

CONFORMED COPY

DATED 29 JANUARY 2004

MORTGAGE TRUST LIMITED

- and -

MORTGAGE TRUST SERVICES PLC

- and -

FIRST FLEXIBLE NO. 6 PLC

- and -

CITICORP TRUSTEE COMPANY LIMITED

- and -

ARIANTY NO. 1 PLC

SERVICING AGREEMENT

Lovells

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THIS SERVICING AGREEMENT is made 29 January 2004

BETWEEN:

- (1) **Mortgage Trust Limited** (registered number 2048895) whose registered office is at St Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE ("**Mortgage Trust**");
- (2) **Mortgage Trust Services plc** (registered number 3940202) whose registered office is at St Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE ("**Mortgage Trust Services**" and the "**Servicer**");
- (3) **First Flexible No. 6 PLC** (registered number 4579581) whose registered office is at St Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE (the "**Issuer**");
- (4) **Citicorp Trustee Company Limited** (registered number 235914) whose registered office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (the "**Trustee**" which expression shall include its successors and permitted assigns); and
- (5) **Arianty No. 1 plc** (registered number 3946857) whose registered office is at St Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE ("**Arianty**").

WHEREAS:

- (A) Mortgage Trust carries on the business of originating mortgage loans secured on residential properties within England, Wales, Scotland and Northern Ireland for itself and third parties.
- (B) Mortgage Trust Services carries on the business of managing and administering mortgage loans secured on residential and commercial properties within England, Wales, Scotland and Northern Ireland for itself and third parties.
- (C) The Issuer owns the Mortgages pursuant to the Mortgage Sale Agreement.
- (D) The Issuer proposes to charge to the Trustee (pursuant to the Deed of Charge) the Mortgages and Related Security purchased by it from Arianty (pursuant to the Mortgage Sale Agreement) and its rights under this Agreement as security for its obligations in relation to the issue of the Notes.
- (D) Mortgage Trust Services is willing to provide administration and management services to the Issuer and the Trustee in relation to the Mortgages and their Related Security charged by the Issuer in favour of the Trustee and in relation to the business of the Issuer on the terms and subject to the conditions contained in this Agreement.

IT IS AGREED:

1. DEFINITIONS AND INTERPRETATION

The Master Definitions Schedule signed by Lovells and Weil, Gotshall & Manges for identification purposes on 29 January 2004 (as the same may be amended, varied or supplemented from time to time with the consent of the parties thereto) is expressly and specifically incorporated into this document and, accordingly, the expressions defined in the Master Definitions Schedule (as so amended, varied or supplemented) shall, except where the context otherwise requires and save where otherwise defined herein, have the same meanings in this document.

2. APPOINTMENT OF SERVICER

- 2.1 Until termination of appointment pursuant to clause 27, the Issuer and the Trustee each hereby (so far as appropriate in its own case) appoints Mortgage Trust Services to be the Servicer and as its lawful agent in its name and on its behalf to manage the business and assets of the Issuer and to exercise its respective rights, powers, duties and discretions under the Mortgages and the corresponding Related Security and rights related thereto and the Servicer hereby accepts such appointment on the terms and subject to the conditions of this Agreement.
- 2.2 During the continuance of its appointment hereunder, the Servicer shall, subject to the terms and conditions of this Agreement, any other restrictions applicable to the Issuer contained in the Conditions and its Memorandum and Articles of Association and any other legally binding restrictions applicable to it, have the full power, authority and right to do or cause to be done any and all things necessary, convenient or incidental to the management of the business and assets of the Issuer or the exercise of the rights, powers, duties and discretions referred to in clause 2.1 and the performance of its other duties and obligations under this Agreement.
- 2.3 In acting as the agent of the Issuer and the Trustee in servicing the Mortgages the Servicer shall act strictly in accordance with this Agreement. The Servicer is only agent of the Trustee in the context of the Trustee's security interest in the Mortgages under the Deed of Charge and the Trustee is only a party to this Agreement to preserve its security thereunder. No other relationship or agency shall be construed.

3. THE SERVICES

- 3.1 Without prejudice to the generality of clause 2, the duties of the Servicer shall include (but not be limited to) the provision of the services and the specific duties set out in this Agreement (the "**Services**").
- 3.2 The Servicer will at all times during the term of this Agreement service the Mortgages and perform all related functions in the same manner as it would if it were the mortgagee (which expression shall, for the purposes of this Agreement, be deemed to include the heritable creditor under a standard security) provided that the Mortgages will be identified in such a manner as will distinguish them from other mortgages or standard securities serviced by the Servicer and the Servicer will, when requested to describe its capacity in relation to the Mortgages and such related functions, make it clear that it is acting as Servicer of the Mortgages and performing such related functions on behalf of the Issuer and, where relevant, the Trustee pursuant to this Agreement and not hold itself out as having any other capacity in relation thereto. The Servicer may however agree with Mortgage Trust to use Mortgage Trust's name when dealing directly with Borrowers.
- 3.3 (a) The Servicer may subcontract or delegate the performance of any of its obligations under this Agreement to:
- (i) PFPLC; or
 - (ii) any member of the Paragon Group other than PFPLC, provided that the proposed arrangement shall not adversely affect the then current rating of the Notes assigned by the Rating Agencies; or
 - (iii) any other third party provided that:
 - (1) the prior written consent of the Trustee to the proposed arrangement has been obtained;

- (2) the terms of any contract on which such arrangements are to be made have been previously approved in writing by the Trustee acting reasonably;
 - (3) any such sub-contractor or delegate has executed a written waiver of any Security Interest arising in connection with such delegated Services (to the extent that such Security Interest relates to the Charged Property or any amount referred to in (4) below);
 - (4) where the arrangements involve or may involve the receipt by the subcontractor or delegate of moneys which, in accordance with this Agreement, are to be credited to the Trust Accounts, the Transaction Account or the GIC Account, the subcontractor or delegate acknowledges that any such moneys held by it or to its order are held on trust for the Issuer subject to the Deed of Charge and will be paid forthwith to the Servicer for credit to the Trust Accounts, the Transaction Account or the GIC Account as the case may be;
 - (5) neither the Issuer nor the Trustee shall have any liability for any costs, charges or expenses payable to or incurred by such subcontractor or delegate or arising from the termination of any such arrangement;
 - (6) it shall be a term of any such arrangement that the sub-contractor or delegate shall comply with all directions of the Trustee and/or the Issuer which do not breach the other terms of the arrangement, whether or not the Servicer is in breach in relation to such arrangement; and
 - (7) the proposed arrangement shall not adversely affect the then current rating of the Notes assigned by the Rating Agencies.
- (b) To the extent that any valuer, surveyor, estate agent or other professional adviser is required to perform some of the obligations of the Servicer under this Agreement, the proviso to clause 3.3(a) shall not apply to the engagement of such valuer, surveyor, estate agent or other professional adviser provided that the performance by such person of any of the obligations of the Servicer is ancillary only to the services to be provided by such person to the Servicer and/or the Issuer. Either the Trustee or the Issuer may require the Servicer to assign to the Trustee and the Issuer any rights which the Servicer may have against any such person arising from the performance of services by such person in connection with any matter contemplated by this Agreement.
- (c) Notwithstanding any subcontract or delegation of the performance of its obligations under this Agreement, the Servicer shall not thereby be released or discharged from any liability hereunder and shall remain responsible for the performance of the obligations of the Servicer under this Agreement and the performance or non-performance or the manner of performance of any subcontractor or delegate of any of the Services shall not affect the Servicer's obligations under this Agreement and any breach in the performance of the Services by such subcontractor or delegate shall be treated as a breach of this Agreement by the Servicer.

3.4 The Servicer shall prepare and submit (where appropriate on behalf of the Issuer) all applications, requests and filings that may be necessary or desirable for any approval, authorisation, consent or licence in connection with the business of the Issuer and in connection with the Services (including, without limitation, delivering the Deed of Charge

and any Supplemental Deed of Charge and the prescribed particulars thereof to the Registrar of Companies in accordance with Part XII of the Act within 10 days of the date of execution thereof) and shall perform the Services in such a way as not to prejudice the continuation of any such approval, authorisation, consent or licence or any approval, authorisation, consent or licence necessary or desirable in connection with that part of the Servicer's business which is necessary to perform the Services.

- 3.5 The Servicer shall, subject to being notified of the Rate of Interest and the Interest Amount applicable to each class of the Notes by the Agent Bank or Trustee in relation to each Interest Payment Date in accordance with the Conditions, arrange for the notification of the same in the manner required by the Conditions to each listing authority or stock exchange (if any) on which the Notes are listed and to the Noteholders and shall do all such other acts and things that the Conditions provide are to be done by the Servicer or the Issuer provided however that the Notes are solely obligations of the Issuer and the Servicer shall not be liable as primary debtor or guarantor or in any other way be responsible for the indebtedness of the Issuer evidenced by the Notes.
- 3.6 The Servicer on each Determination Date shall determine the amounts payable under each item of the Priority of Payments on each Interest Payment Date.
- 3.7 The Servicer shall determine the Potential Redemption Amount, the Class A Redemption Amount and the Class M Redemption Amount for each Interest Payment Date on the relevant Determination Date in accordance with Condition 5(b). The Servicer, on behalf of the Issuer, shall give notice not less than two Business Days prior to the relevant Interest Payment Date of the Actual Redemption Amount to the Noteholders in accordance with Condition 14.
- 3.8 The Servicer shall determine the date on which the Class M Principal Lock Out Period ends.
- 3.9 The Servicer shall determine the balance recorded on the Principal Deficiency Ledger for each Interest Payment Date on the relevant Determination Date in accordance with Condition 5(b) and determine whether an M Note Trigger Event has occurred. If an M Note Trigger Event has occurred, the Servicer shall notify the Issuer and the Trustee accordingly.
- 3.10 The Servicer shall determine on each Determination Date whether a Class M Principal Lock Out has occurred and will be continuing on the next Interest Payment Date.
- 3.11 The Servicer shall determine on each Determination Date whether an Arrears Event has occurred and will be continuing on the next Interest Payment Date.
- 3.12 The Servicer shall monitor the principal amount of Redraws made under the Mortgages, perform its duties under clause 6.4 of this Agreement and administer the purchase by the Issuer of the right to repayment of Redraws (including Payment Holidays) in accordance with this Agreement and the Mortgage Sale Agreement.
- 3.13 The Servicer shall facilitate and monitor the amounts credited to the Pre-Funded Ledger, the Reserve Fund, the Base Rate Reserve, the Liquidity Reserve (for which purpose it shall determine on each Determination Date whether a Liquidity Trigger Event has occurred and will be continuing on the next Interest Payment Date) and the Discount Reserve, in each case represented by monies standing to the credit of the Transaction Account and/or invested in the Issuer's Investments, and perform its obligations in relation to the Redraw Facility in accordance with clause 6 of this Agreement.
- 3.14 On the Issue Date, in respect of each Mortgage which is a Discounted Mortgage, the Servicer will determine the Loan Expected Differential for each Discounted Mortgage in the Initial Mortgage Pool resulting from the Discount over the time period during which the

Discount applies and the anticipated Pool Expected Differential for the first Interest Period.

- 3.15 On each Determination Date the Servicer will calculate the Loan Expected Differential in respect of any Substitute Mortgages or Further Advances to be transferred into the Mortgage Pool on the immediately succeeding Interest Payment Date which are or are in respect of Discounted Mortgages and will calculate the Pool Expected Differential in respect of the Interest Period commencing on the next Interest Payment Date to take into account such new loans or advances and any redemptions of Discounted Mortgages in the immediately preceding Collection Period.
- 3.16 The Servicer shall procure in respect of each Interest Period that the interest expected to be received from the Mortgages in the Mortgage Pool during such Interest Period (calculated on the basis that the Standard Variable Rate has been set in accordance with clause 4.4) plus amounts available in respect of the Interest Rate Swap Agreements, the Currency Swap Agreements, the Base Rate Reserve, the Liquidity Reserve and the Discount Reserve, is equal to or greater than the amount produced by applying the then applicable Threshold Rate to the aggregate Outstanding Principal Amount of the Mortgages in the Mortgage Pool in respect of such Interest Period.
- 3.17 The Servicer shall calculate, on each Determination Date, the Annualised Repayment Rate relating to the immediately preceding Collection Period.
- 3.18 The Servicer shall administer the purchase by the Issuer of Pre-Funded Mortgages, Further Advances and the conversion of Mortgages in accordance with the terms of this Agreement and the Mortgage Sale Agreement.
- 3.19 (a) The Servicer shall use all reasonable endeavours to procure compliance by the Issuer with the terms of the Deed of Charge and the Conditions, all other agreements to which the Issuer is a party and with all applicable legal requirements provided, however, that the Notes are solely obligations of the Issuer and the Servicer shall not be liable as primary debtor or guarantor, or in any other way be responsible, for the indebtedness of the Issuer evidenced by the Notes.
- (b) The Servicer shall promptly notify the Issuer, the Trustee and the Rating Agencies in writing of any matter or thing which becomes known to it and which is a breach of any of the Warranties, a breach of any term of any Document or a breach of the Conditions.
- 3.20 The Servicer shall:
- (a) operate the Transaction Account so that payments are made into and from it in accordance with this Agreement including, without limitation, payments under the Interest Rate Swap Agreements and the Currency Swap Agreements (save for such payments as are made by the Currency Swap Counterparty direct to the relevant Paying Agent) and assist the Account Bank in operating the Transaction Account in accordance with the Conditions and the Bank Agreement;
- (b) operate the GIC Account so that payments are made into and from it in accordance with the Guaranteed Investment Contract and assist the GIC Provider in operating the GIC Account;
- (c) in accordance with the Arrears Procedures endeavour to recover amounts due from defaulting Borrowers and, where necessary, the Issuer, Mortgage Trust, Mortgage Trust Services, Arianty and the Trustee shall at the expense of the Issuer assist the Servicer in exercising all rights and remedies under and in connection with the relevant Mortgage;

- (d) keep records, books of account and documents for the Issuer and in relation to the Mortgages and, in particular, shall keep such records, books of account and documents as may be necessary to enable the Servicer to perform its obligations under clause 5.13;
- (e) keep records for all taxation purposes including VAT;
- (f) establish, maintain and make all required entries in the Principal Deficiency Ledger and calculate and record all Principal Deficiencies therein;
- (g) determine the amount of corporation tax reasonably expected to be paid by the Issuer in respect of investment income, capital gains or otherwise;
- (h) hold all documents, deeds and instruments relating to the Mortgages in its possession to the order of the Trustee and keep records of any such document, deed or instrument released by it;
- (i) notify Borrowers of any change in the amount to be transferred directly out of their account (for so long as this is required by the Direct Debiting Scheme);
- (j) assist the Issuer in discharging the Mortgages which have been repaid; and
- (k) assist the Issuer's auditors and provide information to them upon request.

3.21 The Servicer shall:

- (a) arrange for all payments which are to be made by the Issuer under the Conditions or are otherwise payable by the Issuer in accordance with the terms of the Conditions and the Deed of Charge to be paid into the Transaction Account and transferred from the Transaction Account on the due date therefor and shall give directions to the Issuer's Bank in respect of such transfers by the times specified in the Bank Agreement in order to ensure that such transfers may be made on such due date; and
- (b) arrange for the payment of all the expenses of the Issuer not provided for pursuant to subclause (a) above to be made by the Servicer on behalf of the Issuer (without prejudice to the Servicer's right to be reimbursed the same from the Issuer) including, without limitation, all taxes which may be due or payable by the Issuer, all registration, transfer, filing and other fees, stamp duty and other charges payable in respect of the purchase by the Issuer of the Mortgages from Arianty or Further Advances or the right to repayment of Redraws from Mortgage Trust, filing and other fees in compliance with regulatory requirements, legal and audit fees and other professional advisory fees, advertising, publication and communication expenses including postage and telephone charges.

3.22 The Servicer shall use all reasonable endeavours to collect all payments, or to ensure payment of all sums, due under or in connection with the Mortgages (including the Insurance Contracts) and will on behalf of the Issuer and the Trustee enforce all covenants, undertakings and obligations of Borrowers and Sureties due to the Issuer and/or the Trustee, in each case in the same manner as it would if it were the mortgagee and, where applicable, in accordance with the Arrears Procedures and shall comply with all directions from the Issuer and/or the Trustee in relation to such enforcement which are consistent with the Arrears Procedures and, if directions from the Issuer conflict with those from the Trustee, those from the Trustee shall prevail.

3.23 The Issuer agrees and confirms (and instructs the Servicer accordingly) that, notwithstanding its rights under the Mortgage Conditions to take enforcement action in respect of a Borrower's Mortgage where such Borrower has breached its obligations under another mortgage or standard security granted in favour of Mortgage Trust, it shall

not exercise such right of enforcement unless such right to enforce arises as a result of a breach of any obligations of that Borrower in respect of another Mortgage comprised in the Mortgage Pool.

- 3.24 The Servicer may, on behalf of the Issuer, waive any late payment charge unless by so doing any other payment due from a Borrower would not be made in full.
- 3.25 The Servicer may modify the Arrears Procedures in connection with the Mortgages provided that the modifications are such that a prudent mortgage lender would permit in relation to its mortgages. The Servicer shall give written notice of such modification to the Trustee and the Rating Agencies.
- 3.26 The Servicer shall use its reasonable endeavours to agree, on behalf of the Issuer, by the eighth Business Day before the Interest Payment Date following the Issue Date, the Reconciliation Amount (if any) due from or by the Issuer to Arianty and make arrangements for the payment from or to the Issuer of such Reconciliation Amount on or before such Interest Payment Date.
- 3.27 The Servicer shall arrange for the Issuer to enter into Interest Rate Swaps and purchase Interest Rate Caps as required from time to time in respect of the Mortgages.
- 3.28 The Servicer shall administer the drawdowns under the Start-Up Loan as and when required by the Issuer.
- 3.29 The Servicer shall administer the application of the provisions of clause 8 of the Mortgage Sale Agreement on behalf of the Issuer following a breach of Warranty by a Warrantor.
- 3.30 The Servicer shall monitor payments of all amounts due from the Currency Swap Counterparty to the Issuer under the Currency Swap Agreements and ensure that such payments, where required, are made direct from the Currency Swap Counterparty to the relevant Paying Agent in accordance with the Agency Agreement.

4. **MORTGAGE RATE**

- 4.1 Subject to clause 4.4 below, the Issuer and the Trustee grant the Servicer full right, liberty and authority to determine and vary the Mortgage Rate from time to time in accordance with the terms of the Mortgages. For the avoidance of doubt the Servicer may not (except where such Mortgage is converted in accordance with the terms of clause 23 or with the relevant Borrower's consent) vary the fixed rate of interest on Fixed Rate Mortgages, the maximum rate of interest on Capped Rate Mortgages, the maximum or minimum rate of interest on Collared Rate Mortgages, the Discount on Discounted Mortgages, the margin over LIBOR on LIBOR Linked Mortgages or the margin over Bank of England Base Rate on Base Rate Linked Mortgages.
- 4.2 Any change in the Mortgage Rate as applicable to any of the Mortgages shall only take effect from the first day of the following calendar month.
- 4.3 The Servicer shall take such steps as may be necessary to bring changes in the Mortgage Rate to the attention of the relevant Borrowers. The costs arising in relation to a change in the Mortgage Rate shall be paid by the Servicer.
- 4.4 So long as any of the Notes are outstanding the Servicer will procure on each Interest Payment Date that the Standard Variable Rate in relation to each Standard Variable Mortgage in the Mortgage Pool is set such that the amount represented by:
 - (a) the aggregate of the annual rate of interest applicable on such Interest Payment Date to each Mortgage in the Mortgage Pool multiplied by the Outstanding Principal Amount of such Mortgage on such Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the relevant Interest Period in

respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year), plus

- (b) any amount expected to be released from the Base Rate Reserve for application in accordance with the Priority of Payments on the next following Interest Payment Date; plus
- (c) any amount expected to be released from the Discount Reserve for application in accordance with the Priority of Payments on the next following Interest Payment Date; plus
- (d) any amounts received in respect of Interest Rate Swaps; plus
- (e) any income received in respect of the Issuer's Investments,

is equal to or greater than the amount produced by multiplying the Threshold Rate with the aggregate Outstanding Principal Amount of the Mortgages in the Mortgage Pool and the fraction of the actual number of days elapsed in the relevant Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year) unless the Servicer procures that a Threshold Amount Deposit is made into the Transaction Account, to be applied in accordance with the Priority of Payments. Such deposit is repayable in accordance with the Priority of Payments.

4.5 The Servicer shall on each Interest Payment Date determine LIBOR in respect of the LIBOR Linked Mortgages and Bank of England Base Rate in respect of the Base Rate Linked Mortgages.

4.6 The Servicer shall carry out the calculations in clause 4.4 by reference to the actual number of days that will elapse in the following Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year).

4.7 If the Servicer fails to comply with its obligations in clause 4.4, the Trustee may appoint a suitably qualified agent to determine Mortgage Rates, the Aggregate Rate and the Threshold Rate from time to time and any such determination shall be deemed to be made by the Servicer and the Servicer shall notify any changes in the Mortgage Rate to the Borrowers.

5. TRUST ACCOUNTS, TRANSACTION ACCOUNT, RESERVE FUND, BASE RATE RESERVE, DISCOUNT RESERVE, PREFUNDED LEDGER AND LIQUIDITY RESERVE

5.1 The Servicer hereby represents and warrants to the Issuer and the Trustee that each of the Trust Accounts and the Transaction Account will be open on the Issue Date with resolutions, instructions and signature authorities applying thereto in the form required for the purposes of the Bank Agreement. The Servicer undertakes that any changes to the resolutions and instructions relating to the Issuer's Share of the Trust Accounts or the Transaction Account will be made in accordance with the Bank Agreement and notified to the Trustee.

5.2 Each of the Servicer and the Issuer hereby covenants and undertakes that it will not create or participate in the creation of or permit to exist any Security Interest in relation to the Transaction Account, the Reserve Fund, the Base Rate Reserve, the Discount Reserve, the Liquidity Reserve, the GIC Account or any amounts standing to the credit of the Pre-Funded Ledger, other than as contemplated by the Deed of Charge and each of the Servicer and Mortgage Trust Services hereby covenants and undertakes that it will not without the prior written consent of the Trustee create or participate in the creation of or permit to exist any Security Interest in relation to the Trust Accounts (to the extent of the whole or any part of the Issuer's Share thereof) other than as contemplated by the Deed of Charge.

5.3 (a) **Payments into the Trust Accounts:** The Servicer shall procure, as agent for the Issuer and the Trustee, that the following payments shall be made into a Trust Account and transferred to the Transaction Account forthwith upon (and to the extent practical on the same day as) receipt of the amount in question:

- (i) all Monthly Payments received under the Mortgages through the Direct Debiting Scheme;
- (ii) all other interest and any costs or other amounts received in respect of the Mortgages including amounts recovered on enforcement of rights against any Borrower or his property or assets;
- (iii) all repayments of principal in respect of the Mortgages including amounts recovered on enforcement of rights against any Borrower or his property or assets or on sale of the Property with the consent of the Borrower or under the power of sale contained in the Mortgage;
- (iv) all Insurance Proceeds; and
- (v) any other amounts whatsoever (not falling within clause 5.4(a) below) relating to the Mortgages received by or on behalf of the Issuer or the Trustee;

provided that if any such amount is, by the terms on which it is paid, only payable to the Issuer it shall be paid into the Transaction Account in accordance with clause 5.4(a) and if any such amount is, by the terms on which it is paid, only payable to the Trustee the Servicer shall immediately consult the Trustee as to the action which may most appropriately be taken in respect thereof and shall take such action in relation thereto as the Trustee may require.

(b) **Payments out of the Trust Accounts:** Subject to clause 5.3(d) the Servicer shall procure that:

- (i) all amounts representing the Issuer's Share in a Trust Account (other than amounts automatically transferred to the Transaction Account) shall be transferred to the Transaction Account to the extent practical on the same Business Day, or otherwise on the Business Day following, as such moneys are paid into the relevant Trust Account; and
- (ii) no amounts representing the Issuer's Share shall be transferred from a Trust Account to any account other than the Transaction Account for any other purpose.

(c) Mortgage Trust Services hereby covenants and undertakes that, pending transfer to the Transaction Account, all sums paid into or otherwise standing to the credit of the MTS Trust Accounts pursuant to clause 5.3(a) shall be held by it on trust for the Issuer in accordance with the MTS Declaration of Trust subject to the Deed of Charge and it will give directions to the Account Bank in relation to such sums on and subject to the terms of this Agreement and comply with its duties and obligations under the Bank Agreement and the MTS Declaration of Trust.

(d) Mortgage Trust hereby covenants and undertakes that, pending transfer to the Transaction Account, all sums paid into or otherwise standing to the credit of the RBS Trust Accounts pursuant to clause 5.3(a) shall be held by it on trust for the Issuer in accordance with the MTL Declaration of Trust subject to the Deed of Charge and it will give directions to the Account Bank in relation to such sums on and subject to the terms of this Agreement and comply with its duties and obligations under the Bank Agreement and the MTL Declaration of Trust.

- (e) The Servicer will use all reasonable endeavours to do or procure to be done all such acts and things which the Trustee requests the Servicer to do or procure to be done so that after an Enforcement Notice shall have been served by the Trustee on the Issuer payments which were theretofore required hereunder to be paid into the Trust Accounts are thereafter paid into the Transaction Account.

5.4 (a) **Payments into the Transaction Account:** The Servicer shall procure that items (i) and (ii) below shall be paid into the Transaction Account forthwith upon (and to the extent practical on the same day as) receipt by the Servicer on behalf of the Issuer of the amount in question (unless such amount is paid by means of a telegraphic transfer to the Transaction Account) and items (ii) to (ix) shall be paid into the Transaction Account directly for the account of the Issuer:

- (i) any amount payable pursuant to clause 8 (Breach of Warranty to the Issuer) or clause 9 (Unenforceable Mortgages) of the Mortgage Sale Agreement;
- (ii) any amount paid from the Trust Accounts pursuant to clause 5.3(b)(i);
- (iii) the proceeds of disposal or on maturity of all Permitted Investments;
- (iv) any amount of interest received under the Guaranteed Investment Contract;
- (v) drawings under the Redraw Facility;
- (vi) any amounts received under any Interest Rate Swap Agreements or any Interest Rate Caps;
- (vii) any amounts paid to the credit of the Reserve Fund, Base Rate Reserve, the Pre-Funded Ledger, Discount Reserve or the Liquidity Reserve in accordance with clauses 5.5, 5.6, 5.7, 5.8 and 5.9 below or received under any Currency Swap Agreement;
- (viii) any Threshold Amount Deposit; and
- (ix) drawings under the Start-Up Loan (to the extent not already provided for under item (vii) above).

(b) **Payments out of the Transaction Account:** On each Interest Payment Date, the monies standing to the credit of the Transaction Account (save for any Hedge Collateral to the extent that such Hedge Collateral has not been released to the Issuer pursuant to the terms of the relevant Currency Swap Agreement or Interest Rate Swap Agreement and any interest or other income earned thereon) including, for the avoidance of doubt, all available monies released from the Reserve Ledger in the preceding Interest Period in accordance with clause 5.5(b)(i) of this Agreement (save that such monies may only be applied to meet items (i) to (vi) below), all available monies released from the Liquidity Reserve Ledger in the preceding Interest Period in accordance with clause 5.8(b)(i) of this Agreement (save that such monies may only be applied to meet items (i) to (vi) below), all available monies advanced under the Redraw Facility or monies released from the Redraw Ledger in the preceding Interest Period in accordance with clause 6.1 (save that such monies may only be applied to purchase the right to repayment of Redraws under item (ix) below or to rollover existing advances under the Redraw Facility), any Threshold Amount Deposit made on the immediately preceding Determination Date, all amounts paid by the Interest Rate Swap Counterparties under any Interest Rate Swap Agreement in the preceding Interest Period, all monies released from the Base Rate Reserve in the preceding

Interest Period in accordance with clause 5.6(b)(i) and all monies released from the Discount Reserve in the preceding Interest Period in accordance with clause 5.7(b)(i) will, after making payment of or providing for Excluded Items, until enforcement of the Security for the Notes, be applied (save as the payee may otherwise agree) in making the following payments or provisions in the following order of Priority of Payments:

- (i) to pay or provide for *pari passu and pro rata* (a) the remuneration payable to the Trustee and any fees, costs, charges, liabilities and expenses incurred by it under the provisions of the Trust Deed, the Deed of Charge and/or any of the Transaction Documents together with interest as provided in the Trust Deed, the Deed of Charge and/or any of the Transaction Documents and (b) amounts due and payable to the Standby Servicer under the Standby Servicing Agreement;
- (ii) to pay or provide for amounts due and payable and/or which will become due and payable prior to the next Interest Payment Date to the Paying Agents and Agent Bank under the Agency Agreement;
- (iii) to pay or provide for *pari passu and pro rata* (a) amounts, including audit fees and company secretarial expenses (plus value added tax, if any), which are payable or expected to become due and payable by the Issuer on or after such Interest Payment Date by the Issuer to third parties and incurred without breach by the Issuer of its obligations under the Transaction Documents and not provided for payment elsewhere; (b) the Issuer's liability or possible liability for corporation tax and (c) the balance, if any, of the value added tax liability of the Paragon VAT Group following a demand being made by HM Customs & Excise on the Issuer where the value added tax liability is not satisfied in full in accordance with the Deed of Charge, the Servicing Agreement and the VAT Declaration of Trust;
- (iv) to pay the Senior Servicing Fee due and payable to the Servicer on such Interest Payment Date together with costs and expenses which are payable or expected to become payable by the Servicer under the Servicing Agreement prior to the next Interest Payment Date;
- (v) to pay *pro rata and pari passu*:
 - (1) all amounts payable by the Issuer to the Interest Rate Swap Counterparties pursuant to the Interest Rate Swap Agreements (other than (i) any Interest Rate Swap Counterparty Default Payments and (ii) any Withholding Compensation Amounts;
 - (2) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class A2 Currency Swap Agreement and the Class A3 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payments and (ii) any Withholding Compensation Amounts;
 - (3) all amounts payable under the Redraw Facility other than in respect of principal; and
 - (4) all amounts payable in respect of the Class A Notes other than in respect of principal on the Class A Notes;
- (vi) subject to an M Note Trigger Event not having occurred on that Interest Payment Date, to pay *pari passu and pro rata*:

- (1) all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes; and
 - (2) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class M2 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;
- (vii) to credit all amounts, other than Principal Collections, to the Reserve Fund up to the Reserve Fund Required Amount;
- (viii) if a Liquidity Trigger Event has occurred and is continuing on the immediately preceding Determination Date, to credit the Liquidity Reserve up to the Liquidity Reserve Required Amount unless, upon the Issuer's request, the Rating Agencies have confirmed that failure to make such credit will not adversely affect the then current rating of the Notes;
- (ix) to pay for the purchase by the Issuer of the right to repayment of Redraws;
- (x) to repay all principal amounts outstanding under the Redraw Facility;
- (xi) to fund the purchase by the Issuer of Further Advances up to an amount equal to the lower of (a) the Potential Redemption Amount less amounts applied in accordance with item (x) above and (b) the aggregate amount of Redemptions received during the immediately preceding Collection Period less amounts applied in accordance with item (x) above;
- (xii) to allocate an amount to be applied in redeeming the Notes equal to the greater of (a) zero and (b) the Potential Redemption Amount less the sum of the amounts applied under items (x) and (xi) above;
- (xiii) if an M Note Trigger Event occurs on such Interest Payment Date to pay *pari passu* and *pro rata*:
- (1) all amounts payable in respect of the Class M Notes other than in respect of principal on the Class M Notes; and
 - (2) all amounts payable to the Currency Swap Counterparty in respect of notional interest under the Class M2 Currency Swap Agreement other than (i) any Currency Swap Counterparty Default Payment and (ii) any Withholding Compensation Amounts;
- (xiv) to credit the Base Rate Reserve up to the Base Rate Reserve Required Amount;
- (xv) to fund the purchase by the Issuer of hedges that may be required in order to preserve a rate at least equal to the Threshold Rate in respect of Pre-Funded Mortgages, Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
- (xvi) to credit the Discount Reserve in an amount equal to the aggregate Loan Expected Differentials arising from Discounts on Substitute Mortgages or Further Advances purchased on such Interest Payment Date;
- (xvii) *pari passu* and *pro rata*:
- (a) to pay (i) any Withholding Compensation Amounts to be paid *pro rata* to such amounts due under the relevant Interest Rate Swap Agreement and (ii) any Interest Rate Swap Counterparty Default

Payments payable to any Interest Rate Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Interest Rate Swap Agreement; and

- (b) to pay (i) any Withholding Compensation Amounts payable to the Currency Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement and (ii) any Currency Swap Counterparty Default Payments payable to the Currency Swap Counterparty to be paid *pro rata* to such amounts due under the relevant Currency Swap Agreement;

and provided that there is no Principal Deficiency on such Interest Payment Date and that no Event of Default has occurred;

- (xviii) to pay the Subordinated Servicing Fee due and payable to the Servicer on such Interest Payment Date;
- (xix) to pay amounts repayable to the Servicer in respect of any Threshold Amount Deposit which the Servicer elects to release;
- (xx) to pay amounts payable in respect of the Start-Up Loan other than in respect of principal on the Start-Up Loan;
- (xxi) to pay amounts payable in respect of principal under the Start-Up Loan;
- (xxii) to pay *pari passu* and *pro rata* (a) sums due to Arianty as Arianty Deferred Purchase Consideration and (b) sums due to Mortgage Trust as Mortgage Trust Deferred Purchase Consideration; and
- (xxiii) to make dividend payments to shareholders of the Issuer.

In the event that any payment is to be made by or on behalf of the Issuer pursuant to the Conditions and there are insufficient funds in the relevant currency available in which such payment is to be made, the Servicer shall, on behalf of the Issuer, if the relevant Currency Swap Agreement has terminated, convert any remaining amounts available into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

- (c) **Redemption Amount:** The Redemption Amount under item (xii) of the Priority of Payments will be divided into a Class A Redemption Amount and a Class M Redemption Amount. During a Class M Principal Lock Out, the Class A Redemption Amount will equal the lesser of the Redemption Amount and the aggregate principal amount of the Class A Notes then outstanding and the Class M Redemption Amount will be zero (except that if the Redemption Amount is greater than the aggregate principal amount of the Class A Notes then outstanding, then the excess will be allocated to the Class M Redemption Amount (after the payment of any shortfall in item (xiii) of the Priority of Payments) up to the aggregate principal amount of the Class M Notes then outstanding). If no Class M Principal Lock Out applies on any Interest Payment Date and there are Class A Notes outstanding, the Redemption Amount will be divided between the Class A Redemption Amount and the Class M Redemption Amount in such amounts as would maintain the then current ratio of Class A Notes to Class M Notes.

If on any Interest Payment Date there are no Class A Notes outstanding, the Class M Redemption Amount will equal the Redemption Amount.

On the Interest Payment Date falling in December 2035 or any prior date on which the assets of the Issuer have been exhausted where there is an Adjusted Principal

Deficiency, then, provided that there are Class A Notes outstanding and the Adjusted Principal Deficiency exceeds the aggregate of the Principal Amount Outstanding of the Class M Notes, the principal amount payable on redemption of each Class A Note shall be its Principal Amount Outstanding on that date, less the amount applicable to that Class A Note by which the Adjusted Principal Deficiency exceeds the then Principal Amount Outstanding of the Class M Notes. The principal amount payable on redemption of each Class M Note shall be its Principal Amount Outstanding on that date, less the Adjusted Principal Deficiency applicable to that Class M Note on that date on payment of which the obligations of the Issuer, in respect of principal, under the relevant Class M Note shall be discharged in full.

(d) **Determination by the Servicer:** On each Determination Date, the Servicer on behalf of the Issuer will:

- (a) determine whether the Available Non-reserve Amounts are sufficient to pay or provide for payments in respect of items (i) to (vi) under the Priority of Payments set out above; and
- (b) determine whether the amount of moneys available on the immediately following Interest Payment Date under item (ix) under the Priority of Payments, after payment of prior ranking items, are sufficient to purchase the right to repayment of Redraws (including Payment Holidays) from Mortgage Trust (but prior to any drawing under the Redraw Facility). To the extent that such amount is insufficient, the Servicer on behalf of the Issuer shall set aside funds to pay or provide for such shortfall on the next Interest Payment Date by applying any amounts available to be drawn under the Redraw Facility Agreement or standing to the credit of the Redraw Ledger up to the amount of the Available Redraw Funds.

Any money standing to the credit of the Transaction Account on an Interest Payment Date following application of the Priority of Payments may at the discretion of the Servicer be invested in the Issuer's Investments.

Any money standing to the credit of the Transaction Account at the close of business on each Business Day shall be applied at the discretion of the Servicer in accordance with clauses 5.12 and 7.

5.5 (a) **Establishing the Reserve Fund:** The Servicer shall procure that the following amounts shall be credited to the Transaction Account and/or invested in the Issuer's Investments and be represented by the Reserve Fund in the Issuer's accounting books forthwith upon (and to the extent practical on the same day as) receipt by the Servicer on behalf of the Issuer of the amount in question:

- (i) on the Issue Date, Tranche B of the Start-Up Loan which will be recorded in the Reserve Ledger; and
- (ii) on any Interest Payment Date following the Issue Date, amounts paid pursuant to item (vii) of the Priority of Payments up to the Reserve Fund Required Amount and credited to the Reserve Ledger.

(b) **Debiting the Reserve Fund and making funds available for application in accordance with the Priority of Payments:** The Servicer shall procure that only the following amounts may be paid out of the Reserve Fund:

- (i) amounts necessary to meet items (i) to (vi) (inclusive) of the Priority of Payments to the extent that, on any Determination Date, the Available Non-reserve Amounts are insufficient to meet items (i) to (vi) (inclusive) of

the Priority of Payments provided that (A) whilst there are Class A Notes outstanding, the Reserve Fund shall only be applied to pay interest on the Class M Notes to the extent that such drawing does not result in the amount standing to the credit of the Reserve Fund being less than the lower of (1) £2,995,134 or (2) the Principal Amount Outstanding of the Class A Notes (plus any amounts to be paid in priority thereto); and

- (ii) any amounts by which the balance on the Reserve Fund exceeds the Reserve Fund Required Amount shall be debited from the Reserve Fund and made available for application in accordance with the Priority of Payments.

5.6 (a) **Establishing the Base Rate Reserve:** The Servicer shall procure that the following amounts shall be credited to the Transaction Account and/or invested in the Issuer's Investments and represented by the Base Rate Reserve in the Issuer's accounting books:

- (i) on or before the Issue Date, £6,792 from Tranche D of the Start-Up Loan;
- (ii) on each date that a Pre-Funded Mortgage which comprises a Base Rate Linked Mortgage is acquired or transferred to the Issuer, such amounts as are required to ensure that the Threshold Margin is maintained in respect of such Pre-Funded Mortgage by using proceeds drawn under Tranche D of the Start-Up Loan; and
- (iii) on any Interest Payment Date, amounts paid pursuant to item (xiv) of the Priority of Payments up to the Base Rate Required Amount and credited to the Base Rate Reserve Ledger.

(b) **Debiting the Base Rate Reserve and making funds available for application in accordance with the Priority of Payments:** The Servicer shall procure that amounts standing to the credit of the Base Rate Reserve shall be applied as follows:

- (i) If, during an Interest Period, the Bank of England Base Rate is more than 0.15 per cent. below Note Sterling LIBOR in respect of an Interest Period, then, on the following Interest Payment Date, a portion of the monies standing to the credit of the Base Rate Reserve equal to the amount by which Bank of England Base Rate is lower than 0.15 per cent. below Note Sterling LIBOR multiplied by the aggregate outstanding principal balances (including drawn balances) of any Base Rate Linked Mortgages as at the previous Interest Payment Date multiplied by the fraction of the actual number of days elapsed in the Interest Period in respect of a 365 day year (or a 366 day year if the last day of the relevant period falls in a leap year) shall be released from the Base Rate Reserve and made available for application in accordance with the Priority of Payments;
- (ii) if, on an Interest Payment Date, the amount standing to the credit of the Base Rate Reserve (after taking into account the reduction in clause 5.6(b)(i) above) exceeds the Base Rate Reserve Required Amount, an amount equal to such excess shall be debited from the Base Rate Reserve on such Interest Payment Date for application in accordance with the Priority of Payments.

5.7 (a) **Establishing the Discount Reserve:** The Servicer shall procure that the following amounts shall be credited to the Transaction Account and/or invested in the Issuer's Investments and represented by the Discount Reserve in the Issuer's accounting books:

- (i) on or before the Issue Date, up to £1,100,000 from Tranche E of the Start-Up Loan representing the aggregate Loan Expected Differential in respect of each Discounted Mortgage in the Initial Mortgage Pool;
- (ii) on each date that a Pre-Funded Mortgage which comprises a Discounted Mortgage is acquired or transferred to the Issuer, an amount equal to the Loan Expected Differential in respect of such Pre-Funded Mortgage by using proceeds drawn under Tranche E of the Start-Up Loan; and
- (iii) on any Interest Payment Date, amounts paid pursuant to item (xvi) of the Priority of Payments to credit the Discount Reserve in an amount equal to the aggregate of any Loan Expected Differentials arising from future Discounts on any Substitute Mortgages and Further Advances which are or are in respect of Discounted Mortgages being purchased on such Interest Payment Date.

(b) **Debiting the Discount Reserve and making funds available for application in accordance with the Priority of Payments:** The Servicer shall procure that on each Interest Payment Date:

- (i) a portion of the amount standing to the credit of the Discount Reserve equal to the amount of any Pool Expected Differential determined in respect of the Interest Period ending immediately prior to such Interest Payment Date; and
- (ii) the aggregate amount of any Loan Expected Differentials allocated to Discounted Mortgages which have redeemed in the immediately preceding Collection Period;

shall each be released from the Discount Reserve and made available for application in accordance with the Priority of Payments.

5.8 (a) **Establishing the Liquidity Reserve:** The Servicer shall procure that on any Interest Payment Date on which a Liquidity Trigger Event has occurred and is continuing, an amount up to the Liquidity Reserve Required Amount, in accordance with item (viii) of the Priority of Payments, is paid into the Transaction Account and/or invested in the Issuer's Investments and represented by the Liquidity Reserve in the Issuer's accounting books.

(b) **Debiting the Liquidity Reserve and making funds available for application in accordance with the Priority of Payments:** The Servicer shall procure that only the following amounts may be paid out of the Liquidity Reserve:

- (i) amounts necessary to meet items (i) to (vi) (inclusive) of the Priority of Payments to the extent that, on any Determination Date, the Available Non-reserve Amounts together with payments made in accordance with clause 5.5(b)(i) above are insufficient to meet items (i) to (vi) (inclusive) of the Priority of Payments; and
- (ii) any amounts by which the balance on the Liquidity Reserve exceeds the Liquidity Reserve Required Amount, to be debited from the Liquidity Reserve Ledger and applied in accordance with the Priority of Payments.

5.9 (a) **Establishing the Pre-Funded Ledger:** On the Issue Date the Servicer shall procure that, to the extent the proceeds of the Notes exceed the Purchase Price of the Initial Mortgages purchased, such excess shall be credited to the Transaction Account and/or invested in the Issuer's Investments and represented by the Pre-Funded Ledger in the Issuer's accounting books. After the Issue Date,

no further amounts may be credited to the Pre-Funded Ledger. The Servicer shall record in the Pre-Funded Ledger the amounts from time to time available to the Issuer for the purchase of Pre-Funded Mortgages.

(b) **Debiting the Pre-Funded Ledger:** The Servicer shall procure that only the following amounts may be paid out of the Pre-Funded Ledger:

- (i) at any time on or after the Issue Date but no later than the first Determination Date and as soon as practicable, amounts to enable the Servicer, on the Issuer's behalf, to purchase the Pre-Funded Mortgages; and
- (ii) any amounts standing to the credit of the Pre-Funded Ledger on the first Interest Payment Date not so applied to purchase Pre-Funded Mortgages, to be applied as Redemptions on the first Interest Payment Date in accordance with the Priority of Payments.

5.10 The Bank Accounts held at the Account Bank shall at all times be maintained with a bank (being an authorised institution under the Financial Services and Markets Act 2002 ("FSMA") or having an equivalent status under the banking legislation of the United Kingdom) of which the unsubordinated unsecured and unguaranteed short-term debt are assigned at least P-1 by Moody's and A-1+ by S&P who for the purposes of rating such short-term unsecured debt obligations will take account only of those obligations which are independent and unsupported by any indemnity, guarantee or any other similar obligation by any other party or any other form of credit enhancement and, in the case of the MTS Trust Accounts, which is able to operate the Direct Debiting Scheme. If the unsubordinated, unguaranteed and unsecured short term debt obligations of such bank cease to be so rated by such Rating Agencies (unless the applicable Rating Agency confirms in writing that such event would not cause it to downgrade the then current rating of the Notes), the Servicer will give notice of such event to the Trustee and will, within 30 days and subject to (a) the directions of the Trustee to enable its Security Interest to be preserved or a new Security Interest to be created satisfactory to the Trustee and (b) establishing substantially similar arrangements to those contained in this Agreement, the Bank Agreement and, in the case of the MTS Trust Accounts, the MTS Declaration of Trust, procure, so far as it is able, the transfer of the accounts to another clearing bank the unsubordinated unsecured unguaranteed short term debt obligations of which are rated as aforesaid and upon the same terms by such Rating Agencies and, in the case of the MTS Trust Accounts, which is able to operate the Direct Debiting Scheme. If, at the time when a transfer of the accounts would otherwise have to be made hereunder, there is no other clearing bank, the unsubordinated unsecured and unguaranteed short term debt obligations of which are so rated and, in the case of the MTS Trust Accounts, which is able to operate the Direct Debiting Scheme, the accounts need not be transferred until such time as there is a bank which meets the criteria described in this clause 5.10.

5.11 If, other than in the circumstances specified in clause 5.10, the Servicer wishes the bank, at which any Bank Accounts are maintained, to be changed, the Servicer shall obtain the prior written consent of the Trustee (such consent not to be unreasonably withheld or delayed), confirmation from the Rating Agencies that the then current rating of the Notes will not be downgraded and shall notify the Issuer and Trustee of the new bank account details and the transfer of the accounts shall be subject to the same directions and arrangements *mutatis mutandis* as are provided for in clause 5.10.

5.12 At the close of business on each Business Day the Servicer shall procure that the funds standing to the credit of the Transaction Account from time to time and not invested in the Issuer's Investments pursuant to clause 7 will carry interest at such rate as may be agreed from time to time with the Account Bank pursuant to the Bank Agreement.

- 5.13 The Servicer shall keep and maintain records, on a Mortgage by Mortgage basis, for the purposes of identifying at any time amounts paid by each Borrower, any amount due from a Borrower, the source of receipts which are paid into the Trust Accounts and the Transaction Account, the purpose for which any amounts are withdrawn from the Trust Accounts and the Transaction Account and the balance from time to time outstanding on a Borrower's account.
- 5.14 If the Servicer, Mortgage Trust Services or Mortgage Trust receives (including in the Servicer's capacity as agent for the Issuer or the Trustee) any money whatsoever arising from the Mortgages, the Related Security, any Insurance Contract or otherwise, which money belongs to the Issuer or the Trustee or is to be paid to the Issuer or the Trustee or into either the Trust Accounts (to the extent of the Issuer's Share thereof), the Transaction Account pursuant to this Agreement or otherwise, it will hold such money on trust for the Issuer or the Trustee as the case may be and shall forthwith upon receipt thereof pay the same in accordance with clauses 5.3 or 5.4 or as otherwise directed by the Trustee.
- 5.15 No amount may be withdrawn from the Issuer's Share of the Trust Accounts or the Transaction Account or amounts debited from the Reserve Fund, the Base Rate Reserve, the Discount Reserve, the Liquidity Reserve or the Pre-Funded Ledger other than in accordance with clauses 5.3, 5.4, 5.5, 5.6, 5.7, 5.8, 5.9 or 7 unless the Trustee approves the same.

6. REDRAW FACILITY

- 6.1 On any Determination Date, the Servicer will determine whether the amounts available on the immediately following Interest Payment Date in respect of item (ix) of the Priority of Payments (prior to any drawing under the Redraw Facility) will be sufficient to purchase the right to repayment of Redraws (including Payment Holidays) during the Collection Period then ending. To the extent that such amounts are insufficient, the Servicer shall provide for such shortfall by requesting (in the form of the notice set out in Schedule II of the Redraw Facility Agreement) and making drawings under the Redraw Facility or, following a downgrade in the short term unsecured, unguaranteed and unsubordinated debt rating of the Redraw Facility Provider assigned by the Rating Agencies below the Required Redraw Facility Provider Rating and a resultant drawdown of a sum equal to the Redraw Facility Limit in accordance with clause 6.2 below, to release from the Redraw Ledger an amount equal to the lower of (i) the amount required to provide for such shortfall and (ii) the Available Redraw Funds, to purchase such rights to repayment of Redraws (including Payment Holidays) on the immediately succeeding Interest Payment Date.
- 6.2 If at any time the short term unsecured, unguaranteed and unsubordinated debt rating of the Redraw Facility Provider assigned by the Rating Agencies falls below the Required Redraw Facility Provider Rating (unless the applicable Rating Agency confirms in writing that such event would not cause it to downgrade the then current rating of the Notes) and the Redraw Facility Provider is not replaced by a suitable Redraw Facility Provider with the Required Redraw Facility Provider Rating within 30 days of such downgrade, the Servicer, on behalf of the Issuer, shall request an advance equal to the Redraw Facility Limit less the aggregate amount of advances outstanding under the Redraw Facility which were not repaid on the immediately preceding Interest Payment Date and shall credit such advance to the Transaction Account to be used to establish the Redraw Ledger.
- 6.3 Not later than the penultimate Interest Payment Date prior to the Coupon Step-Up Date, the Servicer (as agent of the Issuer) shall consult with the Rating Agencies with a view to agreeing a New Redraw Facility Limit to take effect as of the Coupon Step Up Date and the Servicer (as agent of the Issuer) will request the consent of the Redraw Facility Provider to such New Redraw Facility Limit. If a New Redraw Facility Limit is not approved by the Rating Agencies at least 60 days prior to the Coupon Step Up Date, the

Redraw Facility Limit prevailing at such time will continue to apply. If the Redraw Facility Provider fails to consent to the New Redraw Facility Limit, the Redraw Facility Limit prevailing at such time will continue to apply and the Servicer (as agent of the Issuer) may seek an alternative Redraw Facility Provider. The Servicer shall notify the Trustee of any New Redraw Facility Limit.

- 6.4 The Servicer shall monitor the Redraw Facility Limit and the amount drawn from time to time under the Redraw Facility. If the Servicer determines that the amount of Available Redraw Funds under the Redraw Facility is likely to be insufficient to purchase the right to repayment of Redraws (including Payment Holidays) from Mortgage Trust, it shall notify and direct Mortgage Trust either to refuse consent to requests by Borrowers to take Payment Holidays and/or increase the Commitment Fee and/or decrease the percentage of the Borrower Loan Limit used in determining the Excess Amount to which such Fee applies until the Servicer determines that the Issuer will have sufficient funds to purchase the right to repayment of Redraws utilising the Redraw Facility or the amount standing to the credit of the Redraw Ledger in an amount equal to the Available Redraw Funds. Mortgage Trust confirms that it will comply with any such direction by the Servicer.
- 6.5 The Servicer shall perform all of the obligations of the Issuer pursuant to the Redraw Facility Agreement.

7. ISSUER'S INVESTMENTS

- 7.1 On each Business Day, provided that the funds standing to the credit of the Transaction Account are not required for payment on the same or the next Business Day, the Servicer shall on behalf of the Issuer:
- (a) specify Permitted Investments which may be purchased with such funds and/or determine whether some or all of such funds should be invested in accordance with the Guaranteed Investment Contract;
 - (b) direct the Account Bank so that such Permitted Investments shall be purchased with such proportion of the funds available as the Servicer shall determine as soon as possible and in no event later than at the commencement of business on the immediately following Business Day; and
 - (c) direct the Account Bank so that any remaining such funds shall be transferred to the GIC Account.

Funds standing to the credit of the GIC Account may also be transferred to the Transaction Account in accordance with the Guaranteed Investment Contract and invested by the Servicer in Permitted Investments.

- 7.2 The Trustee shall not be entitled to object to the purchase of any Permitted Investment specified by the Servicer notwithstanding that a higher rate of return may be yielded by any other Permitted Investment.
- 7.3 If the Servicer shall fail to specify an investment which is a Permitted Investment, the Trustee may take such steps in relation to the purchase of Permitted Investments as it may in its discretion determine.
- 7.4 The Servicer shall, on behalf of the Issuer, procure that, in each case where a Permitted Investment comprises the deposit of cash in a deposit account with a third party, the cash shall be deposited under instruction that it may not be paid out of such deposit account otherwise than by transferring such cash, together with interest and/or any premium accrued thereon, direct to the Transaction Account if such Permitted Investment was made from moneys standing to the credit of the Transaction Account, which instruction may not be altered without the consent of the Trustee and, prior to the service of an

Enforcement Notice, the Servicer on behalf of the Issuer (such consent not to be unreasonably withheld or delayed).

7.5 Upon request by the Trustee the Servicer, on behalf of the Issuer, shall give notice to the relevant obligor in respect of the Permitted Investments of the equitable charge in relation to such Permitted Investments under the Deed of Charge to effect a legal charge over such Permitted Investments.

7.6 The Servicer, on behalf of the Issuer, shall procure that on or immediately prior to each Interest Payment Date:

(a) each Permitted Investment in which monies have been invested by the Servicer, on the Issuer's behalf, shall be redeemed and the proceeds thereof, together with interest or any other income accrued thereon; and

(b) the amount standing to the credit of the GIC Account, together with any interest accrued thereon,

shall be transferred or made available to the Transaction Account for application in accordance with the Priority of Payments.

8. INVESTMENT OF COLLATERAL RECEIVED FROM ANY INTEREST RATE SWAP COUNTERPARTY OR THE CURRENCY SWAP COUNTERPARTY

8.1 As soon as practicable following receipt by the Issuer of any Hedge Collateral from the Currency Swap Counterparty or any Interest Rate Swap Counterparty, the Servicer shall on behalf of the Issuer:

(a) establish the Hedge Collateral Ledger;

(b) specify Hedge Collateral Investments which may be purchased with such funds; and

(c) direct the Account Bank so that such Hedge Collateral Investments shall be purchased with such Hedge Collateral as soon as possible and in no event later than at the commencement of business on the immediately following Business Day.

8.2 Any income from, or proceeds of disposal or on maturity of, such Hedge Collateral Investments shall be credited to the Transaction Account or reinvested in accordance with the relevant Currency Swap Agreement or Interest Rate Swap Agreement forthwith on receipt thereof by the Servicer.

8.3 The Trustee shall not be entitled to object to the purchase of any Hedge Collateral Investment specified by the Servicer notwithstanding that a higher rate of return may be yielded by any other Hedge Collateral Investment.

8.4 If the Servicer fails to specify an investment which is a Hedge Collateral Investment, the Trustee may take such steps in relation to the purchase of Hedge Collateral Investments as it may in its discretion determine.

8.5 If and when the terms of the relevant Interest Rate Swap Agreement or Currency Swap Agreement permit such Hedge Collateral to be applied in or towards satisfaction of the relevant Interest Rate Swap Counterparty's or Currency Swap Counterparty's obligations under the relevant Interest Rate Swap Agreement or Currency Swap Agreement, and in the event that such Hedge Collateral is to be so applied, the Servicer shall release such amounts from the Hedge Collateral Ledger, redeeming any applicable Hedge Collateral Investments where necessary, and make them available for application in accordance with the Priority of Payments or clause 6 of the Deed of Charge.

8.6 To the extent that, pursuant to the terms of the relevant Interest Rate Swap Agreement or Currency Swap Agreement, Hedge Collateral is to be transferred or paid to an Interest Rate Swap Counterparty or the Currency Swap Counterparty, the Servicer shall release such amounts from the Hedge Collateral Ledger, redeem any applicable Hedge Collateral Investments where necessary and transfer them to the relevant Interest Rate Swap Counterparty or Currency Swap Counterparty.

8.7 Where Hedge Collateral is to be applied in satisfaction of an Interest Rate Swap Counterparty's or Currency Swap Counterparty's obligations under the relevant Interest Rate Swap Agreement or Currency Swap Agreement and such Hedge Collateral or the proceeds of such Hedge Collateral are in a different currency to the currency (the "**Required Hedge Collateral Currency**") in which such obligations of the Hedge Provider are payable then the Servicer shall arrange for such Hedge Collateral to be converted (by such person as the Servicer may reasonably select) at the prevailing spot rate of exchange into the Required Hedge Collateral Currency.

9. REDEMPTION OF MORTGAGES

9.1 Upon repayment in full of a Mortgage the Servicer is hereby authorised by the Trustee and the Issuer to procure the execution of a receipt or discharge of the Mortgage in the appropriate form and any such further instrument or deed of satisfaction regarding such Mortgage or the Related Security as it considers to be necessary or advisable and the Issuer and the Trustee shall, to the extent that they are able to concur therein, execute such document as the Servicer may request in writing, which receipt or discharge or instrument or deed of satisfaction shall be recorded if required by applicable law and be delivered to or to the order of the person entitled thereto. The Issuer and the Trustee shall to the extent that they are able upon payment in full as aforesaid release the Title Deeds, or authorise the release thereof, to the Servicer who shall in turn release them to the person entitled thereto.

9.2 The Servicer shall procure that if, after enforcement of a Mortgage, an amount in excess of all sums due from the relevant Borrower is recovered or received, the balance (after discharge of all such sums) is paid to the person entitled thereto.

10. VALUE ADDED TAX

10.1 In the event of H.M. Customs & Excise making a demand upon the Issuer to meet the VAT liability of the Paragon VAT Group, the Servicer shall, on behalf of the Issuer, give notice to PFPLC, as party to the VAT Declaration of Trust, and to Citicorp Trustee Company Limited (as successor to Morgan Guaranty Trust Company of New York), in its capacity as trustee under the VAT Declaration of Trust, (with a copy to the Trustee) of such VAT liability having arisen and provide evidence reasonably satisfactory to Citicorp Trustee Company Limited as trustee under the VAT Declaration of Trust (with a copy to PFPLC) that such demand has been made and shall provide directions to PFPLC as to payment to satisfy such demand. The Servicer shall procure that Citicorp Trustee Company Limited gives notice, pursuant to the provisions of the VAT Declaration of Trust, to the VAT Account Bank specifying that a withdrawal is to be permitted from the VAT Account to meet such demand and provides the VAT Account Bank with instructions as to payment.

10.2 If any Degrouping Event (as defined in the VAT Declaration of Trust) has occurred and Citicorp Trustee Company Limited (as trustee thereunder) has served a notice pursuant to clause 9(A) of the VAT Declaration of Trust on the Servicer requiring it to procure that an application is made pursuant to section 43 of the Value Added Tax Act 1994 (as amended) for the Issuer to cease to be a member of the Paragon VAT Group, the Servicer agrees that it shall assist in the making of the necessary application to H.M. Customs & Excise.

11. COSTS AND EXPENSES

- 11.1 The Issuer will reimburse the Servicer for all reasonable costs, expenses and charges (other than in relation to Tax on its own net income, profits or gains or in relation to recoverable VAT) paid by the Servicer on behalf of the Issuer in the performance of the Services provided that reimbursement of such costs, expenses and charges will be made in accordance with and subject to the Priority of Payments.
- 11.2 The Issuer authorises the Servicer on its behalf to incur costs, expenses and liabilities in connection with any Property or the enforcement of any Mortgage or the Issuer's and/or the Trustee's rights and remedies in relation thereto provided that reimbursement of such costs, expenses and charges will be made in accordance with and subject to the Priority of Payments.

12. REMUNERATION

- 12.1 The Servicer shall determine the Senior Servicing Fee and the Subordinated Servicing Fee in relation to each Interest Period and both shall be payable to the extent permitted by and in accordance with the Priority of Payments monthly in arrear on each Interest Payment Date.
- 12.2 The Servicer is not entitled to any remuneration or indemnity in respect of the performance of its duties under this Agreement save as expressly provided herein.
- 12.3 If the Issuer receives any amount from a Borrower which was paid expressly for the purpose of meeting a charge for making a late payment or prepayment or any other sums (including but not limited to insurance premiums) in relation to any of the Services provided by the Servicer to a Borrower and all sums due from such Borrower have then been received, the Issuer agrees that it will promptly direct the Servicer to pay such sum on its behalf to the appropriate beneficiary.

13. INFORMATION

- 13.1 The Servicer shall keep safe an original or computer readable form of the mortgage application form by each Borrower, a copy or computer readable form of the formal mortgage offer to each Borrower, a copy of the solicitor's certificate of title in relation to each Mortgage, a copy of the surveyor's report and mortgage valuation in relation to each Property, a copy of the deeds schedule for each Property and a copy of any undertaking or receipted notice from any Insurance Company and shall use all reasonable endeavours to maintain records (but not necessarily copies) of all correspondence with Borrowers and shall maintain either in computer readable form or otherwise information in relation to each Mortgage in the form of the Closing Disc. The Servicer shall keep information in relation to the Mortgages in such a manner so that it is easily identifiable from other mortgages and standard securities in respect of which the Servicer is mortgagee or Servicer. A duplicate set of records of any information held in computer readable form shall be maintained at separate premises by the Servicer and under fire proof conditions.
- 13.2 The Servicer shall prepare the following:
- (a) management accounts for the Issuer in the form of the management accounts of the Servicer which the Servicer produces for its own purposes; and
 - (b) reports to the Trustee and Issuer in the form set out in Schedule 1 hereto relating to information as at each Interest Payment Date,

and shall deliver them to the Issuer and the Trustee with a copy to the Rating Agencies, the GIC Provider, the Standby Servicer and the Redraw Facility Provider, within 30 days of each Interest Payment Date.

- 13.3 The Servicer shall within 30 days of each Interest Payment Date, give a Calculation Report to the Issuer and the Trustee, copied to the Rating Agencies and the GIC Provider, in the form set out in Schedule 2 hereto signed by a duly authorised senior executive officer of the Servicer as may enable the Issuer and the Trustee to determine whether the Servicer has duly performed its obligations under clause 4.
- 13.4 The Servicer shall as soon as practicable, and in no event later than 180 days after the end of each Accounting Reference Period of the Issuer, prepare drafts of a profit and loss account, a balance sheet and directors' report and any other reports or information required to be attached thereto or incorporated therein for the Issuer in respect of each Accounting Reference Period of the Issuer and shall cause such accounts to be audited and procure that the auditors of the Issuer shall make a report thereon as required by law and copies of all such documents shall be delivered to the Issuer and the Trustee with a copy to the Rating Agencies as soon as practicable (and in no event later than 180 days) after the end of each Accounting Reference Period of the Issuer.
- 13.5 (c) Not later than 45 days after the end of each calendar quarter, the Servicer will deliver to the Issuer and the Trustee with a copy to the Rating Agencies a certificate signed by two duly authorised senior executive officers of the Servicer to the effect that a review of the activities of the Servicer during the preceding quarter and of its performance under this Agreement has been made and to the best of such officers' knowledge, based on such review, the Servicer has fulfilled all its obligations under this Agreement throughout such Accounting Reference Period, or, if there has been any breach in any such obligation, specifying such breach and the nature and status thereof.
- (a) Not later than 180 days after the end of each Accounting Reference Period, the Servicer shall procure that independent accountants of the Servicer shall provide a report on the matters referred to in (a) above and the Servicer will deliver such report to the Issuer and the Trustee with a copy to the Rating Agencies.
- 13.6 When available the Servicer will deliver to the Trustee and the Rating Agencies a copy of its annual audited balance sheet, profit and loss account and directors' report together with any other documents annexed thereto.
- 13.7 The Servicer shall permit the Issuer's and the Trustee's auditors, the Trustee and the Rating Agencies at any time during normal business hours upon reasonable written notice to have access to all books of record and account relating to the administration of the Mortgages and related matters in accordance with this Agreement.
- 13.8 The Servicer will, on behalf of the Issuer, prepare or procure the preparation of and file (when signed and laid before the members of the Issuer, if appropriate) all reports, annual returns, statutory forms, tax computations and returns and other returns and shall arrange for the timely preparation of an audited balance sheet and profit and loss account of the Issuer for each accounting reference period of the Issuer.
- 13.9 The Servicer shall prepare and deliver to the Issuer and/or the Trustee and/or the Rating Agencies such further information and/or reports whether in writing or otherwise as the Issuer and/or the Trustee and/or the Rating Agencies or any Trustee may reasonably require from time to time.
- 13.10 The Servicer shall (as soon as practicable after such event has come to its attention) give notice in writing to the Issuer, the Trustee and each of the Rating Agencies of any Event of Default or any condition, event or act which with the giving of notice and/or the lapse of time and/or the issue of a certificate would constitute an Event of Default.
- 13.11 The Servicer shall within three Business Days of being requested to do so by the Issuer or the Trustee deliver to the Issuer, the Trustee and each of the Rating Agencies a

certificate setting out (so far as available to the Servicer) such information as is requisite to enable the Issuer to comply with its obligations under Clause 13(xvi) of the Trust Deed.

- 13.12 The Servicer shall (as soon as practicable after such event has come to its attention) give notice in writing to the Trustee of the details of any pending legal action and any judgments or decrees given against the Servicer which, in the reasonable opinion of the Servicer, could have a material adverse effect on the obligations of the Servicer under this Agreement and the Servicer shall notify any court in which such action is being heard of the Trustee's interest in the Mortgage Loans, Mortgages and Related Security.
- 13.13 The Servicer shall give to each of the Issuer and the Trustee such information and evidence as it shall reasonably require, and in such form as it shall reasonably require, as to the performance by the Servicer of its obligations under this Agreement and any similar information and evidence provided to the Servicer for the purpose of the discharge of the duties, trusts, powers, authorities and discretions vested in the Trustee under the Trust Deed or the Deed of Charge or by operation of law.
- 13.14 The Issuer and the Trustee may accept as sufficient evidence of any fact or matter such information provided by the Servicer pursuant to this Clause 13 by way of certificate of the Servicer and the Issuer and the Trustee shall not be bound in any such case to call for further evidence or be responsible for any loss that may be occasioned by the Issuer or the Trustee acting on such information.

14. **INSURANCE**

- 14.1 The Servicer shall effect and maintain the Insurance Contracts in the name of Mortgage Trust and which relate to the Mortgages with a reputable insurer which it considers in its reasonable discretion to be appropriate to the insured risks and agrees to provide to the Trustee and the Issuer upon request, documentary evidence that cover is provided to the Servicer for the insured risks. The Servicer will administer the arrangements for insurance to which the Issuer and/or the Trustee is a party or in which either has an interest and which relate to the Mortgages and the business of the Issuer.
- 14.2 If the Servicer becomes aware at any time that a new Buildings Policy has been taken out in relation to a Mortgage or a Property, it will use all reasonable endeavours to have the interest of the Issuer endorsed or otherwise noted thereon and will take such steps in relation thereto as the Trustee may reasonably direct to effect the creation and perfection of a Security Interest therein in favour of the Trustee.
- 14.3 Within 10 Business Days of the Issue Date the Servicer will deliver the notices of assignment to the relevant Insurance Companies of the Issuer's and the Trustee's interest under the Deed of Charge and in the Insurance Contracts and will request that the relevant Insurance Companies note the interest of the Issuer and the Trustee on the relevant policies.

15. **BUILDINGS INSURANCE**

- 15.1 The Servicer shall, on becoming aware that any Buildings Policy taken out by any Borrower has or is about to lapse, take such action as the Issuer and/or the Trustee shall reasonably direct and in the absence of such direction pay on behalf of the Issuer premiums due and payable under any applicable Buildings Policy in order that the cover provided by such Buildings Policy shall not lapse.
- 15.2 The Servicer shall, on becoming aware of any claim that has been made under any Buildings Policy the proceeds of which are to be applied in reinstatement of the Property, take such steps to check that reinstatement is effected as it would if it was the mortgagee of the Property in question.

16. LIFE POLICIES

16.1 The Servicer shall use its best endeavours to ensure that on becoming aware of the maturity of a Life Policy or on the death of a Borrower, if earlier, all sums received by or on behalf of Mortgage Trust or the Issuer under the Life Policy are paid initially to a Trust Account and shall record that receipt as a partial or total repayment of the relevant Mortgage provided that if the Life Policy in question has matured prior to the end of the term of the related Mortgage and the proceeds thereof are more than the guaranteed death benefit thereunder, the Servicer may procure that the Borrower receives so much of such proceeds as the Servicer considers appropriate in the circumstances, such amount not being treated as a repayment of the Mortgage and not being counted by the Servicer as a Principal Receipt.

17. BUILDINGS CONTINGENCY POLICY

17.1 The Servicer shall not knowingly take any action or omit to take any action which would result in the avoidance or termination of any Buildings Contingency Policy or would reduce the amount payable on any claim thereunder. The Servicer shall use its best endeavours to keep the Buildings Contingency Policy or any contingency policies which replace the Buildings Contingency Policy in full force and effect and shall perform all its obligations thereunder.

17.2 The Servicer shall prepare and submit on behalf of the Issuer and the Trustee any claim under any Buildings Contingency Policy in so far as the same relates to any of the Mortgages and shall comply with all requirements of the Insurance Company in relation to such policy and such claim. If the Servicer fails to make a claim when it should do so the Trustee may make such a claim itself and, upon written request from the Trustee, the Servicer will provide the Trustee with such information as the Trustee may require to enable it to make such a claim.

18. TITLE DEEDS

18.1 The Servicer agrees that it shall keep the Title Deeds which are in its possession in a safe and fireproof place and hold the same to the order of the Issuer and the Trustee and acknowledges that it has no interest therein whatsoever and to the extent permitted by law irrevocably waives any rights or lien or other Security Interest which it might have therein or to which it might at any time be entitled.

18.2 The Servicer shall take all reasonable steps to ensure that the Title Deeds are not unnecessarily released from its custody and are not so released for any longer than is necessary. Where any Title Deeds are released the Servicer shall ensure that (i) such Title Deeds are only released to solicitors or licensed or qualified conveyancers (ii) on each such release an undertaking for safe custody and return on demand free from any Security Interest is obtained and (iii) the Servicer maintains a full record of such releases which it shall make available to the Trustee.

18.3 The Title Deeds and Insurance Contracts in the possession of the Servicer shall be kept in such manner so that they are readily identifiable and are not likely to be confused with title deeds of, or other documents relating to, other properties and mortgages which are held by the Servicer.

18.4 The Servicer shall provide access to the Title Deeds to the Issuer, the Trustee and their agents at all times during normal business hours upon written request.

18.5 The Servicer shall where possible ensure that all title deeds, life policies, insurance policies held by its agent(s) are held to the order of the Issuer in accordance with clauses 18.1 to 18.3.

19. COMPUTER SYSTEMS

The Servicer will:

- (a) copy data after processing on any Business Day, and keep such back-up copy for at least seven days;
- (b) make a complete copy of all data once a month and keep such back-up copy for the next 12 months; and
- (c) keep a written record of all major changes to all application software and system configurations; and
- (d) make such back-up tapes available to the Trustee on receipt of a written request from the Trustee.

20. FURTHER ADVANCES

20.1 Mortgage Trust may make a Further Advance to a Borrower at any time and shall notify the Servicer and the Issuer of the name of the relevant Borrower, the customer account number and the aggregate amount of the Further Advance. Following receipt of any such notice, the Servicer shall confirm to the Issuer, the Trustee and Mortgage Trust as to whether the Issuer has amounts available under item (xi) of the Priority of Payments for the Issuer to purchase such Further Advance on the following Interest Payment Date. If the Issuer does have such amounts available and the following conditions are satisfied (unless the Rating Agencies otherwise agree):

- (a) the sum of (i) the aggregate Outstanding Principal Amount of the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date; (ii) the aggregate Outstanding Principal Amount of the Further Advances to be purchased on such Interest Payment Date; and (iii) the aggregate Potential Redraw Amount with respect to both the Mortgages comprising the Mortgage Pool on the immediately preceding Determination Date and the Further Advances to be purchased on such Interest Payment Date does not equal or exceed the sum of: (i) the aggregate Outstanding Principal Amount of the Mortgages comprising the Mortgage Pool on the Determination Date immediately preceding the last Interest Payment Date; (ii) the aggregate Outstanding Principal Amount of the Further Advances purchased on the last Interest Payment Date; plus (iii) the aggregate Potential Redraw Amount with respect to the Mortgages comprising the Mortgage Pool on the Determination Date immediately preceding the last Interest Payment Date and the Further Advances purchased on the last Interest Payment Date;
- (b) the Further Advance:
 - (i) does not have a fixed rate nor is subject to a variable rate of interest set by Mortgage Trust Services from time to time but which variable rate is subject to a maximum rate or both a maximum and minimum rate unless the Issuer is able to enter into hedges to ensure that the Threshold Rate is met by the Issuer on each Interest Payment Date;
 - (ii) is not linked to Bank of England Base Rate unless the amount standing to the credit of the Base Rate Reserve is sufficient to cover such Further Advance in addition to the Base Rate Linked Mortgages already included in the Mortgage Pool and the rate of interest charged in respect of the advance is a rate of interest equal to or greater than the Bank of England Base Rate plus the relevant Threshold Margin plus 0.15 per cent;
 - (iii) is not linked to LIBOR other than three month LIBOR which is fixed on the same day in respect of the following Interest Period as Note Sterling

LIBOR and charges a rate of interest equal to or greater than the Threshold Rate;

- (iv) does not carry a discounted rate, unless the amount standing to the credit of the Discount Reserve is sufficient to cover any Expected Differential relating to such Further Advance in addition to the Discounted Mortgages already included in the Mortgage Pool (and, for the avoidance of doubt, these requirements will be met in respect of Further Advances comprising any of the interest rate types set out above which also carry a discounted rate if they meet the requirements of this clause 20.1(b)(iv) notwithstanding that the conditions relating to the minimum rate of interest for the respective interest rate type in clauses 20.1(b)(ii) and (iii) above may not be met) or the purchase of such Further Advance would not cause a downgrade in the current rating of the Notes; and
- (v) does not extend the maturity date of the relevant Mortgage to beyond December 2033;
- (c) upon the making of the Further Advance, the relevant Borrower is not, so far as the Servicer is aware, in material breach of any of the conditions of the relevant Borrower's existing Mortgage;
- (d) to the extent that the Servicer has reason to believe that the Further Advance to be made to a Borrower may result in a regulated agreement (as defined in the Consumer Credit Act 1974), the applicable provisions of the Consumer Credit Act 1974 relating to the regulated agreement will be complied with;
- (e) any amount which has been debited to the Reserve Fund has been followed by the credit of a corresponding amount by such Interest Payment Date;
- (f) the Further Advance is made on terms which are legal, valid and binding and the amount of such Further Advance (together with all related fees, costs and expenses) will have the benefit of the same security (whether under the same charge or standard security or under a second charge or standard security ranking immediately behind the Issuer's existing charge) as the Principal Amount Outstanding under the relevant Mortgage immediately prior to the making of such Further Advance;
- (g) Mortgage Trust Service's further advance procedures have been applied to the Further Advance and to the circumstances of the Borrower at the time the Further Advance was made;
- (h) prior to making the Further Advance, any second charge or other security created in favour of a third party, has been either expressly postponed to the charge or other security securing such Further Advance or redeemed out of the proceeds of the Further Advance simultaneously with the making of the Further Advance;
- (i) no Enforcement Notice has been given by the Trustee which remains in effect;
- (j) the amount of the Further Advance, when added to the amount of Further Advances purchased by the Issuer since the last Interest Payment Date does not exceed 3 per cent of the aggregate Outstanding Principal Amount of the Mortgages comprising the Mortgage Pool at the most recent Determination Date;
- (k) the amount of the Further Advance, when added to the amount of any Further Advances previously made, does not exceed 10 per cent of the aggregate Outstanding Principal Amount of the Initial Mortgages as at the Issue Date;

- (l) no Rating Agency has notified the Issuer in writing that the sale or purchase of the Further Advance will cause the rating of the Notes to be downgraded;
- (m) the product of the weighted average foreclosure frequency ("**WAFF**") and the weighted average loss severity ("**WALS**") calculation for the Initial Mortgage Pool (as determined by S&P's substitution model) is not exceeded by more than 0.25 per cent after such Further Advances are purchased;
- (n) the sum of interest arrears as a percentage of the sum of gross interest due in each case on all Mortgages originated more than 12 months previously (calculated on the basis of the interest accrued during the immediately preceding 12 months) and all Mortgages originated within the 12 month period then ending (calculated as the equivalent of 12 months' interest based on the average interest rate since origination) shall not exceed 2 per cent;
- (o) the weighted average LTV of the Mortgages following the purchase of Further Advances shall not exceed the weighted average LTV of the Initial Mortgage Pool by more than 2 per cent;
- (p) the Principal Deficiency calculated on the Determination Date immediately preceding the Interest Payment Date on which such Further Advances are purchased does not exceed 0.1 per cent of the aggregate principal amount outstanding of the Initial Mortgage Pool; and
- (q) the Further Advance will not involve the Issuer carrying on a "regulated activity" for the purposes of the FSMA and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 ("**RAO**"),

then, the Servicer shall on behalf of the Issuer take such steps as are necessary for the Issuer to purchase the relevant Further Advance from Mortgage Trust, subject to and in accordance with clause 10 of the Mortgage Sale Agreement.

- 20.2 If Mortgage Trust makes a Further Advance to a Borrower and sells it to the Issuer at any time, the Servicer shall perform all the obligations of the Issuer in relation to such Further Advance including, without limitation, making payment to Mortgage Trust.
- 20.3 If the Issuer is unable to purchase a Further Advance (and in those circumstances only), Mortgage Trust or Mortgage Trust Services at its option may repurchase the relevant Mortgage, provided it is fully performing, from the Issuer for a consideration in cash equal to all sums due or owing thereunder (including accrued interest) at the date of such repurchase (after deducting any interest not then accrued but paid in advance by the relevant mortgagor), which amount will be retained by the Issuer.
- 20.4 In the event that legal title to any Further Advance is held by Mortgage Trust Services, Mortgage Trust Services hereby covenants with and undertakes to each of the Issuer and the Trustee (for the avoidance of doubt on behalf of the Secured Creditors) that it will comply with all of the relevant obligations of the legal owner of a Mortgage under this Agreement in relation to such Further Advance, including, without limitation, the obligations set out in this clause 20 and, to the extent required, entering into documentation to give effect to the above.
- 20.5 In the event that legal title to any Further Advance is held by any member of the Paragon Group other than Mortgage Trust and Mortgage Trust Services, each of Mortgage Trust, Mortgage Trust Services and Arianty hereby covenants with and undertakes to each of the Issuer and the Trustee (for the avoidance of doubt on behalf of the Secured Creditors) that it shall procure that the relevant member of the Paragon Group complies with all of the relevant obligations of the legal owner of a Mortgage under this Agreement in relation

to such Further Advance, including, without limitation, the obligations set out in this clause 20 and, to the extent required, entering into documentation to give effect to the above.

21. PRE-FUNDED MORTGAGES

21.1 As soon as practicable on or after the Issue Date, but no later than the first Determination Date, the Issuer may purchase, from Arianty, Pre-Funded Mortgages for an aggregate purchase price equal to the Pre-Funding Amount and calculated in accordance with the Mortgage Sale Agreement and the Servicer shall on behalf of the Issuer take such steps as are necessary for the Issuer to purchase the relevant Pre-Funded Mortgage from Arianty, subject to and in accordance with clause 11 of the Mortgage Sale Agreement and provided that, in respect of each Pre-Funded Mortgage (unless the Rating Agencies otherwise agree):

- (a) the Pre-Funded Mortgage was originated by Mortgage Trust and complies with the Lending Policy prevailing at the Issue Date;
- (b) the Pre-Funded Mortgage is not:
 - (i) a Fixed Rate Mortgage or Collared Rate Mortgage, unless such Fixed Rate Mortgage or Collared Rate Mortgage is hedged by the Issuer to ensure that the Threshold Rate is met by the Issuer on each Interest Payment Date;
 - (ii) a Base Rate Linked Mortgage, unless the amount standing to the credit of the Base Rate Reserve is sufficient to cover such further Base Rate Linked Mortgage in addition to those already included in the Mortgage Pool and the rate of interest charged in respect of such Mortgage is equal to or greater than the Bank of England Base Rate plus the relevant Threshold Margin plus 0.15 per cent;
 - (iii) a LIBOR Linked Mortgage unless such LIBOR Linked Mortgage is linked to three month LIBOR which is fixed on the same day in respect of the following Interest Period as Note Sterling LIBOR and the rate of interest charged in respect of such Mortgage is equal to or greater than the Threshold Rate;
 - (iv) a Discounted Mortgage, unless the amount standing to the credit of the Discount Reserve is sufficient to cover any Expected Differentials relating to such further Discounted Mortgage in addition to the ones already included in the Mortgage Pool and for the avoidance of doubt, mortgages comprising any of the interest rate types set out above which are also Discounted Mortgages will qualify as Pre-Funded Mortgages if they meet the requirements for Discounted Mortgages notwithstanding that the conditions relating to the minimum rate of interest for the respective interest rate type in paragraphs 21.1(b)(ii) and (iii) above may not be met.
- (c) the Pre-Funded Mortgage does not have a final repayment date later than December 2033.
- (d) where such Pre-Funded Mortgage comprises a Flexible Mortgage, the Borrower under such Pre-Funded Mortgage is bound to pay a Commitment Fee of not less than 1 per cent of the Excess Amount and the percentage of the Borrower Loan Limit used in determining the Excess Amount shall be no more than 20 per cent.
- (e) no Enforcement Notice has been given by the Trustee which remains in effect;
- (f) the aggregate Outstanding Principal Amount of the Mortgages, following the purchase of such Pre-Funded Mortgages and/or any Further Advances, in respect

of which there are arrears of an amount greater than one monthly payment by the relevant Borrower will not exceed 1 per cent of the aggregate Outstanding Principal Amount of the Mortgages comprising the Mortgage Pool;

- (g) the sum of interest arrears as a percentage of the sum of gross interest due in each case on all Mortgages originated more than 12 months previously (calculated on the basis of the interest accrued during the immediately preceding 12 months) and all Mortgages originated within the 12 month period then ending (calculated as the equivalent of 12 months' interest based on the average interest rate since origination) shall not exceed 2 per cent;
- (h) the aggregate Outstanding Principal Amount of Mortgages where the relevant Property is located in London and the south-east of England, following the purchase of such Pre-Funded Mortgages and/or any Further Advances will not exceed 80 per cent of the total aggregate Outstanding Principal Amount of the Mortgages comprising the Mortgage Pool;
- (i) the weighted average LTV of the Mortgages, following the purchase of such Pre-Funded Mortgages and/or Further Advances will not exceed the weighted average LTV of the Initial Mortgage Pool by more than 2 per cent;
- (j) *no drawing has been made on the Reserve Fund;*
- (k) the product of the WAFF and WALs calculation for the Initial Mortgage Pool will not be exceeded by more than 0.25 per cent after such Pre-Funded Mortgages and/or Further Advances are purchased;
- (l) Mortgage Trust Services, PFPLC or such other Servicer validly appointed in accordance with clause 3.3 of this Agreement continues to perform its obligations as Servicer and none of Arianty, Mortgage Trust or Mortgage Trust Services are insolvent;
- (m) Rating Agency consent has been obtained;
- (n) in the case of Owner Occupied Loans where the Borrower is not self-employed, the Borrower's income has been independently verified; and
- (o) it is not a Staff Mortgage or a Possessory Title Mortgage.

21.2 If Arianty sells a Pre-Funded Mortgage to the Issuer the Servicer shall perform all the obligations of the Issuer in relation to such Pre-Funded Mortgage including, without limitation, making payment to Arianty.

22. REDRAWS

22.1 The Servicer shall on each Determination Date determine the Available Redraw Funds available to the Issuer on the immediately following Interest Payment Date to purchase from Mortgage Trust the right to repayment of Redraws (including Payment Holidays) and notify the Issuer, Mortgage Trust and (if requested) the Trustee accordingly.

22.2 Mortgage Trust shall sell the right to repayment of Redraws (including Payment Holidays) to the Issuer on each Interest Payment Date to the extent that the Issuer has Available Redraw Funds to purchase the right to repayment of such Redraws (including Payment Holidays) provided that no Enforcement Notice has been given by the Trustee which remains in effect and provided further that the relevant Redraws will have the benefit of the same security as the Outstanding Principal Amount under the relevant Mortgage immediately prior to the making of such Redraws. Mortgage Trust shall notify the Servicer and the Issuer of the principal amount of such Redraws (including Payment Holidays). The Servicer shall on behalf of the Issuer take such steps as are necessary for

the Issuer to purchase the right to repayment of such Redraws (including Payment Holidays), subject to and in accordance with clause 12 of the Mortgage Sale Agreement and including, without limitation, taking such steps as are necessary to ensure that before a Redraw is made pursuant to clause 12.5 of the Mortgage Sale Agreement, the relevant Borrower has confirmed in writing that such Redraw will be secured in favour of the Issuer as a first priority charge under the relevant Mortgage.

- 22.3 If Mortgage Trust sells the right to repayment of Redraws (including Payment Holidays) to the Issuer, the Servicer shall perform all the obligations of the Issuer in relation to such Redraws (including Payment Holidays) including, without limitation, making payment to Mortgage Trust.
- 22.4 If an event described in clause 27.1(c) to (e) occurs in respect of Mortgage Trust (as opposed to the Servicer), Mortgage Trust may not agree to any request from a Borrower for a Payment Holiday without the prior consent of the Trustee.

23. **CONVERSIONS**

- 23.1 The Servicer, on behalf of the Issuer, may agree to a request by a Borrower to convert his Mortgage (or, in the case of a default by a Borrower, may itself elect to convert such Borrower's Mortgage) (subject to satisfaction of the following conditions) into an Endowment Mortgage, a Repayment Mortgage, an Interest Only Mortgage or a Pension Mortgage or a combination of one or more such types of Mortgage and/or into any other type of mortgage (each a "Converted Mortgage") except that in the case of a conversion to:
- (a) a Fixed Rate Mortgage, Capped Rate Mortgage or Collared Rate Mortgage, such conversion may only be effected if the Issuer is able to enter into hedges to ensure that the Threshold Rate is met by the Issuer on each Interest Payment Date;
 - (b) a Base Rate Linked Mortgage, such conversion may only be effected if the amount standing to the credit of the Base Rate Reserve is sufficient to cover such further Base Rate Linked Mortgage linked to Bank of England Base Rate in addition to those already included in the Mortgage Pool and the rate of interest charged in respect of such Mortgage is equal to or greater than the Bank of England Base Rate plus the relevant Threshold Margin plus 0.15 per cent.;
 - (c) a LIBOR Linked Mortgage, such conversion may only be effected if such LIBOR Linked Mortgage is linked to three month LIBOR which is fixed on the same day in respect of the following Interest Period as Note Sterling LIBOR and the rate of interest charged in respect of such Mortgage is equal to or greater than the Threshold Rate; and
 - (d) a Discounted Mortgage, such conversion may only be effected if the amount standing to the credit of the Discount Reserve is sufficient to cover any Expected Differential relating to such further Discounted Mortgage in addition to those already included in the Mortgage Pool (and for the avoidance of doubt, on conversion to a mortgage comprising any of the interest rate types set out above which is also to be a Discounted Mortgage will be permitted if it meets the requirements of this clause 23.1(d) notwithstanding that the conditions relating to the minimum rate of interest for the respective interest rate type in clauses 23.1(b) and 23.1(c) above may not be met) or if the Rating Agencies have confirmed that such conversion would not cause a downgrade of the then current rating of the Notes;

The relevant conditions to be satisfied are:

- (a) no Enforcement Notice has been given by the Trustee which remains in effect at the date of the relevant conversion;
- (b) the provisions of the Consumer Credit Act 1974 relating to regulated agreements and other applicable legislation will be complied with (to the extent they apply);
- (c) the Converted Mortgage will be on the terms of the relevant standard documentation utilised by Mortgage Trust at the time of such conversion to document the terms of mortgages it is offering generally and which has not been varied in any material respect;
- (d) the conversion of the applicable Mortgage is effected in writing;
- (e) the effect of the conversion would not be to extend the final maturity date of such Mortgage to beyond two years prior to the maturity date of the Notes;
- (f) in the case of conversion to a Fixed Rate Mortgage, a Capped Rate Mortgage, Collared Rate Mortgage or Base Rate Linked Mortgage not linked to three month LIBOR, any costs associated with purchasing the hedges required in order to ensure that the Threshold Rate can be met by the Issuer on each Interest Payment Date can be met under item (xv) of the Priority of Payments;
- (g) no Rating Agency has notified the Issuer in writing that the conversion will cause the rating of the Notes to be downgraded.

23.2 If the Issuer is unable to agree to a conversion request pursuant to clause 23.1 (and in those circumstances only), Mortgage Trust or Mortgage Trust Services may, at its option, purchase the relevant Mortgage from the Issuer for a consideration in cash equal to all sums due or owing thereunder (including accrued interest) at the date of such repurchase (after deducting any interest not then accrued but paid in advance by the relevant mortgagor, which amount will be retained by the Issuer).

23.3 If the Servicer permits the conversion of a Mortgage when the conditions set out in clause 23.1 are not met, such conversion shall be a breach of covenant by the Servicer.

24. COVENANTS OF SERVICER AND REPRESENTATIONS AND WARRANTIES OF ALL PARTIES

24.1 The Servicer hereby covenants with and undertakes to each of the Issuer and the Trustee that:

- (a) it will give such time and attention and will exercise such skill, care and diligence in the performance of the Services as it would in servicing mortgages and standard securities in respect of which it is the mortgagee;
- (b) it will comply with any reasonable and proper directions, orders and instructions which the Issuer and the Trustee may from time to time give to it arising from the matters contemplated by this Agreement;
- (c) it will consider the interests of the Issuer and the Trustee in its relations with Borrowers and in its exercise of any discretion arising from its performance of the Services;
- (d) it will obtain and keep in force all licences, approvals, authorisations and consents which may be necessary or desirable in connection with the performance of the Services and in particular any applicable licences or registrations under the Consumer Credit Act 1974, the Direct Debiting Scheme and the Data Protection Act 1998 and any particular authorisation under FSMA and/or the RAO;
- (e) it will comply with all legal requirements in relation to the business of the Issuer;

- (f) it will, so far as possible, continue to require all Borrowers to remit their Monthly Payments through the Direct Debiting Scheme or any other system or arrangement which generally provides available funds to the Transaction Account on the relevant Mortgage Payment Date;
- (g) it will implement and maintain at all times, professional indemnity insurance at such level as would a Prudent Lender;
- (h) to the extent that, at any time, the Issuer is required to obtain any authorisation under the FSMA and/or the RAO in connection with the Mortgages and any Redraws thereunder the Servicer will use its reasonable endeavours, on behalf of the Issuer, to obtain and keep in force, such authorisations; and
- (i) it will not waive (1) any Commitment Fee or (2) any Pre-payment penalty relating to a Fixed Rate Mortgage charged to a Borrower in accordance with the Mortgage Conditions.

24.2 The Servicer shall sign and execute all such documents, and do all such acts and things as the Issuer or the Trustee may require in order to enable the Issuer to comply with its obligations under clause 13(xii) of the Trust Deed.

24.3 With a view to enabling the Issuer to comply with its obligations under clause 13(xvii) of the Trust Deed, the Servicer shall sign and execute all such documents and do all such acts and things as the Issuer or the Trustee may require in order to enforce the Issuer's rights under the Redraw Facility Agreement.

24.4 The Servicer hereby covenants with and undertakes to each of the Issuer and the Trustee (for the avoidance of doubt on behalf of itself and the other Secured Creditors) that should the Servicer be requested at any time to consent to a second charge or security over the Property relating to any Mortgage, the Servicer will not consent to such a request unless a deed of postponement or ranking agreement has been entered into prior to such consent being granted under which the second chargee confirms that any Redraw made under the relevant Mortgage will rank in priority to such second charge or security.

24.5 In the event that legal title to any Substitute Mortgage is held by Mortgage Trust Services, Mortgage Trust Services hereby covenants with and undertakes to each of the Issuer and the Trustee (for the avoidance of doubt on behalf of the Secured Creditors) that it will comply with all of the relevant obligations of the legal owner of a Mortgage under this Agreement in relation to such Substitute Mortgage, including, without limitation, the obligations relating to the provision of Redraws set out in clause 22 of this Agreement and, to the extent required, entering into documentation to give effect to the above.

24.6 In the event that legal title to any Substitute Mortgage is held by any member of the Paragon Group other than Mortgage Trust and Mortgage Trust Services, each of Mortgage Trust, Mortgage Trust Services and Arianty hereby covenants with and undertakes to each of the Issuer and the Trustee (for the avoidance of doubt on behalf of the Secured Creditors) that it shall procure that the relevant member of the Paragon Group complies with all of the relevant obligations of the legal owner of a Mortgage under this Agreement in relation to such Substitute Mortgage, including, without limitation, the obligations relating to the provision of Redraws set out in clause 22 of this Agreement and, to the extent required, entering into documentation to give effect to the above.

24.7 The covenants and undertakings of the Servicer in this clause 24 shall remain in force until this Agreement is terminated but without prejudice to any right or remedy of the Issuer and/or the Trustee arising from breach of any such covenant and undertaking prior to the date of termination of this Agreement.

24.8 Each party to this Agreement (other than the Trustee) warrants and represents to each other party to this Agreement (including the Trustee) that it is duly incorporated under the laws of England and Wales and has the necessary power under its Memorandum and Articles of Association and all necessary corporate authority, consents and authorisations have been obtained to enter into this Agreement and perform its obligations hereunder.

25. LIABILITY OF SERVICER

The Servicer shall be liable to the Issuer, the Trustee, Mortgage Trust and Mortgage Trust Services and their respective directors, officers and employees for all losses, damages, actions, proceedings and claims (and costs, demands and expenses incidental thereto) which may be brought against, suffered or incurred by the Issuer and/or the Trustee and/or Mortgage Trust and/or Mortgage Trust Services and/or such directors, officers and employees by reason of any wrongful or negligent act, default or omission by the Servicer or any director, officer, employee or agent of the Servicer in the performance of its duties hereunder.

26. SERVICES NON-EXCLUSIVE

26.1 Nothing in this Agreement shall prevent the Servicer from rendering services similar to those provided for in this Agreement to other persons, firms or companies carrying on business similar to or in competition with the business of the Issuer.

26.2 Nothing in this Agreement shall prevent Mortgage Trust Services and/or Mortgage Trust, as applicable, having purchased Mortgages from the Issuer in the circumstances contemplated herein, from thereafter selling such Mortgages to any other person, firm or company.

27. TERMINATION

27.1 If any of the following events shall occur:

- (a) default is made by the Servicer in the payment on the due date of any payment to be made under this Agreement to the Trust Accounts or the Transaction Account and such default is not remedied for a period of two Business Days following the earlier of the Servicer becoming aware of such default and receipt by the Servicer of written notice by the Trustee requiring the same to be remedied;
- (b) default is made by the Servicer in the performance or observance in any material respect of any of its other covenants and obligations under this Agreement (other than the covenant set out in clause 24.1(d) above in so far as it relates to authorisation under the FSMA and the RAO), which, if capable of remedy, continues unremedied for a period of 15 Business Days after written notice by the Issuer or the Trustee requiring the same to be remedied and the Trustee determines that such default is materially prejudicial to its interests;
- (c) an order is made or an effective resolution passed for winding up the Servicer;
- (d) the Servicer ceases or threatens to cease to carry on its business or a substantial part of its business;
- (e) proceedings are initiated against the Servicer under any applicable liquidation, insolvency, composition, reorganisation (other than a reorganisation the terms of which have been approved by the Trustee and where the Servicer is solvent) or other similar laws (including, but not limited to, presentation of an application for an administration order) and such proceedings are not being disputed in good faith, or an administration order is granted, or an administrative receiver or other receiver or other similar official is appointed in relation to the Servicer or in relation to the whole or any substantial part of the undertaking or assets of the Servicer or

a distress, execution, diligence or other process is levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Servicer or the encumbrancer takes possession of the whole or any substantial part of the undertaking or assets of the Servicer and such order, appointment, possession or process (as the case may be) is not discharged or otherwise ceases to apply within 30 Business Days; or the Servicer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally; or

- (f) the Servicer is in breach of the covenant set out in clause 24.1(d) above in so far as it relates to authorisation under the FSMA and the RAO,

then the Issuer (with the consent of the Trustee) or the Trustee may, without prejudice to its or the Issuer's other rights, by notice in writing to the Servicer terminate the Servicer's appointment under this Agreement forthwith. Any termination of appointment pursuant to this clause 27.1 shall be without liability or penalty on the part of the Issuer and/or the Trustee for so doing.

- 27.2 On and after termination of the Servicer's appointment under this Agreement pursuant to clause 27.1 all rights, authority and power of the Servicer under this Agreement shall be terminated and of no further effect and the Servicer shall not hold itself out in any way as the agent of the Issuer or the Trustee.
- 27.3 Following termination of the Servicer's appointment under this Agreement pursuant to clause 27.1, the Issuer will either (i) appoint the Standby Servicer as substitute Servicer in accordance with the provisions of the Standby Servicing Agreement; or (ii) appoint another substitute Servicer with the prior written consent of the Trustee and the prior written confirmation of the Rating Agencies that the then current rating of the Notes will not be adversely affected by such appointment provided that the conditions set out in clause 27.6 are satisfied. For the avoidance of doubt, the Trustee will not be responsible for appointing a substitute Servicer.
- 27.4 Upon termination of the Servicer's appointment under this Agreement pursuant to clause 27.1 or 27.5, the Servicer shall provide reasonable co-operation in handing over responsibilities to a substitute Servicer or the Standby Servicer, as applicable, and forthwith deliver to the Trustee or as it shall direct the Title Deeds, the Insurance Contracts, all books of account, papers, records, registers, correspondence, documents and computer records in its possession or under its control relating to the affairs of or belonging to the Issuer and the Mortgages and any other security therefor, any moneys then held by the Servicer on behalf of the Issuer and/or the Trustee and shall take such further action as the Trustee may reasonably direct, including (but without limitation), if so requested and within the power of the Servicer, granting or assigning or sub-licensing such licences in respect of intellectual property of the Servicer as may be necessary to enable the Services to be performed by a substitute Servicer or the Standby Servicer, as applicable. For the avoidance of doubt, the Standby Servicer (or any substitute Standby Servicer) shall not be responsible for any loss or damage incurred or sustained as a result of a failure by the Servicer to comply with the provisions of this clause 27.4.
- 27.5 The Servicer's appointment under this Agreement may be terminated upon the expiry of not less than 12 months' notice of termination given by the Servicer to the Issuer and the Trustee provided that:
- (a) each of the Issuer and the Trustee consents in writing to such termination; and
- (b) the Standby Servicer or a substitute Servicer shall be appointed, such appointment to be effective not later than the date of termination of the Servicer's appointment under this Agreement and the Servicer shall not be released from its

obligations under this Agreement until the Standby Servicer or a substitute Servicer has been appointed.

27.6 A substitute Servicer may only be appointed pursuant to clause 27.3 if:

- (a) such substitute Servicer has experience of servicing mortgages of residential property in England, Wales, Scotland and Northern Ireland and is approved by the Trustee;
- (b) such substitute Servicer enters into an agreement on the terms of this Agreement (*mutatis mutandis*) including the obligations to take the action required by clause 4 (or on such other terms as to costs, expenses, remuneration or otherwise (and consequential modifications) as the Trustee, acting on behalf of the Issuer and itself, may agree with such substitute servicer) and the Servicer shall not be released from its obligations hereunder until such substitute Servicer has entered into the new agreement; and
- (c) the Rating Agencies have been notified of the contemplated appointment and confirm that such appointment will not adversely affect the then current rating of the Notes.

27.7 Following termination of the Servicer's appointment under clause 27.1 or 27.5, the Issuer, the Trustee (or its agents) and any substitute Servicer (each a "**Replacement Party**") will be entitled to be granted for a period of up to six months:

- (a) a non-exclusive licence (in so far as the Servicer is legally empowered to grant or assign that licence) to use the Servicer's software programmes and intellectual property used by the Servicer in providing the Services to the Replacement Party without charge and the Replacement Party warrant that they will not use nor knowingly permit the use of that software or intellectual property for any purposes other than for administration of the Mortgage Loans, the Mortgages and other relevant assigned rights;
- (b) the right to employ such staff of the Servicer as the Replacement Party reasonably considers necessary to perform the Services in accordance with this Agreement, provided that the Replacement Party acknowledges that such staff may also be required to perform services in respect of other mortgages and mortgage owners; and
- (c) the Servicer will use its best endeavours following the termination of its appointment under clause 27.1 or 27.6 to allow the Replacement Party access to its premises and equipment during normal business hours to the extent which is reasonably requested by the Replacement Party for the Replacement Party to ensure the continued administration of the Mortgages provided that the Replacement Party acknowledges that access will only be provided where such access does not, in the reasonable opinion of the Servicer, materially interfere with the Servicer's performance of services in respect of other mortgages or mortgage owners.

27.8 This Agreement shall terminate at such time as neither the Issuer nor the Trustee has any further interest in any of the Mortgages.

27.9 On termination of the appointment of the Servicer under the provisions of this clause (other than pursuant to clause 27.1), the Servicer shall be entitled to receive, on the date such amounts would have fallen to be paid but for such termination, all fees and other moneys accrued up to the date of termination but shall not be entitled to any other or further compensation. Such moneys so receivable by the Servicer shall be paid by the Issuer on the dates on which they would otherwise have fallen due hereunder but

payment of such moneys will be subordinated to the obligation of the Issuer to pay the fees of any substitute Servicer which fall due on the same day. The Issuer shall be entitled to set off against any sums payable to the Servicer hereunder all sums due from the Servicer to the Issuer and/or the Trustee under this Agreement.

28. ENFORCEMENT, SUBORDINATION AND NO PETITION

- 28.1 The Servicer agrees with the Trustee and the Issuer to be bound by the terms of the Deed of Charge and in particular no sum owing under this Agreement shall be payable by the Issuer except in accordance with the Deed of Charge or the Priority of Payments and unless and until all sums thereby required to be paid or provided for in priority thereto have been paid or discharged in full.
- 28.2 The Servicer further agrees that only the Trustee may enforce the Security created in favour of the Trustee by or pursuant to the Deed of Charge in accordance with the provisions thereof and the Servicer shall not take any steps for the purpose of recovering any debts whatsoever owing to it by the Issuer except to the extent permitted by the provisions of the Deed of Charge.
- 28.3 The Servicer agrees that its rights against the Issuer under this Agreement are limited to the extent that the Servicer will not take any action or proceedings against the Issuer to recover any amounts payable by the Issuer to it under this Agreement except to the extent permitted by the provisions of the Deed of Charge and save to the extent that the Issuer has assets sufficient to meet such claim in full having taken into account all other liabilities both actual and contingent of the Issuer which rank in priority to its liabilities to the Servicer under this Agreement.
- 28.4 The Servicer hereby agrees with the Issuer and the Trustee that it shall not, until two years following the payment of all sums outstanding and owing by the Issuer under the Notes, take any corporate action or other steps or legal proceedings for the winding-up, dissolution or re-organisation or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, sequestrator or similar officer of the Issuer or of any or all of the Issuer's revenues and assets.
- 28.5 No recourse under any obligation, covenant, or agreement of the Issuer contained in this Agreement shall be had against any shareholder, officer or director (save in respect of any director's fraudulent acts or defaults) of the Issuer as such, by the enforcement of any assessment or by any legal or equitable proceeding, by virtue of any statute or otherwise; it being expressly agreed and understood that this Agreement is a corporate obligation of the Issuer and no personal liability shall attach to or be incurred by the shareholders, officers, agents or directors (save in respect of any director's fraudulent acts or defaults) of the Issuer as such, or any of them, under or by reason of any of the obligations, covenants or agreements of the Issuer contained in this Agreement, or implied therefrom, and that any and all personal liability for breaches by the Issuer of any of such obligations, covenants or agreements, either at common law or at equity, or by statute or constitution, of every such shareholder, officer, agent or director (save in respect of any director's fraudulent acts or defaults) is hereby expressly waived by the Servicer as a condition of and consideration for the execution of this Agreement.
- 28.6 Without prejudice to the foregoing provisions of this clause, the Servicer hereby covenants with and undertakes to the Issuer and the Trustee that if, whether in the liquidation of the Issuer or otherwise, any payment is received by it in respect of this Agreement other than in accordance with the Deed of Charge, Priority of Payments or this Agreement, the amount so paid shall be received and held by the Servicer upon trust for the Trustee and shall be paid over to the Trustee forthwith upon receipt provided however that this clause 28.6 shall have effect only to the extent that it does not constitute or create and is not deemed to constitute or create any mortgage, charge or other Security Interest of any kind.

29. FURTHER ASSURANCE

- 29.1 The parties hereto agree that they will co-operate fully to do all such further acts and things and execute any further documents as may be necessary or desirable to give full effect to the arrangements contemplated by this Agreement.
- 29.2 The Servicer agrees to execute on the date hereof the power of attorney set out in Schedule 3 which appoints the Trustee as its attorney and as its agent on its behalf and in its own or the attorney's name on the terms therein contained and the Trustee undertakes that it will only exercise any rights or powers under the said power of attorney in the event that the Trustee has declared the Notes to be due and repayable following an Event of Default.
- 29.3 Without prejudice to the generality of clause 29.1 the Issuer and the Trustee shall give to the Servicer such powers of attorney or other written authorisations or mandates and instruments necessary or appropriate to enable the Servicer to perform the Services.

30. CONFIDENTIALITY

None of the parties hereto shall during the continuance of this Agreement or after its termination disclose to any person, firm or company whatsoever (except with the authority of the other parties hereto or so far as may be necessary for the proper performance of its obligations hereunder and under the Trust Deed or the Deed of Charge or unless required by law or any relevant stock exchange or ordered to do so by a court of competent jurisdiction or by the Inland Revenue or the Commissioners of Customs and Excise) any information relating to the business, finances or other matters of a confidential nature of any other party of which it may in the course of its duties hereunder or otherwise have become possessed and all the parties hereto shall use all reasonable endeavours to prevent any such disclosure as aforesaid. Provided that none of the parties hereto shall be in breach of their obligations in this clause 30 in respect of any information given to (i) a prospective new Servicer or Trustee in connection with the replacement of the current Servicer or Trustee or (ii) in respect of any information reasonably required by either of the Rating Agencies and given to such Rating Agency, or (iii) in respect of information given to the professional or financial advisers of any party hereto.

31. NOTICES

Each communication to be made under this Agreement shall be made in writing but, unless otherwise stated, may be made by facsimile or letter. Any communication or document to be made or delivered by one person to another under this Agreement shall (unless that other person has by fifteen days' written notice to the first person specified another address) be made or delivered to that other person at the address identified in clause 3 of the Master Definitions Schedule and shall be deemed to have been made or delivered when despatched (in the case of any communication made by facsimile) or (in the case of any communication made by letter) when left at that address or (as the case may be) ten days after being deposited in the post postage prepaid in an envelope addressed to it at that address provided that any communication or document deemed made or delivered on a day which is not a Business Day shall be deemed to have been so made or delivered on the next following Business Day.

32. VARIATION

No variation of this Agreement shall be effective unless it is in writing and signed by (or by some person duly authorised by) each of the parties. Any such variation shall be notified to the Rating Agencies as soon as practicable by the Issuer.

33. ASSIGNMENT

- 33.1 The Issuer may assign all its rights under this Agreement to the Trustee pursuant to the Deed of Charge.
- 33.2 The Servicer may not assign its rights or transfer obligations under this Agreement.
- 33.3 Mortgage Trust and/or Arianty may assign or transfer its rights to receive Mortgage Trust Deferred Purchase Consideration or Arianty Deferred Purchase Consideration, as applicable, including by way of security.
- 33.4 Mortgage Trust Services may assign or transfer its right to receive repayments under the Start-Up Loan (subject to the terms of the Start-Up Loan Agreement), including by way of security.
- 33.5 The Servicer, Mortgage Trust, Mortgage Trust Services and Arianty acknowledge that on any assignment by the Issuer of its rights under this Agreement the assignee of such rights may enforce such rights in its own name without joining the Issuer in any such action (which right the Servicer, Mortgage Trust, Mortgage Trust Services and Arianty hereby waive) and each of the Servicer, Mortgage Trust, Mortgage Trust Services and Arianty hereby waive any rights or equities in its favour arising up to the date of any such assignment from any course of dealing prior thereto between the Servicer, Mortgage Trust, Mortgage Trust Services, Arianty and the Issuer.

34. VAT

Subject to clauses 11 and 12, any costs, expenses, charges or other amounts payable hereunder shall be paid together with any VAT applicable thereto subject to prior delivery to the payee of an appropriate VAT invoice.

35. TRUSTEE PROVISIONS

- 35.1 If there is any change in the identity of the Trustee in accordance with the Trust Deed, Mortgage Trust, Mortgage Trust Services, the Servicer, the Issuer and Arianty shall, at the cost of the Trustee, execute such documents and take such action as the new Trustee and the outgoing Trustee may require for the purpose of vesting in the new Trustee the rights, powers and obligations of the Trustee, and releasing the outgoing Trustee from its future obligations, under this Agreement.
- 35.2 It is hereby acknowledged and agreed that, by its execution of this Agreement, the Trustee is party to this Agreement solely for the purpose of taking the benefit of the provisions herein expressed to be in its forum and shall not assume or have any obligations or liabilities to or of Mortgage Trust, Mortgage Trust Services, the Servicer, the Issuer or Arianty by virtue of the provisions hereof.

36. THIRD PARTY RIGHTS

No person, other than a party to this Agreement, shall have any right by virtue of the Contracts (Rights of Third Parties) Act 1999 to enforce any term (express or implied) of this Agreement but this is without prejudice to any right or remedy of a third party which may exist or be available apart from that Act.

37. GOVERNING LAW

This Agreement shall be governed by and construed in accordance with the laws of England provided that any terms hereof which are particular to Scots law shall be construed in accordance with the laws of Scotland and any terms hereof which are particular to Northern Irish law shall be construed in accordance with the laws of Northern Ireland.

38. **JURISDICTION**

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with this Agreement and accordingly any legal action or proceedings arising out of or in connection with this Agreement ("Proceedings") may be brought in such courts. This submission is for the benefit of the Trustee and shall not limit the right of the Trustee to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

39. **COUNTERPARTS**

This Agreement may be executed in any number of originals each of which shall have equal validity.

IN WITNESS whereof the parties have signed below the day and year first before written.

Signed by)
for and on behalf of) /s/ Adem Mehmet
Mortgage Trust Limited)

Signed by)
for and on behalf of) /s/ Adem Mehmet
Mortgage Trust Services plc)

Signed by)
for and on behalf of)
First Flexible No. 6 plc) /s/ Adem Mehmet

Signed by)
for and on behalf of) /s/ Jillian Hamblin
Citicorp Trustee Company Limited)

Signed by)
for and on behalf of)
Arianty No.1 plc) /s/ Adem Mehmet

SCHEDULE 1

Form of quarterly report

First Flexible No. 6 plc

Month End Date Prepared: DD/MM/YY

Note Rate LIBOR @ DD/MM/YY X%

Notes Outstanding

Note Class & Margin	Outstanding FRN	Principal Repayment	Interest Payment	Pool Factor
A (Xbps) M (Xbps)	£0	£0	£0	

M Note Lock-Out Period (Yes/No)

Redraw Facility Outstanding

Drawings/Repayments on Redraw Facility

Reserve Fund Balance

Increase/Decrease to Reserve Fund

Reserve Fund Required Amount

Liquidity Trigger Event occurred (Yes/No)

Liquidity Reserve Balance

Increase/Decrease to Liquidity Reserve

Liquidity Reserve Required Amount

Principal Deficiency Ledger Balance

Realised Loss

Cumulative Loss

Gross Excess Spread

Balances of Mortgages Outstanding

Number Value

Further Advances - cumulative

Further Advances - this period

Substitute Mortgage - cumulative

Substitute Mortgage - this period

Annualised Repayment Rate

Portfolio Split

Arrears Band	Outstanding Balance of Mortgages of Mortgages	% Outstanding Balance	Number of Mortgages	% Number of Mortgages
Current				
Over 1 month –2 months				
Over 2 months - 3 months				
Over 3 months				
Litigation				
Possession				

Geographical Split	Outstanding Balance of Mortgages of Mortgages	% Outstanding Balance	Number of Mortgages	% Number of Mortgages

Cumulative Number Value

Properties Sold (Balance at Sale)

Sale Proceeds

MIG Payments Received

Further Recovery (Amount)

Surplus / (Loss)

Total Recovery as a Percentage of Balance

MIG Claims Outstanding

Cumulative Market Value Decline

Cumulative Average Sale Period (months)

Authorised Signatory
Mortgage Trust Services plc

SCHEDULE 2

Form of Calculation Report

To: First Flexible No. 6 plc
St Catherine's Court
Herbert Road
Solihull
West Midlands
B91 3QE

[plus]
Citicorp Trustee Company Limited
Rating Agencies

[Date]

Dear Sirs

Servicing Agreement dated 29 January 2004

We refer to the above Agreement and for the purposes of clause 13 thereof, we hereby certify that we have duly performed our obligations under clause 4 thereof and made the determinations set out below:

Aggregate Rate (at end of the immediately preceding Collection Period):

Threshold Rate (on the Interest Payment Date immediately following such Collection Period):

Threshold Amount Deposit (if any):

Surplus (deficit) over Threshold Rate (at end of immediately preceding Collection Period):

Amounts received under the Interest Rate Swaps.

Amounts released under the [/Base Rate Reserve/Discount Reserve/Liquidity Reserve]

Yours faithfully

for and on behalf of
Mortgage Trust Services plc

SCHEDULE 3

Form of Power of Attorney

This Power of Attorney is made on 29 January 2004

By:

MORTGAGE TRUST SERVICES PLC (registered number 3940202) whose registered office is at St Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE (the "**Servicer**" which expression shall include its successors and permitted assigns)

In favour of:

CITICORP TRUSTEE COMPANY LIMITED (registered number 235914) whose registered office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (the "**Trustee**" which expression shall include its successors and permitted assigns)

WHEREAS:

- (A) The Servicer is appointed to service the Mortgage Loans and Mortgages pursuant to the Servicing Agreement.
- (B) At the request of the Trustee, the Servicer has agreed to enter into these presents for the purposes hereinafter appearing.
- (C) The expressions defined in the Master Definitions Schedule signed by Lovells and Weil, Gotshal & Manges for identification purposes on 29 January 2004 shall, unless otherwise defined herein or the context requires otherwise, bear the same meanings herein (including these recitals).

NOW THIS DEED WITNESSES:

- 1. That for good and valuable consideration and as security for the interests of the Trustee under the Deed of Charge, the Servicer hereby appoints the Trustee to be its true and lawful attorney and to be its agent on its behalf, and in its own or the attorney's name, to exercise its rights, powers and discretions under the Servicing Agreement including the executing, signing and doing of any deeds, document, acts or things.
- 2. The appointment contained in this Power of Attorney shall be irrevocable unless and until the appointment of the Servicer under the Servicing Agreement is terminated pursuant to Clause 27 of the Servicing Agreement when both the appointments contained in Clause 2 of the Servicing Agreement shall be automatically revoked.

IN WITNESS WHEREOF MORTGAGE TRUST SERVICES PLC has caused its Power of Attorney to be executed and delivered as a Deed on the day and year first above written.

EXECUTED as a deed by)
for and on behalf of)
MORTGAGE TRUST SERVICES PLC)
under a power of attorney dated)
))
in the presence of:)