchase Further Mortgages on or before the Interest Payment Date falling in November 2008.

Any purchase of a Further Mortgage will be subject to, *inter alia*:

- (a) if such Further Mortgage is purchased using funds standing to the credit of the Pre-Funding Reserve Ledger), the confirmation of the Ratings Agencies that such purchase will not adversely affect any of the then current ratings of the Notes;
- (b) the satisfaction as at the date of such purchase of those conditions precedent which were required in respect of the purchase of similar Mortgages as at the Closing Date;
- (c) the Further Mortgages meeting substantially the same lending criteria as those which applied to similar Mortgages purchased on the Closing Date;
- (d) no Enforcement Notice having been served and there being no existing event of default under the Notes;
- (e) there being no existing termination event in relation to the Administrator under the Administration Agreement;
- (f) the sum of all Mandatory Further Advances which could be required to be made pursuant to such Further Mortgages not, when aggregated with all outstanding Mandatory Further Advances which the Issuer could be required to make under all other Mortgages purchased by the Issuer on or after the Closing Date, exceeding £5,000,000;
- (g) PPF not being unable, and the proposed purchase not resulting in PPF being unable, to repay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986;
- (h) PPF not having defaulted, and the proposed purchase not resulting in PPF defaulting, in repayment of any financial indebtedness of £250,000 or more in aggregate;
- (i) the Administrator not having notified the Rating Agencies at any time on or after the Closing Date that PGC and/or PFPLC is unable to repay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 and/or PGC or PFPLC not defaulting in repayment of any financial indebtedness of £250,000 or more in aggregate;
- (j) (i) the aggregate of the then Current Balances of Mortgages which are more than three months in arrears representing 10% or less (taking into account the effect on the Mortgages of such purchase and the purchase of any other Mortgage by the Issuer on the same day) (or such other percentage as may be agreed with the Rating Agencies from time to time) of the aggregate of the then Current Balances of all of the Mortgages; and (ii) the aggregate of payments of interest received from borrowers in respect of all Mortgages during the period of three months ending on the immediately preceding Principal Determination Date being 95% or more (taking into account the effect on the Mortgages of such purchase and the purchase of any other Mortgage by the Issuer on the same day) (or such other percentage as may be agreed with the Rating Agencies from time to time) of the

aggregate of interest which fell due for payment by borrowers in respect of all Mortgages in such period;

- (k) there being a balance on the Principal Deficiency Ledger of not less than zero;
- (l) the current balance of the First Loss Fund being not less than the Required Amount;
- (m) the product of the weighted average foreclosure frequency (“**WAFF**”) and the weighted average loss severity (“**WALS**”) for the Mortgages which are current, not having completed the arrears and default procedures below referred to under “Mortgage Administration – Arrears and Default Procedures” below, (taking into account the effect on the Mortgages of such purchase and the purchase of any other Mortgage by the Issuer on the same day), calculated on the same basis as applied to the WAFF and WALS which the Rating Agencies required to be calculated for the Mortgages on the Closing Date (or as otherwise agreed with the Rating Agencies from time to time) not exceeding the product of the WAFF and WALS for the Mortgages as calculated on the Closing Date by more than 0.25% (or such other percentage as may be agreed with the Ratings Agencies from time to time);
- (n) if such purchase were completed, the maximum aggregate principal amount of all Arrears Mortgages purchased by the Issuer (whether at or after the Closing Date) (when aggregated with any other Arrears Mortgages previously purchased) being not greater than £15,000,000 at the time of purchase; and
- (o) the aggregate amount of Mandatory Further Advances which PPF is committed to make under the Further Mortgages which are to be purchased by the Issuer on the relevant purchase date, when aggregated with:
 - (i) the aggregate amount of all Discretionary Further Advances (other than by way of capitalisation of arrears) which have been made since the Closing Date or which are proposed to be made on or before the relevant purchase date;
 - (ii) the aggregate amount of all Mandatory Further Advances which have been made since the Closing Date or which are to be made on or before the relevant purchase date,

which, in the case of each of sub-paragraphs (i) and (ii) above, have been or are to be funded by the Issuer out of principal received or recovered or deemed to have been received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose; and

- (iii) the aggregate amount of all other Mandatory Further Advances, in respect of Mortgages which the Issuer has purchased or will have purchased before the relevant purchase date, which are to be made after the relevant purchase date,

not exceeding a combined aggregate cumulative limit of £15,000,000,

and will be further conditional on additional criteria (if any) as may be agreed from time to time by the Rating Agencies in order to maintain the current ratings of the Notes.

The purchase price for a Further Mortgage on the relevant purchase date (and any Mortgage acquired on the Closing Date) will be the aggregate of:

- (a) its Current Principal Balance (being the aggregate outstanding amount of principal under the Mortgage);
- (b) any Purchased Pre-Closing Accruals and Arrears; and
- (c) any unamortised commission,

less any provision in respect of unpaid amounts.

The Issuer, or the Administrator on the Issuer’s behalf, may withdraw amounts from the Transaction Account to pay the purchase price for a Further Mortgage. Such withdrawals may be made on any Business Day but only to the extent of funds standing to the credit of the Principal Ledger on that day, which will include funds retained for this purpose under (b)(iii) of the definition of Available Redemption

Funds, or, in the case of the period from the Closing Date to the first Principal Determination Date, only to the extent of funds standing to the credit of the Pre-Funding Ledger plus the Principal Ledger.

The transfer of any Further Mortgage will be completed in England on acceptance by the Issuer of an offer incorporating the terms of the Mortgage Sale Agreement and payment of the purchase price.

Such offer and acceptance in respect of a Further Mortgage will constitute a Mortgage Sale Contract which will be upon and subject to the terms and conditions in the Mortgage Sale Agreement.

Any Further Mortgages which are Scottish Mortgages will, on conclusion of the relevant sale contract, be held on trust for the Issuer, pursuant to a Scottish Declaration of Trust by PPF, substantially in the form specified in the Mortgage Sale Agreement.

PPF is under a duty to account to the Issuer for any amounts received in respect of a Further Mortgage and the date it is acquired by the Issuer, once it has been acquired by the Issuer. Such amounts will be held on trust for the Issuer by PPF.

Perfection of title

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

Until the transfer of the legal title is perfected, the borrower may continue making payment to PPF. Perfecting legal title would mean that the borrower would no longer be entitled to obtain a good receipt from PPF as mortgagee. Under the Mortgage Sale Agreement, PPF has undertaken that if at any time it receives (or there is received to its order) any property, interest, right or benefit agreed to be sold to the Issuer it will hold the same on trust for the Issuer as the beneficial owner thereof. Furthermore, under the Collection Account Declaration of Trust PPF will declare that all direct debit payments made by borrowers under the Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages credited to the Collection Account are held on trust for the Issuer until they are transferred to the Transaction Account. Notice to borrowers in respect of the Mortgages would also prevent the Mortgages from being amended by PPF or the borrowers without the involvement of the Issuer.

Upon the occurrence of certain events such as (i) the valid service of an Enforcement Notice or a Protection Notice (each as to be defined in the Deed of Charge); (ii) the termination of PFPLC's role as administrator under the Administration Agreement; (iii) PPF being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which PPF is a member or with whose instructions it is customary for PPF to comply, to perfect the transfer of legal title to the Mortgages; (iv) any change occurring in the law after the Closing Date rendering it necessary by law to perfect the transfer of legal title to the Mortgages; (v) the security under the Deed of Charge or any material part of such security being in jeopardy and the Trustee deciding to take such action to reduce materially such jeopardy; (vi) the payment in full of all moneys and other liabilities due or owing under the Notes, the Trust Deed and the Deed of Charge; or (vii) the Interest Payment Date falling in November 2040, the Issuer or the Trustee will have the right to perfect legal title to the Mortgages by executing transfers and assignments of the Mortgages in the appropriate form (if necessary pursuant to irrevocable powers of attorney) effecting the necessary

registrations and notifications and giving notice to the borrowers and any guarantors in respect of such Mortgages. The right of the Issuer and the Trustee to exercise the powers of the registered proprietor or heritable creditor of the Mortgages pending registration will be secured by irrevocable powers of attorney granted by PPF in favour of the Issuer and the Trustee.

Searches and Warranties in respect of the Mortgages

Neither PFPLC, PPF, the Issuer nor the Trustee has made or caused to be made (or will make or cause to be made on its behalf) in relation to the Mortgages purchased by the Issuer any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make, other than a search, prior to completion of the purchase by the Issuer of the Mortgages, on the Closing Date and on any date following the Closing Date up to and including the Interest Payment Date falling in November 2008 upon which Further Mortgages are purchased by the Issuer against PPF and PSFL in the relevant file held by the Registrar of Companies and in the Register of Inhibitions and Adjudications in Scotland and in the relevant file held by the Companies Registry, Belfast in Northern Ireland. Neither the Issuer nor the Trustee has made nor will make any enquiry, search or investigation prior to the making of any Mandatory Further Advance or Discretionary Further Advance or at any time in relation to compliance by PPF, the Administrator or any other person with any applicable lending guidelines, criteria or procedures or the adequacy thereof or with the provisions of the Mortgage Sale Agreement, the Administration Agreement, the Deed of Charge, or with any applicable laws or in relation to the execution, legality, validity, perfection, adequacy or enforceability of any Mortgages purchased on the Closing Date or any date following the Closing Date up to and including the Interest Payment Date falling in November 2008 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 PFPLC to the Issuer and the Trustee contained in the Mortgage Sale Agreement. These include warranties in respect of Mortgages to be purchased on the Closing Date or, if applicable, on any date following the Closing Date up to and including the Interest Payment Date falling in November 2008 as to the following: that each Mortgage is a valid and binding obligation of the relevant borrower; that each Mortgage advance (including any further advance) is secured by a Mortgage; that, subject to the completion of any registration or recording of the Mortgage which may be pending at the Land Registry, the Land Registry of Northern Ireland, the Registry of Deeds of Northern Ireland or the Registers of Scotland, each Mortgage constitutes a valid and subsisting legal mortgage (in the case of an English Mortgage) or standard security (in the case of a Scottish Mortgage) over the relevant property; that all necessary steps with a view to perfecting the title of the mortgagee to the Mortgage are being or have been taken without undue delay and with all due diligence on the part of the mortgagee; that, subject to the foregoing, PPF is the absolute beneficial owner of each Mortgage free and clear of security interests other than those that will be created by the Deed of Charge; that, prior to making the original advance or any further advance, the lending criteria of the originator were satisfied so far as applicable; that, before the Mortgage advance, the mortgagee carried out such written searches and investigations of the title to the relevant property which a reasonably prudent provider of secured consumer finance would carry out, which searches and investigations disclosed nothing which would cause a reasonably prudent provider of secured consumer finance to decline to proceed with the Mortgage advance on the proposed terms; that, before the Mortgage advance, the relevant property was valued by a valuer acting for the mortgagee or on an indexation basis which might be used by a reasonably prudent provider of secured consumer finance, which valuation disclosed nothing which would cause a reasonably prudent provider of secured consumer finance to decline to proceed with the Mortgage advance on the proposed terms; that no lien or right of set-off or counterclaim is exercisable against PPF by any borrower which would entitle such borrower to reduce the amount of any payment otherwise due under his Mortgage; that where any agreement for a Mortgage is in whole or in part a regulated agreement or a consumer credit agreement (as defined in section 8 of the Consumer Credit Act 1974) or, to the extent that any Mortgage is in whole or in part a regulated agreement or consumer credit agreement, the procedures and requirements set out in the Consumer Credit Act 1974 have been complied with in all material respects and PPF has not done anything which would cause the Mortgage to be invalid or irrecoverable; as to the records maintained by PPF; and that each Mortgage is in a form which would be acceptable to a reasonably prudent mortgage lender.

The sole remedy of the Issuer and/or the Trustee where there is, at the relevant purchase date, a material breach of any of the warranties shall be to require PFPLC to purchase any relevant Mortgage provided that

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

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

CURRENT LENDING GUIDELINES

Secured Lending

The guidelines provided by PPF, to help introducers of mortgage loan business to PPF 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 of any of the Mortgages' origination, will not be substantially different from the following (which, although expressed in the present or future tenses, should be read as applying at the time of origination).

Personal Details

The maximum number of applicants who may be party to the mortgage is four.

All applicants must be a minimum of 18 years of age at completion.

Mortgage Requirements

The maximum loan available will be £100,000, up to a maximum LTV (including the first mortgage) of 160% including fees.

The maximum term for a loan is 40 years, the minimum is usually 3 years.

Loans may be taken on either a capital repayment or an interest only basis, or a combination of the two.

Property Details

Loans must be secured on residential property which, following a valuation by PPF's valuer or a valuer appointed to act on PPF's behalf, or an assessed value by reference to the Nationwide House Prices Index or on such other indexation basis which might be used by a prudent lender of Secured Loan products, is considered to be suitable security.

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.

All properties must be adequately insured under the first mortgagee's block insurance policy, or PPF's block insurance policy, or through an equivalent index linked policy with an alternative insurance company.

Credit History

A credit search will be carried out in respect of all applicants.

Where the applicant(s) has an existing first charge on a property(ies) occupied by them, PPF requires satisfactory evidence of proof of payment. This may take the form of either a lender's reference, mortgage statements or credit bureau information.

Income and Employment Details

Salaried applicants must derive their income from permanent or contracted employment which, other than in exceptional circumstances, is non-probationary. PPF will seek a reference from the applicants' current employer and any previous employers where this is considered appropriate.

Forms of evidence may include, for example, the most recent P60.

Where an applicant is self-employed, PPF will require proof of income over an extended period of time. Acceptable forms of proof of income include audited accounts, personal tax returns, bank statements or an accountant's reference. Such proof will normally be expected to cover a 3 year period, but this may be reduced where the information submitted is deemed sufficient to establish a usable income figure.

PPF will carry out an affordability calculation which will reflect the circumstances of the borrower and this may restrict the maximum loan available.

INSURANCE COVERAGE

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

Creditor Insurance

Some, but not all, of the borrowers from PPF have the benefit of receipt of claims payments from insurance with London and Edinburgh Insurance Company Limited, an insurance company which carries on insurance business within the U.K. whose registered office is at 8 Surrey Street, Norwich NR1 3NG, and Norwich Union Life & Pensions Limited, an insurance company which carries on insurance business within the U.K. whose registered office is at 2 Rougier Street, York YO90 1UU, under which the relevant insurer is required to make payment in the event of the death, total disability or unemployment of any such borrower. PPF do not have an interest in any of these policies. Nevertheless, under each policy the insurer has provided an undertaking to the assured that it will pay the benefit of any claims made by the assured directly to PPF.

The proceeds of any claims received by PPF are applied by it in reducing the relevant borrower's liability to PPF.

Other Miscellaneous Insurances

PPF and PFPLC have the benefit of insurance which covers it against loss arising from negligent acts, errors or omissions and dishonesty or fraud by its 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 Initial Mortgages by the Issuer and execution of the Deed of Charge.

The Issuer will also have the benefit of insurance, in the name of PGC (the "**Mortgage Impairment Contingency Policy**") 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 failure of the borrower to effect or renew adequate insurance cover, to make or pursue a legitimate insurance claim or to utilise the proceeds of any claim to repair such damage. It also indemnifies the insured in the event that it inadvertently omits to ensure that buildings insurance is in place on any property where it has an interest as mortgagee. The Issuer will be or become a named insured under the Mortgage Impairment Contingency Policy.

The Issuer is included as an assured under these policies. Any claim made under such insurances will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

The Issuer's interest in the Mortgage Impairment Contingency Policy will, if the Trustee is not itself insured thereunder, be assigned to the Trustee but no notice of the assignment will be given to the insurer. Any claim under such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool, evidenced by the mortgages described below (the “**Provisional Mortgage Pool**”) as at 30th September 2004 (the “**Provisional Pool Date**”) consisted of 10,884 Mortgages having a Provisional Balance (as defined below) of £241,179,698.49.

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

The Mortgages to be purchased by the Issuer on the Closing Date and at any time up to and including the Interest Payment Date falling in November 2008 will be selected from the Provisional Mortgage Pool and from other mortgages not included in the Provisional Mortgage Pool. Therefore the information set out below in relation to the Provisional Mortgage Pool may not necessarily correspond to that for the Mortgages sold to the Issuer (see “Summary – Selection of Mortgages” above).

All of the Mortgages forming part of the Provisional Mortgage Pool were originated since 13th July 1999.

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:

Portfolio Loans Key Features

	<i>Weighted average</i>	<i>Minimum</i>	<i>Maximum</i>
Loan to value	87.88%	0.27%	149.31%
Current balance	£ 22,159.10	£ 26.05	£ 95,816.31
Seasoning (months)	9.89	–	62.62
Annual yield	9.44%	6.97%	15.88%
Remaining term (years)	15.65	0.08	25.00

Portfolio Loans Distribution by loan to value ratios

<i>LTV ratio</i>	<i>Current balance (£)</i>	<i>%</i>	<i>Number</i>	<i>%</i>
> 0 <= 25	1,948,463.23	0.81%	275	2.53%
> 25 <= 50	10,020,562.94	4.15%	861	7.91%
> 50 <= 55	4,318,146.61	1.79%	304	2.79%
> 55 <= 60	6,490,810.64	2.69%	392	3.60%
> 60 <= 65	8,607,426.59	3.57%	489	4.49%
> 65 <= 70	11,611,978.90	4.81%	625	5.74%
> 70 <= 75	13,533,483.84	5.61%	715	6.57%
> 75 <= 80	17,023,939.90	7.06%	898	8.25%
> 80 <= 85	22,553,774.12	9.35%	1,079	9.91%
> 85 <= 90	24,485,718.09	10.15%	1,125	10.34%
> 90 <= 95	27,957,081.47	11.59%	1,177	10.81%
> 95 <= 100	29,415,545.14	12.20%	1,145	10.52%
> 100	63,212,767.72	26.21%	1,799	16.53%
	<u>241,179,698.49</u>		<u>10,884</u>	

Portfolio Loans Distribution by Current Balance outstanding

<i>Individual Current Balance (£)</i>	<i>Aggregate Current Balance (£)</i>	<i>%</i>	<i>Number</i>	<i>%</i>
0 to 15,000	28,647,288.31	11.88%	4,156	38.18%
15,000.01 to 30,000	83,598,419.47	34.66%	3,755	34.50%
30,000.01 to 45,000	68,171,256.83	28.27%	1,879	17.26%
45,000.01 to 60,000	42,728,293.56	17.72%	829	7.62%
60,000.01 to 70,000	11,298,595.43	4.68%	177	1.63%
70,000.01 to 80,000	4,925,095.98	2.04%	67	0.62%
80,000.01 to 90,000	1,344,991.82	0.56%	16	0.15%
90,000.01 to 100,000	465,757.09	0.19%	5	0.05%
	<u>241,179,698.49</u>		<u>10,884</u>	

Portfolio Loans Distribution by Annual Yield to Issuer

<i>Annual Yield</i>	<i>Current balance (£)</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Under 7.00%	83,020.21	0.03%	2	0.02%
7.00% to 7.99%	23,357,280.97	9.68%	598	5.49%
8.00% to 8.99%	60,356,935.87	25.03%	1,936	17.79%
9.00% to 9.99%	69,079,289.39	28.64%	2,572	23.63%
10.00% to 10.99%	64,046,448.27	26.56%	2,612	24.00%
11.00% to 11.99%	9,406,792.27	3.90%	714	6.56%
12.00% to 12.99%	7,719,701.35	3.20%	1,160	10.66%
13.00% to 13.99%	6,296,065.15	2.61%	1,011	9.29%
14.00% to 14.99%	370,153.04	0.15%	179	1.64%
15.00% and over	464,011.97	0.19%	100	0.92%
	<u>241,179,698.49</u>		<u>10,884</u>	

Portfolio Loans Distribution by Remaining Term

<i>Years</i>	<i>Current balance (£)</i>	<i>%</i>	<i>Number</i>	<i>%</i>
> 0 < 5	13,384,985.61	5.55%	2,585	23.75%
>= 5 < 10	58,340,397.24	24.19%	2,899	26.64%
>= 10 < 15	64,589,611.41	26.78%	2,303	21.16%
>= 15 < 20	40,806,406.84	16.92%	1,222	11.23%
>= 20 < 25	64,058,297.39	26.56%	1,875	17.23%
	<u>241,179,698.49</u>		<u>10,884</u>	

Portfolio Loans Distribution by Geographical Regions

	<i>Current balance (£)</i>	<i>%</i>	<i>Number</i>	<i>%</i>
North	11,872,236.43	4.92%	597	5.49%
North West	23,854,780.88	9.89%	1,174	10.79%
Yorkshire	18,501,139.38	7.67%	908	8.34%
East Midlands	17,381,529.43	7.21%	767	7.05%
West Midlands	20,700,445.35	8.58%	944	8.67%
East Anglia	8,308,288.83	3.44%	394	3.62%
South East (exc Greater London)	61,244,122.51	25.39%	2,432	22.34%
South West	18,598,978.44	7.71%	837	7.69%
Greater London	9,366,086.09	3.88%	343	3.15%
Wales	10,667,079.11	4.42%	564	5.18%
Scotland	20,281,568.62	8.41%	1,121	10.30%
Nth. Ireland	20,403,443.42	8.46%	803	7.38%
	<u>241,179,698.49</u>		<u>10,884</u>	

Portfolio Loans Distribution by Seasoning

<i>Year of Origination</i>	<i>Current balance (£)</i>	<i>%</i>	<i>Number</i>	<i>%</i>
1999	954,658.33	0.40%	325	2.99%
2000	6,578,891.32	2.73%	1,404	12.90%
2001	4,078,689.01	1.69%	459	4.22%
2002	20,116,829.65	8.34%	900	8.27%
2003	57,097,186.75	23.67%	2,207	20.28%
2004	152,353,443.43	63.17%	5,589	51.35%
	<u>241,179,698.49</u>		<u>10,884</u>	

Portfolio Loans by Number of Months in Arrears

	<i>Current balance (£)</i>	<i>%</i>	<i>Number</i>	<i>%</i>
<=1 month	234,022,112.56	97.03%	10,568	97.10%
>1 <=2 months	2,840,808.92	1.18%	115	1.06%
>2 <=3 months	1,523,916.12	0.63%	67	0.62%
>3 <=4 months	675,535.66	0.28%	33	0.30%
>4 <=5 months	388,835.81	0.16%	15	0.14%
>5 <=6 months	313,705.19	0.13%	15	0.14%
>6 <=9 months	875,306.42	0.36%	34	0.31%
>9 <=12 months	302,426.53	0.13%	17	0.16%
>12 months	237,051.28	0.10%	20	0.18%
	<u>241,179,698.49</u>		<u>10,884</u>	

Average number of months in arrears for arrears loans**4.77****Portfolio Loans by Product**

	<i>Current balance (£)</i>	<i>%</i>	<i>Number</i>	<i>%</i>
Variable rate	236,967,638.34	98.25%	10,463	96.13%
Fixed rate	4,212,060.15	1.75%	421	3.87%
	<u>241,179,698.49</u>		<u>10,884</u>	

MORTGAGE ADMINISTRATION

Introduction

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

Mortgage Interest Rate

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

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

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

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

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

If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer, income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and all amounts recovered in respect of early redemption amounts, is less than 4.5% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) above the LIBOR applicable to the Notes at that time, it may do so

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

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

Payments from borrowers

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages purchased by the Issuer (including cheque payments and redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) will generally be paid first into the Collection Account and then will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account. PPF executed a declaration of trust over the Collection Account at National Westminster Bank Plc on 5th May 1998 which declaration of trust has been amended and supplemented from time to time and which shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the “**Collection Account Declaration of Trust**”) under which PPF shall declare that all direct debit payments, cheque payments, redemption moneys and certain other sums of money in respect of the Mortgages purchased by the Issuer which are credited to the Collection Account are held on trust for the Issuer until they are applied in the manner described above.

The Administration Agreement will provide that if the short-term debt of any bank with which a Collection Account is maintained ceases to be rated at least F1 by Fitch and at least A-1 by Standard & Poor’s or ceases to be rated such that the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes or, if no Class B Notes are outstanding, the Class C Notes would be adversely affected (after the Administrator having sought and received confirmation from the Rating Agencies to such effect), the relevant Collection Account holder and the Administrator shall be required to use their reasonable endeavours to procure that within 30 days of such occurrence (or such longer period as may be agreed by the Trustee and the Rating Agencies) (a) all direct debit payments which would otherwise be made by borrowers under the Mortgages and all other moneys which would otherwise be paid 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) into such account are made or paid into a Collection Account with another bank which does satisfy such criteria and (b) such Collection Account holder executes a declaration of trust in the same terms, mutatis mutandis, as the relevant Collection Account Declaration of Trust in respect of such new Collection Account.

Arrears and Default Procedures

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

The Administrator will endeavour to collect all payments due under or in connection with the Mortgages in accordance with procedures agreed from time to time with the Trustee and the Issuer but having regard to the circumstances of the borrower in each case. The procedures may include making arrangements whereby a borrower’s payments may be varied and/or taking legal action for possession of the relevant Property and the subsequent sale of that Property. The court has discretion as to whether, on application by the lender, it orders the borrower to vacate the Property after a default. A lender will usually apply for such an order so that it can sell the Property with vacant possession. The net proceeds of sale of any 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 repay the Mortgage. If an amount is still outstanding in respect of such Mortgage (the “**outstanding amount**”), a provision will be made for the outstanding amount (to the extent it represents principal owing in respect of such Mortgage) in the Principal Deficiency Ledger, although circumstances may arise in which this provision is subsequently reduced. In addition, if a borrower defaults and the Mortgage becomes twelve months or more in arrears, a debit will be made to the Principal Deficiency Ledger in an amount equal to the then Current Balance of such Mortgage to the extent not already debited to the Principal Deficiency Ledger.

In relation to Northern Irish Mortgages, in cases of default by a borrower requiring the issue of legal proceedings, those proceedings are similar to English proceedings. After a possession order is obtained the judgment is enforced through the Enforcement of Judgments Office (rather than by bailiffs) and it has its own procedures for enforcement. By virtue of Article 51 of The Judgments Enforcement (Northern Ireland) Order 1981 an order charging land (i.e. a judgment mortgage) if founded on a judgment in respect of rates payable in respect of that land, shall have priority over all charges and encumbrances whatsoever affecting that land except other debts owing to the Crown. For information regarding enforcement procedures in relation to the Scottish Mortgages, see “The Mortgages – Information on the Mortgages – Scottish Mortgages” above.

Further Advances

Mandatory Further Advances are currently only required to be made to borrowers for the purpose of advancing any part of the original advance which was retained pending completion of construction or refurbishment. The aggregate total amount of Mandatory Further Advances which the Issuer may be required at any time to make will be restricted to £5,000,000.

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

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

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

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

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

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

Discretionary Further Advances (other than by way of capitalisation of arrears) will not be made if the sum of (i) all Discretionary Further Advances (other than by way of capitalisation of arrears) which have been made since the Closing Date or which are proposed to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made; (ii) all Mandatory Further Advances which have been made since the Closing Date or which are to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made which, in the case of each of subparagraphs (i) and (ii) above, have been or are to be funded by the Issuer out of principal received or recovered or deemed to have been received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose; and (iii) all Mandatory Further Advances which may be required to be made after the making of the relevant Discretionary Further Advance would, on the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £15,000,000.

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

Conversion of Mortgages

The Administrator is not permitted to make a conversion to another type of mortgage unless certain conditions, to be set out in the Administration Agreement, are satisfied.

Insurance

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

Reinvestment of Income

The Transaction Account shall at all times be maintained with a bank either the long term unsecured and unguaranteed debt of which is rated AAA by Fitch and AAA by Standard & Poor’s or whose short term debt is rated at least F1 by Fitch and at least A-1 by Standard & Poor’s or such that the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes or, if no Class A Notes or Class B Notes are outstanding, the Class C Notes would not be adversely affected and shall not be changed without the prior consent of the Trustee. If such bank ceases to satisfy the criteria mentioned above, the Administration Agreement will contain provisions requiring the Administrator to arrange for the transfer of the Transaction Account to another bank which does satisfy such criteria within 30 days of such occurrence (or such longer period as may be agreed to by the Trustee and the Rating Agencies).

Sums held to the credit of the Transaction Account to which payments of interest and repayments of principal in respect of Mortgages are to be credited and into and out of which all other payments to and by the Issuer are to be made must be invested (a) in sterling denominated securities, bank accounts or other obligations of or rights against entities, either the long term unsecured and unguaranteed debt of which is rated AAA by Fitch and AAA by Standard & Poor’s or whose short term unsecured and unguaranteed debt is rated at least F1 by Fitch and at least A-1 by Standard & Poor’s; or (b) in such other

sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes or Class B Notes then outstanding, the Class C Notes, provided that moneys invested in entities rated A-1 by Standard & Poor's may not be invested for a period of more than 30 days and such investments may not exceed 20% of the then aggregate Principal Amount Outstanding of the Notes and provided further that moneys invested in entities whose short term debt rating is no higher than F1 by Fitch may not be invested for a period of more than 30 days. Such investments and deposits must always mature on or before the next Interest Payment Date and will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes.

Until such time as the Notes are redeemed in full, an amount equal to the First Loss Fund must be invested in accordance with the criteria applicable to cash held in the Transaction Account specified above, save that the relevant short term debt rating by Fitch and Standard & Poor's of the entity in which the investment or investments is or are made must, in such case, be F1+ by Fitch and A-1+ by Standard & Poor's.

Delegation by the Administrator

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

Termination of the appointment of the Administrator

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

- (a) certain payment defaults by the Administrator;
- (b) default by the Administrator in the performance or observance of its covenants and obligations under the Administration Agreement, which in the opinion of the Trustee is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class A Notes and the Class B Notes have been redeemed in full, the Class C Noteholders and (except where, in the reasonable opinion of the Trustee, such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned will be required) such default continues unremedied for a period of 14 days after the earlier of the Administrator becoming aware of such default and receipt by the Administrator of written notice from the Trustee requiring the same to be remedied. If the relevant default occurs as a result of a default by any person to whom the Administrator has sub-contracted or delegated part of its obligations under the Administration Agreement such default shall not result in the termination of the appointment of the Administrator if within such 14 day period the Administrator terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Trustee may reasonably specify to remedy such default or to indemnify the Issuer against the consequences of such default;
- (c) an order being made or an effective resolution being passed for winding up the Administrator;
- (d) the Administrator ceasing or threatening to cease to carry on its business or a substantial part of its business or stopping payment or threatening to stop payment of its debts or the Administrator being deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 or becoming unable to pay its debts as they fall due or the value of its assets falling to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becoming insolvent; or
- (e) proceedings being initiated against the Administrator under any applicable liquidation, administration, insolvency, composition, reorganisation (other than a reorganisation the terms of which have been approved by the Trustee and where the Administrator is solvent) or other similar laws, save where such proceedings are being contested in good faith by the Administrator, or an administrative or other receiver, administrator or other similar official being appointed in relation to the Administrator or in relation to the whole or any substantial part of the undertaking or assets of the Administrator or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Administrator, or a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Administrator and in any of the foregoing cases it shall not have been discharged within 15 days; or if the

Administrator shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally.

In addition PFPLC's appointment will, unless PFPLC, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time PFPLC does not have any authorisation under FSMA and/or the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

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

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

If the Trustee is unable to appoint a substitute administrator, the Substitute Administrator has agreed under the Substitute Administrator Agreement that it will act as such substitute administrator pursuant to, and in accordance with the terms of, the Substitute Administrator Agreement.

Administration Fee

The Administration Agreement will make provision for payments to be made to the Administrator. The Issuer will pay to the Administrator fees for its services as an Administrator as follows: (i) a fee of not more than 0.15% per annum, the "**Administration Senior Fee**" and (ii) a fee of not more than 0.15% per annum, the "**Administration Subordinated Fee**" in each case such rates being inclusive of VAT and each such fee being calculated by applying such rate to the aggregate interest charging balances of the Mortgages at the beginning of each Relevant Collection Period and each such fee will be due quarterly in arrear on each Interest Payment Date and paid as specified in accordance with the applicable priority of payments. A higher fee at a rate agreed by the Trustee (but which does not exceed the rate then commonly charged by providers of mortgage administration services) may be payable to any substitute administrator appointed (other than as administrator of last resort) following termination of PFPLC's appointment. If no substitute administrator can be found, the Substitute Administrator will act as administrator of last resort receiving the Administrator Senior Fee at the rate of 0.30% per annum and the Administration Subordinated Fee at the rate of nil% per annum, in each case such rates being exclusive of VAT and each such fee being calculated by applying such rate to the aggregate interest charging balances of the outstanding Mortgages at the beginning of each Relevant Collection Period and each such fee will be due quarterly in arrear on each Interest Payment Date and paid as specified in accordance with the applicable priority of payments. If the Substitute Administrator is required to act as administrator of last resort, it will exercise such discretion as would be exercised by it if it were the mortgagee and beneficial owner of the Mortgages.

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

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

Redemption

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

UNITED KINGDOM TAXATION

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

1. For so long as the Notes are and continue to be listed on a “**recognised stock exchange**” within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the London Stock Exchange is such a “recognised stock exchange” for this purpose) interest payments on each of the Notes will be treated as a “payment of interest on a quoted Eurobond” within the meaning of section 349 of the Income and Corporation Taxes Act 1988. In these circumstances, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax irrespective of whether the Notes are in global form or in definitive form.

If the Notes ceased to be listed on a recognised stock exchange, an amount would be required to be deducted on account of United Kingdom income tax at the lower rate (currently 20%) from interest paid on them, subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of an applicable double taxation treaty or to the interest being paid to the persons (including companies with the charge to United Kingdom corporation tax) and in the circumstances specified in sections 349A and 349B of the Income and Corporation Taxes Act 1988.

If interest on the Notes were to be paid after deduction of United Kingdom income tax, the terms and conditions of the Notes do not provide for any additional payments to be made in this or any other circumstance.

2. The interest on the Notes will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom tax by direct assessment. However, interest received without deduction or withholding is not chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless the Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch or agency in the United Kingdom in connection with which the interest is received or to which the Notes are attributable (subject to certain exceptions for income received by specified categories of agent such as some brokers and investment managers) or, where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in the United Kingdom in connection with which the interest is received or to which the Notes are attributable.
3. Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.
4. A Noteholder within the charge to United Kingdom corporation tax in respect of a Note (including a Noteholder so chargeable in relation to a permanent establishment in the United Kingdom) will, generally, be liable to corporation tax as income on any profits (and obtain relief for permitted losses) on the Notes. Any such profits (including interest) or permitted losses on the Notes will generally be chargeable by reference to accounting periods of the company in accordance with an authorised accounting method or, under provisions contained in the Finance Act 2004 and in relation to accounting periods commencing on or after 1st January 2005, in accordance with generally accepted accounting practice. For such Noteholders, the provisions described in paragraphs 5 and 6 below will not apply to such a Note.
5. A Noteholder (other than a Noteholder within the charge to corporation tax in respect of the relevant Note) who is subject to United Kingdom income tax will generally be subject to income tax on interest arising in respect of the Notes on a receipts basis. On a disposal of Notes a Noteholder may be chargeable to United Kingdom tax on income on an amount treated (by rules known as the accrued

income scheme contained in Chapter II of Part XVII of the Income and Corporation Taxes Act 1988) as representing accrued interest, determined by the Inland Revenue on a just and reasonable basis. A purchaser of such Notes will not be entitled to any allowance under the accrued income scheme to set against any deemed or actual interest it receives in respect of those Notes.

If for any reason any interest due on an Interest Payment Date is not paid and a Note is subsequently disposed of with the right to receive accrued interest, special rules may apply for the purposes of the accrued income scheme.

6. The Notes will constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, neither a chargeable gain nor an allowable loss will arise on a disposal or redemption of the Notes for the purposes of United Kingdom taxation of chargeable gains.
7. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Notes or on the issue of a Note in definitive form.

SUBSCRIPTION AND SALE

Barclays Bank PLC, ABN AMRO Bank N.V., London Branch, Deutsche Bank A.G. London, HSBC Bank plc, ING Belgium N.V., J.P. Morgan Securities Ltd and The Royal Bank of Scotland plc (the “**Class A Managers**”) have, pursuant to a subscription agreement dated 14th December 2004 (to which PFPLC and PPF are also party) (the “**Class A Subscription Agreement**”), jointly and severally agreed, subject to certain conditions, to subscribe for the Class A Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class A Managers for certain of their expenses in connection with the issue of the Class A Notes. The Class A Subscription Agreement entitles the Class A Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A Managers against certain liabilities in connection with the offer and sale of the Class A Notes. The Issuer has agreed to pay the Class A Managers a combined selling, management and underwriting commission of 0.10% of the principal amount of the Class A Notes. The Issuer gives certain representations and warranties and undertakings to the Class A Managers in the Class A Subscription Agreement.

Barclays Bank PLC (the “**Class B Manager**”) has, pursuant to a subscription agreement dated 14th December 2004 (to which PFPLC and PPF are also party) (the “**Class B Subscription Agreement**”) agreed, subject to certain conditions, to subscribe for the Class B Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class B Manager for certain of its expenses in connection with the issue of the Class B Notes. The Class B Subscription Agreement entitles the Class B Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class B Manager against certain liabilities in connection with the offer and sale of the Class B Notes. The Issuer has agreed to pay the Class B Manager a combined selling, management and underwriting commission of 0.10% of the principal amount of the Class B Notes. The Issuer gives certain representations and warranties and undertakings to the Class B Manager in the Class B Subscription Agreement.

Barclays Bank PLC (the “**Class C Manager**”) has, pursuant to a subscription agreement dated 14th December 2004 (to which PFPLC and PPF are also party) (the “**Class C Subscription Agreement**”) agreed, subject to certain conditions, to subscribe for the Class C Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class C Manager for certain of its expenses in connection with the issue of the Class C Notes. The Class C Subscription Agreement entitles the Class C Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class C Manager against certain liabilities in connection with the offer and sale of the Class C Notes. The Issuer has agreed to pay the Class C Manager a combined selling, management and underwriting commission of 0.10% of the principal amount of the Class C Notes. The Issuer gives certain representations and warranties and undertakings to the Class C Manager in the Class C Subscription Agreement.

The Class A Managers, the Class B Manager and the Class C Manager are together referred to in this Offering Circular as the “**Managers**”.

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

dealer, whether or not participating in the offering, may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Class A Manager, in respect of the Class A Notes, and the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has represented and agreed that (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of FSMA except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or FSMA; (ii) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (iii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of FSMA does not apply to the Issuer.

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

Each Class A Manager, in respect of the Class A Notes, the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has undertaken not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Offering Circular, advertisement or any other material relating to the Notes, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

Certain of the Managers may hold notes issued by other subsidiaries of PGC in connection with other securitisation transactions.

This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any country or jurisdiction where such an offer or solicitation is not authorised.

GENERAL INFORMATION

It is expected that listing of the Notes to the Official List of the UK Listing Authority will be granted on 15th December 2004 and that the Notes will be admitted to trading on the London Stock Exchange on or around 15th December 2004, subject only to the issue of the Temporary Global Notes. Prior to the official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules. The listing of the Notes will be cancelled if the Temporary Global Notes are not issued.

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

Class A Notes, Common Code Number 020820241; ISIN XS0208202415;
Class B Notes, Common Code Number 020820268; ISIN XS0208202688; and
Class C Notes, Common Code Number 020820284; ISIN XS0208202845.

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

Deloitte & Touche LLP have given and not withdrawn their written consent to the issue of the Offering Circular and authorised contents of these parts of the Offering Circular which contains their report on the Issuer and references to their name included herein in the form and context in which they appear for the purposes of section 79(3) of FSMA and regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001 applicable to England and Wales.

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

Since 30th September 2004 there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or (save as disclosed under "The Issuer – Capitalisation" above) financial position of the Issuer.

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

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

The financial information included on pages 104 to 106 of this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

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

- (a) the Memorandum and Articles of Association of the Issuer;
- (b) copies of the Class A Subscription Agreement, the Class B Subscription Agreement and the Class C Subscription Agreement;
- (c) drafts (subject to modification) of the Trust Deed to constitute the Class A Notes, the Class B Notes and the Class C Notes (including the forms of the Global Class A Notes, the Class A Notes, Coupons and Talons, the forms of Global Class B Notes, the Class B Notes, Coupons and Talons and the forms of Global Class C Notes, the Class C Notes, Coupons and Talons), the Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Scottish Declaration of Trust, the Agency Agreement, the Collection Account Declaration of Trust, the

Swap Agreement, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the VAT Declaration of Trust, the POPLC Deed and the Post Enforcement Call Option Deed;

- (d) the accountants' report on the Issuer prepared by Deloitte & Touche LLP, the text of which is set out on pages 104 to 106; and
- (e) the financial statements of the Issuer for the periods ended 2003 and 2004 respectively.

GLOSSARY OF KEY TERMS AND DEFINITIONS

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