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First Flexible (No.7) PLC

(Incorporated with limited liability in England and Wales with registered number: 4579544)

Issue of Mortgage Backed Floating Rate Notes

Initial face amount	Class	Issue price	Initial margin	Step up month	Stepped up margin	Expected rating Fitch	Expected rating S&P
£260,500,000	Class A Notes Due 2033	100 per cent.	0.12 per cent.	March 2012	0.24 per cent.	AAA	AAA
£4,050,000	Class B Notes Due 2033	100 per cent.	0.18 per cent.	March 2012	0.36 per cent.	AA	AA
£4,050,000	Class C Notes Due 2033	100 per cent.	0.28 per cent.	March 2012	0.56 per cent.	A	A

First Flexible (No.7) PLC (the “**Issuer**”) will issue £260,500,000 Class A Notes (the “**Class A Notes**”), £4,050,000 Class B Notes (the “**Class B Notes**”) and £4,050,000 Class C Notes (the “**Class C Notes**”) on or about 25 January 2007 (the “**Closing Date**”). In this document the Class A Notes, the Class B Notes and the Class C Notes are together referred to as the “**Notes**”.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS AND UNLESS SO REGISTERED MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE LAWS.

Interest is payable on the Class A Notes, the Class B Notes and the Class C Notes in arrear beginning on 15 June 2007 and thereafter quarterly on each subsequent 15 September, 15 December, 15 March and 15 June (or if any such day is not a Business Day, the next succeeding Business Day) subject to adjustment in the manner described in this Offering Circular (each date, as so adjusted, being an “**Interest Payment Date**”) and the first Interest Period for the Class A Notes, the Class B Notes and the Class C Notes is expected to commence on (and include) the Closing Date and end on (but exclude) the Interest Payment Date falling in June 2007. A “**Payment Date**” for determining the amount and date for payment of interest on the Class A Notes, the Class B Notes and the Class C Notes shall be each Interest Payment Date. **Interest payments on the Notes will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.** The right to payment of interest on the Class B Notes and the Class C Notes will be subordinated and may be limited as described herein (see “Transaction Overview – Interest” below). To the extent that such funds available to the Issuer on the Principal Determination Date (as defined herein) applicable to an Interest Payment Date are not sufficient to pay the full amount of interest payable on the Class B Notes and/or the Class C Notes, as the case may be, on such Interest Payment Date, payment of the shortfall will be deferred. The Issuer shall pay such deferred amount to the extent that funds are available for that purpose on each Interest Payment Date immediately after the next Principal Determination Date. Such deferred amount will accrue interest at the rate of interest accruing on the Class B Notes and/or the Class C Notes, as the case may be, from time to time.

The annual interest rates applicable to the Notes from time to time will be the sum of the applicable reference rate plus a margin. The applicable reference rate is the London Inter-Bank Offered Rate (“**LIBOR**”) for three month GBP deposits (or, in the case of the first Interest Period, the rate which is a linear interpolation between LIBOR for four month GBP deposits and LIBOR for five month GBP deposits). The initial margins (being rates per annum) applicable to each class of Notes are indicated above and will apply up to and including the Interest Period (as defined herein) ending in the relevant step-up month indicated above and thereafter the margin will be the relevant stepped-up margin (being rates per annum) indicated above.

Prior to redemption of the Class A Notes, the Class B Notes and the Class C Notes on the Interest Payment Date falling in September 2033, the Notes will be subject to mandatory redemption in part from time to time on any Interest Payment Date as more particularly described herein. In certain other circumstances and at certain times, the Notes may be redeemed at the option of the Issuer at their Principal Liability Outstanding (as defined herein) together with accrued interest on any Interest Payment Date, as more particularly described herein. The Class B Notes and the Class C Notes will be secured by the same security that will secure the Class A Notes but in the event of the security being enforced, the Class A Notes will rank in priority to the Class B Notes and the Class C Notes and the Class B Notes will rank in priority to the Class C Notes. All the Class A Notes will rank *pari passu* and rateably in their right to receive both interest and principal without any preference or priority among themselves. All the Class B Notes will rank *pari passu* and rateably in their right to receive both interest and principal without any preference or priority among themselves. All the Class C Notes will rank *pari passu* and rateably in their right to receive both interest and principal without any preference or priority among themselves.

The Notes are expected, on issue, to be assigned ratings as indicated above by Fitch Ratings Ltd. (“**Fitch**”) and by Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies, Inc. (“**Standard & Poor’s**” or “**S&P**” and, together with Fitch, the “**Rating Agencies**”). A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Application has been made to the Financial Services Authority in its capacity as United Kingdom Listing Authority (the “**U.K. Listing Authority**”) for the Notes to be admitted to the official list maintained by the U.K. Listing Authority (the “**Official List**”). This Offering Circular comprises the prospectus (the “**Prospectus**”) with regard to the Issuer and the Notes in accordance with the prospectus rules made under Part VI of the Financial Services and Markets Act 2000 (“**FSMA**”) by the U.K. Listing Authority. Application has also been made to the London Stock Exchange plc (the “**London Stock Exchange**”) for the Notes to be admitted to trading on the Gilt Edged and Fixed Interest Market of the London Stock Exchange (a regulated market).

Particular attention is drawn to the section herein entitled “Risk Factors”.

Arranger & Lead Manager
Barclays Capital

Co Managers

ABN AMRO

ING

JP Morgan

**The Royal Bank
of Scotland**

Deutsche Bank

HSBC

The date of this Offering Circular is 23 January 2007.

IMPORTANT NOTICE

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

No person has been authorised to give any information or to make any representation other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Trustee (as defined in “Transaction Overview – Trustee” below) or the Managers (as defined in “Subscription and Sale” below). This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer, the Trustee or the Managers or any of them to subscribe for or to purchase any of the Notes. Neither the delivery of this Offering Circular nor any offer, solicitation, sale or allotment made in connection with the offering of the Notes shall under any circumstances constitute a representation or imply that the information contained in this Offering Circular has not changed since its date or is correct at any time after its date. You should rely only on the information contained in this Offering Circular.

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

No action has been taken by the Issuer or the Managers, other than as set out on the first page of this Offering Circular, that would permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any offering circular, prospectus, form of application, advertisement or other offering material may be issued or distributed or published in any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. The Managers have represented that all offers and sales by them have been and will be made on such terms. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

The Notes are being offered only to a limited number of investors that are willing and able to conduct an independent investigation of the characteristics of the Notes and risks of ownership of the Notes. It is expected that prospective investors interested in participating in this offering will conduct an independent investigation of the risks posed by an investment in the Notes.

This Offering Circular is not intended to furnish legal, regulatory, tax, accounting, investment or other advice to any prospective purchaser of the Notes. This Offering Circular should be reviewed by each prospective purchaser and its legal, regulatory, tax, accounting, investment and other advisers.

The Notes will each initially be represented on issue by a temporary global note in bearer form (each, a “**Temporary Global Note**”) without interest coupons attached, which will be deposited on or about the Closing Date with a common depository for Clearstream Banking, société anonyme (“**Clearstream, Luxembourg**”) and Euroclear Bank S.A./N.V. (“**Euroclear**”). Each Temporary Global Note will be exchangeable for interests in a permanent global note in bearer form (each, a “**Permanent Global Note**”) representing the same Class of Notes, without interest coupons attached, not earlier than forty (40) days after the Closing Date (provided that certificates as to non-U.S. beneficial ownership have been received). Ownership interests in the Temporary Global Notes and the Permanent Global Notes will be shown on, and transfers thereof will only be effected through, records maintained by Clearstream, Luxembourg and Euroclear and their respective participants. Interests in the Permanent Global Notes will be exchangeable for Definitive Notes in bearer form only in certain limited circumstances as set forth therein.

The Notes will bear restrictive legends and will be subject to restrictions on transfer as described herein. For a further description of certain restrictions on offers and sales of Notes and distribution of this Offering Circular, see “Subscription and Sale” and “Restrictions on Purchase and Transfer of the Notes” below.

Investors whose investment authority is subject to legal restrictions should consult their legal advisers to determine whether and to what extent the Notes constitute legal investments for them.

Forward-Looking Statements

Certain matters contained in this Offering Circular are forward looking statements. Such statements appear in a number of places in this Offering Circular, including with respect to assumptions on the expected amortisation of the Notes and prepayment and certain other characteristics of the Mortgages, and reflect significant assumptions and subjective judgments by the Issuer that may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward looking terminology such as “may”, “will”, “could”, “believes”, “expects”, “anticipates”, “continues”, “intends”, “plans” or similar terms. Future results may differ from the Issuer’s expectations due to a variety of factors, including, but not limited to, the economic environment and regulatory changes in the mortgage industry in the United Kingdom. Moreover, past financial performance should not be considered a reliable indicator of future performance, and prospective purchasers of the Notes are cautioned that any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the Issuer. The Managers have not attempted to verify any such statements, nor do they make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward looking statements. Neither the Issuer nor any of the Managers assumes any obligation to update these forward looking statements or to update the reasons for which actual results could differ materially from those anticipated in the forward looking statements.

References to currencies

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

Stabilisation

In connection with the issue of the Notes, Barclays Bank PLC (the “Stabilising Manager”) (or persons acting on behalf of the Stabilising Manager) may over-allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Closing Date and 60 days after the date of the allotment of the Notes.

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OVERVIEW OF CERTAIN FEATURES OF THE NOTES

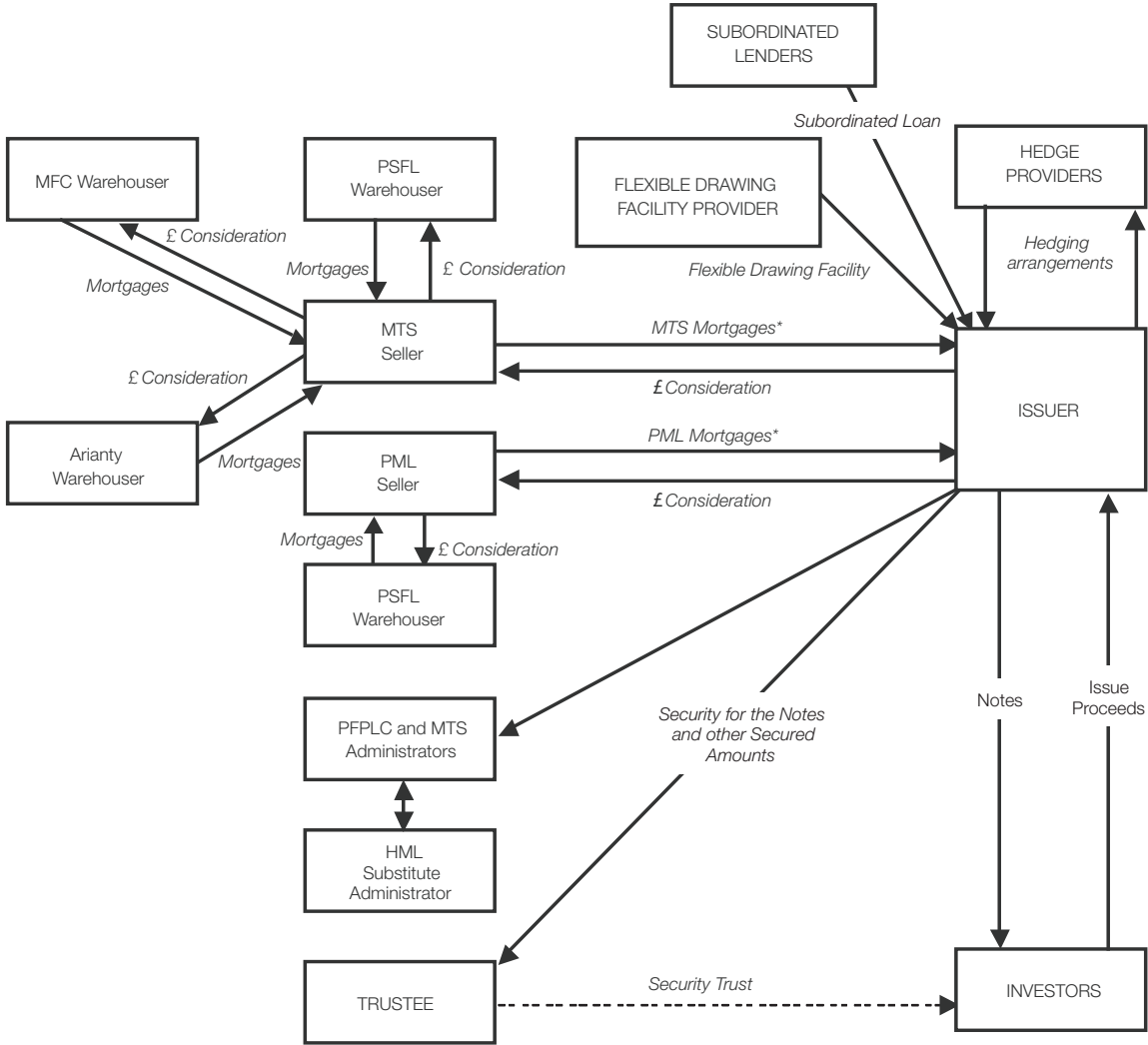
The following information is a brief overview of certain features of the Notes and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular.

Gross proceeds on Closing Date

Class A Notes	£260,500,000
Class B Notes	£4,050,000
Class C Notes	£4,050,000
Total.....	<u>£268,600,000</u>

	<i>Class A Notes</i>	<i>Class B Notes</i>	<i>Class C Notes</i>
Initial Principal Amount Outstanding: ..	£260,500,000	£4,050,000	£4,050,000
per cent. of total:	97 per cent.	1.5 per cent.	1.5 per cent.
Expected ratings on the Closing Date:			
Fitch:	AAA	AA	A
S&P:	AAA	AA	A
Credit enhancement:	Subordination of Class B Notes Class C Notes; First Loss Fund	Subordination of Class C Notes; First Loss Fund	First Loss Fund
Interest reference rate:	LIBOR for three month GBP deposits for the relevant Interest Period	LIBOR for three month GBP deposits for the relevant Interest Period	LIBOR for three month GBP deposits for the relevant Interest Period
Initial interest margin:	0.12 per cent.	0.18 per cent.	0.28 per cent.
Step up on			
Interest Payment Date falling in:	March 2012	March 2012	March 2012
Stepped up interest margin:	0.24 per cent.	0.36 per cent.	0.56 per cent.
Maximum Reset Margin:	N/A	N/A	N/A
Interest accrual method:	Actual/365	Actual/365	Actual/365
Interest Payment Dates (subject to	15 September, 15 December, 15 March, 15 June	15 September, 15 December, 15 March, 15 June	15 September, 15 December, 15 March, 15 June
Month in which first Interest Payment Date falls:.....	June 2007	June 2007	June 2007
Final redemption date – Interest Payment Date falling in:	September 2033	September 2033	September 2033
Clearance/ Settlement:	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg
Denomination:	£50,000	£50,000	£50,000
Minimum Incremental Denominations:	£1,000	£1,000	£1,000

STRUCTURE DIAGRAM



* Mortgages transferred from MTS to the Issuer consist of MTS Mortgages and MTL Mortgages. Mortgages transferred from PML to the Issuer consist of PML Mortgages.

TRANSACTION OVERVIEW

The information on the pages preceding the Table of Contents and the information in this Transaction Overview is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular.

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

Transaction Overview

The Issuer intends to acquire residential mortgages from PML and MTS which are legally owned by PML, MTL or MTS, such acquisition to be financed by the issue of the Notes.

All the Mortgages to be acquired will be governed by English, Scots or Northern Irish law, as the case may be.

As Administrators, PFPLC will continue to administer the PML Mortgages and MTS will continue to administer the MTL Mortgages and the MTS Mortgages on behalf of the Issuer and the Trustee. Also, as an Administrator, PFPLC will provide corporate, administrative and cash management services to the Issuer and its business.

The Issuer will finance its purchase of the Mortgages by issuing separate classes of floating rate Notes. The net aggregate proceeds from the issue of the Notes will be approximately £268,371,690 and will be applied by the Issuer in the purchase of the Mortgages from PML and MTS on the Closing Date with any remainder to be invested in Authorised Investments.

The Notes will be obligations of the Issuer only and will be secured, *inter alia*, by the Issuer granting security to the Trustee in respect of its interest in the Mortgages and their collateral security (or, in relation to Scottish Mortgages, its beneficial interest in the Scottish Declarations of Trust).

Issuer

First Flexible (No.7) PLC, a public company incorporated under the laws of England, registered number 4579544 and 26 per cent. of whose share capital is owned by Paragon Mortgages (No. 16) Limited, a company limited by guarantee and incorporated under the laws of England, registered number 4786771, and 74 per cent. of whose share capital is owned by the Paragon Group of Companies PLC ("**PGC**"). The ordinary shares of PGC are listed by the U.K. Listing Authority and traded on the London Stock Exchange.

Title Holders

3.86 per cent. by value of the Mortgages in the Provisional Pool were originated by Paragon Mortgages Limited ("**PML**") (each a "**PML Mortgage**"), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC. 96.08 per cent. by value of the Mortgages in the Provisional Pool were originated or legal title was otherwise acquired by Mortgage Trust Limited ("**MTL**") (each an "**MTL Mortgage**"), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC. 0.05 per cent. by value of the Mortgages in the Provisional Pool were originated by Mortgage Trust Services PLC ("**MTS**") (each an "**MTS Mortgage**"), a public company incorporated under the laws of England and a wholly owned subsidiary of MTL. In this Offering Circular, "**Title Holder**" means PML in relation to PML Mortgages, MTS in relation to MTS Mortgages and MTL in relation to MTL Mortgages (see "The Mortgages – Origination of the Mortgages" below).

Sellers

In this Offering Circular, the “**Seller**” means PML in relation to PML Mortgages and means MTS in relation to MTL Mortgages and MTS Mortgages (see “The Mortgages – Origination of the Mortgages” below).

Warehousers

In this Offering Circular, the “**Warehousers**” means Paragon Second Funding Limited (“**PSFL**”), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC, Arianty No.1 PLC (“**Arianty**”), a public company incorporated under the laws of England (registered number 3946857) and a wholly owned subsidiary of Arianty Holdings Limited, and Mortgage Funding Corporation PLC (“**MFC**”), a public company incorporated under the laws of England, registered number 01921487 and the majority of whose share capital is owned by The Law Debenture Trust Corporation p.l.c.

Administrators

In this Offering Circular “**Administrator**” means (a) in relation to the PML Mortgages and the corporate, administrative and cash management matters relating to the Issuer and its business, Paragon Finance PLC (“**PFPLC**”), a public company incorporated under the laws of England and a wholly owned subsidiary of PGC, and (b) in relation to the MTL Mortgages and the MTS Mortgages, MTS, in its capacity as administrator of the MTL Mortgages and the MTS Mortgages, in each case pursuant to its appointment as such under the Administration Agreement.

Trustee

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

The Notes

£260,500,000 Class A Mortgage Backed Floating Rate Notes Due 2033, £4,050,000 Class B Mortgage Backed Floating Rate Notes Due 2033, and £4,050,000 Class C Mortgage Backed Floating Rate Notes Due 2033.

The gross proceeds on the Closing Date of the Class A Notes, Class B Notes and Class C Notes will be equal to, as a proportion of the total gross proceeds of the Notes, 97 per cent., 1.5 per cent. and 1.5 per cent., respectively.

All the Class A Notes will rank *pari passu* and rateably in their right to receive both principal and interest without any preference or priority among themselves. All the Class B Notes will rank *pari passu* and rateably in their right to receive both principal and interest without any preference or priority among themselves. All the Class C Notes will rank *pari passu* and rateably in their right to receive both principal and interest without any preference or priority among themselves. See “Mandatory Redemption in Part” below in relation to the priority of payments of principal prior to enforcement of the security for the Notes.

The Notes will be obligations of the Issuer. The Notes will not be obligations or the responsibility of any person other than the Issuer. The Notes will not be guaranteed by any person. In particular, the Notes will not be obligations or the responsibility of PFPLC, PML, PGC, the Warehousers, MTL, MTS, any company in the same group of companies as PGC (other than the Issuer), the Trustee, the Managers, the Flexible Drawing Facility Provider or any other person other than the Issuer.

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

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

Closing Date

25 January 2007 or such later date agreed between the Issuer and the Lead Manager for the issue of the Notes (the "**Closing Date**").

Interest

The annual interest rates applicable to the Notes from time to time will be the sum of the applicable reference rate plus a margin.

In the case of the Notes the applicable reference rate is LIBOR for three month GBP deposits (or, in the case of the first Interest Period, the rate which is a linear interpolation between LIBOR for four month GBP deposits and LIBOR for five month GBP deposits).

The margins applicable to each class of Notes, and the Interest Periods for which such margins apply, will be as set out below:

Class A Notes: 0.12 per cent. per annum up to and including the Interest Period ending in March 2012 and thereafter 0.24 per cent. per annum.

Class B Notes: 0.18 per cent. per annum up to and including the Interest Period ending in March 2012 and thereafter 0.36 per cent. per annum.

Class C Notes: 0.28 per cent. per annum up to and including the Interest Period ending in March 2012 and thereafter 0.56 per cent. per annum.

Interest shall accrue on a daily basis on the Principal Liability Outstanding (as defined in Condition 5(b)) of each Note from and including the Closing Date. The period beginning on (and including) the Closing Date in relation to a Note and ending on (but excluding) the first Interest Payment Date relating to that Note and each successive period beginning on (and including) an Interest Payment Date relating to that Note and ending on (but excluding) the next Interest Payment Date relating to that Note is called an "**Interest Period**".

Subject to Condition 4(b), such accrued interest in respect of each Note will be due and payable in arrear on 15 June 2007 and thereafter quarterly on each subsequent 15 September, 15 December, 15 March and 15 June or if any such day is not a Business Day (as defined below), the next succeeding Business Day (each such day as so adjusted, being an "**Interest Payment Date**").

Interest payments on the Class B Notes and the Class C Notes will be subordinated to interest payments on the Class A Notes and interest payments on the Class C Notes will be subordinated to

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

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

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

Security for the Notes

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

- (i) the Mortgages (as defined in “The Mortgages” below) to be purchased by the Issuer;
- (ii) various insurance policies relating to the Mortgages in which the Issuer has an interest;
- (iii) the Issuer’s rights under the Mortgage Sale Agreement, the Administration Agreement, the Flexible Drawing Facility Agreement, the Agency Agreement, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the Collection Account Declarations of Trust, the Subscription Agreement, the Basis Hedge Agreements and any Caps (as defined in “Basis Hedging Arrangements” below) or other hedging arrangements entered into by the Issuer, the Substitute Administrator Agreement, the Cross collateral Mortgage Rights Deed and the VAT Declaration of Trust;
- (iv) the Issuer’s rights to all moneys standing to the credit of the bank account of the Issuer with National Westminster Bank Plc at its branch at 4 High Street, Solihull, West Midlands, B91 3WL (or such other bank account as the Issuer, subject to certain restrictions and with the consent of the Trustee, may from time to time select for such purpose) into and out of which all payments to and by the Issuer will be made (the “**Transaction Account**”) and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors); and
- (v) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors).

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

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

Certain other amounts will also have the benefit of the security interests referred to above, including the amounts owing to the Trustee and any receiver, any amounts payable to Homeloan Management Limited (the "**Substitute Administrator**") in its capacity as substitute administrator under the Substitute Administrator Agreement and the Basis Hedge Provider (as defined below) under the Basis Hedge Agreement, any amounts payable to each Permitted Basis Hedge Provider (as defined below) under each Permitted Basis Hedge Agreement, the fees and expenses of, and commissions payable to, and all other amounts owing to, the Administrators and/or any substitute administrator, all amounts owing to PFPLC under, among other things, the Mortgage Sale Agreement and the Services Letter (each as defined in "The Issuer" below), all amounts owing to the Issue Services Provider under the Fee Letter and all amounts owing to the Subordinated Lenders under the Subordinated Loan Agreement referred to below.

Use of Ledgers – the Issuer

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

The relevant Administrator will be required to credit to the Principal Ledger all principal amounts received from borrowers in respect of the Mortgages or otherwise paid or recovered in respect of the Mortgages. The relevant Administrator will be required to credit all other amounts received by the Issuer to the Revenue Ledger apart from (i) drawings under the Subordinated Loan Agreement which are to be used for the purposes of establishing or increasing the First Loss Fund and the Shortfall Fund referred to below; (ii) drawings under the Subordinated Loan Agreement in order to fund the Issuer when making any Mandatory Further Advances or Discretionary Further Advances and drawings under the Flexible Drawing Facility Agreement to fund Flexible Drawing Cash Advances; and (iii) any Hedge Collateral received from a Hedge Provider from time to time in respect of any Hedge Agreement (save to the extent the same is permitted to be applied (or is realised and applied) towards the satisfaction of the obligations of the Hedge Provider in accordance with that Hedge Agreement). Amounts in respect of item (ii) above will be credited to the Principal Ledger.

In the event that any Hedge Collateral is received by the Issuer from a Hedge Provider, the Administrators will also be required to maintain a "**Hedge Collateral Ledger**" to which will be credited

amounts representing that Hedge Collateral. The Hedge Collateral Ledger will be debited by the relevant amount in the event that Hedge Collateral is returned to the relevant Hedge Provider or is applied (or is realised and applied) towards satisfaction of obligations of that Hedge Provider, in each case in accordance with the relevant Hedge Agreement. In the event that such Hedge Collateral is applied towards satisfaction of obligations of such Hedge Provider, such amount shall be credited to the Revenue Ledger for application in the Priority of Payments.

The Administrators will also be required to maintain a “**Principal Deficiency Ledger**” to which will be debited amounts representing principal losses incurred on the Mortgages and principal receipts which are applied in paying interest on the Notes, to pay any other amounts ranking *pari passu* with or in priority to such interest under the priority of payments set out in “Priority of Payments – prior to enforcement” below, in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Mortgages. The Principal Deficiency Ledger will be credited if and to the extent that funds standing to the credit of the Revenue Ledger are applied in making such reduction as described in “Priority of Payments – prior to enforcement” below and, on each occasion a Flexible Drawing Capitalised Advance is made in respect of a Flexible Mortgage, by the amount of interest in lieu of which such Flexible Drawing Capitalised Advance is made (see “The Mortgages – Information on the Mortgages – Flexible Mortgages” below). If during the period immediately following an Interest Payment Date to (but excluding) the next Principal Determination Date there is a credit balance on the Principal Deficiency Ledger and during such period there are funds from time to time standing to the credit of the Principal Ledger which are not expected to be applied in making Mandatory Further Advances, such funds shall be transferred and credited to the Revenue Ledger and corresponding debits made to the Principal Ledger and the Principal Deficiency Ledger until there is no longer any such credit balance on the Principal Deficiency Ledger.

Priority of Payments – prior to enforcement

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

Until enforcement of the security for the Notes, the following payments and provisions are required to be made out of such moneys standing to the credit of the Transaction Account and representing the credit balance on the Revenue Ledger on each Interest Payment Date, (including all amounts received from each Hedge Provider on that Interest Payment Date and any Hedge Collateral or proceeds thereof (only as permitted by the Basis Hedge Agreement where such Hedge Collateral is applied (or is realised and applied) towards satisfaction of obligations of the Basis Hedge Provider) and including the First Loss Fund where required and permitted as described in “First Loss Fund” below), in the following order of priority (in each case only if and to the extent that payments and provisions of a higher priority have been made in full):

- (i) *pro rata* according to the respective amounts thereof, payment of any amounts due and payable by the Issuer to the Trustee and payment of any costs or expenses properly

claimed by the Agents under the Agency Agreement and payment of amounts due and payable by the Issuer to the Substitute Administrator pursuant to the Substitute Administrator Agreement (other than the Administration Subordinated Fee, if applicable, and the commitment fee referred to therein);

- (ii) (a) *pro rata* according to the respective amounts thereof, payment of all fees (other than the Administration Subordinated Fee), costs, expenses and commissions due and payable to the Administrators and/or the Sellers and/or the Title Holders and/or any substitute administrator under the Administration Agreement and the commitment fee due and payable to the Substitute Administrator pursuant to the Substitute Administrator Agreement (each including any value added tax chargeable thereon, as applicable), and (b) provision for payment to the Issuer to retain in the Revenue Ledger an amount equivalent to one quarter of 0.01 per cent. of the amount of interest due and payable on the Principal Amount outstanding of the Notes on that Interest Payment Date;
- (iii) *pro rata* according to the respective amounts thereof, (a) payment of any amounts due and payable to the Basis Hedge Provider under the Basis Hedge Agreement or to any Permitted Basis Hedge Provider under any other hedging arrangements entered into by the Issuer, in each case other than (i) any Hedge Provider Subordinated Amounts, and (ii) any Withholding Compensation Amounts (each as defined in “The Issuer – Hedging Arrangements” below); (b) payment of interest due and payable and all arrears of interest remaining unpaid on the Class A Notes together with (if applicable) interest thereon; and (c) payment of all interest, fees, expenses and all other sums, due and payable to the Flexible Drawing Facility Provider under the Flexible Drawing Facility Agreement excluding Flexible Drawing Facility Principal Debt and Flexible Drawing Facility Subordinated Amounts, if any (any such fees to be paid including value added tax, as applicable);
- (iv) if on that Interest Payment Date, any Class A Note remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate Principal Liability Outstanding (as defined in Condition 5(b)) of the Class B Notes and the Class C Notes (after deducting the amount of any Subordinated Available Redemption Funds on the Principal Determination Date relating to that Interest Payment Date) then an amount up to that excess shall be applied in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below);
- (v) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest (each as defined in Condition 4(b))) on the Class B Notes together with (if applicable) interest thereon;
- (vi) if on that Interest Payment Date, any Class B Note remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive

sum) exceeds the aggregate Principal Liability Outstanding (as defined in Condition 5(b)) of the Class C Notes (after deducting on the Principal Determination Date relating to that Interest Payment Date the amount to be applied in the redemption of the Class C Notes), then an amount up to that excess shall be applied in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below);

- (vii) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest (each as defined in Condition 4(b) below)) on the Class C Notes together with (if applicable) interest thereon;
- (viii) *pro rata* according to the respective amounts thereof, payment of sums due and payable to third parties (including, in each case, any value added tax chargeable thereon) under obligations incurred in the course of the Issuer's business and provision for and payment of the Issuer's liability (if any) to value added tax and to corporation tax and the balance, if any, of the value added tax liability of the Paragon VAT Group following a demand being made by H.M. Revenue & Customs on the Issuer where the value added tax liability is not satisfied in full in accordance with the Deed of Charge, the Administration Agreement and the VAT Declaration of Trust (see "The Paragon VAT Group" below);
- (ix) (taking into account any reduction of any debit balance on the Principal Deficiency Ledger under paragraphs (iv) and (vi) above) provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below);
- (x) provision for an amount necessary to replenish the First Loss Fund to the Required Amount specified in "First Loss Fund" below;
- (xi) *pro rata* according to the respective amounts thereof, payment of any Withholding Compensation Amounts and any Hedge Provider Subordinated Amounts, if any, due and payable to the Hedge Provider in respect of any Hedge Agreement;
- (xii) provision for, at the option of the Issuer, a reserve to fund any purchases of Caps and/or other hedging arrangements and/or related guarantees in the next Interest Period;
- (xiii) provision for any Flexible Drawing Facility Subordinated Amounts then due or overdue to the Flexible Drawing Facility Provider and/or any substitute flexible drawing facility provider under the Flexible Drawing Facility Agreement or a substitute flexible drawing facility agreement (as the case may be) (each including any value added tax chargeable thereon, as applicable);
- (xiv) provision for any Administration Subordinated Fee then due or overdue to the Administrators and/or any substitute administrator under the Administration Agreement (each including any value added tax chargeable thereon, as applicable);

- (xv) provision for any amounts then due or overdue to the Issue Services Provider under the Fee Letter (each including any value added tax chargeable thereon, as applicable);
- (xvi) provision for interest due under the Subordinated Loan Agreement;
- (xvii) provision for the repayment of the outstanding amount of all advances from the Subordinated Lenders (*pro rata* according to the amount advanced by each) made under the Subordinated Loan Agreement, subject to a maximum provision of the lesser of (a) the aggregate outstanding amount of all such advances less the Required Amount; and (b) the amount available for application having made in full all provisions and payments referred to in paragraphs (i) to (xvi) inclusive above;
- (xviii) provision for payment to the Administrator or PFPLC of such fees as the Issuer and the Administrator or PFPLC, as the case may be, may agree (including, without limitation, in the Services Letter) in respect of facilities or services provided to the Issuer by the Administrator or PFPLC, as the case may be, other than fees provided for above (each including any value added tax chargeable thereon, as applicable);
- (xix) provision for payment to MTS (as Seller) in respect of Deferred Purchase Consideration;
- (xx) provision for payment to PML (as Seller) in respect of Deferred Purchase Consideration; and
- (xxi) the balance to the Issuer to enable it to pay or provide for the payment of any dividends or other distributions to be made by the Issuer,

all as set out in a deed of sub-charge and assignment to be entered into between the Issuer, the Trustee, PFPLC, PML, MTL, MTS, the Issue Services Provider, the Flexible Drawing Facility Provider, the Subordinated Lenders, the Basis Hedge Provider, the Substitute Administrator and others (the “**Deed of Charge**”).

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

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

**Priority of Payments –
post-enforcement**

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

- (i) (a) remuneration payable to any receiver appointed under the Deed of Charge and any costs, charges, liabilities and expenses incurred by such receiver together with interest as provided in the Deed of Charge, (b) amounts due from the Issuer to the Trustee, together with interest thereon as provided in the Deed of Charge;
- (ii) certain fees (other than the Administration Subordinated Fee) and out-of pocket expenses and commissions of the Administrators and certain commissions previously received by the Issuer which have not previously been paid to the Sellers or the Title Holders and all moneys due and payable under the Substitute Administrator Agreement (including the commitment fee payable to the Substitute Administrator) (each including any value added tax chargeable thereon, as applicable);
- (iii) (a) any amounts due and payable by the Issuer to the Basis Hedge Provider or to any Permitted Basis Hedge Provider, in each case other than (i) any Hedge Provider Subordinated Amounts and (ii) any Withholding Compensation Amounts (each as defined in “The Issuer – Hedging Arrangements” below); (b) all interest unpaid in respect of the Class A Notes (together with any unpaid interest thereon); (c) all principal moneys due in respect of the Class A Notes; (d) any other amounts due in respect of the Class A Notes; and (e) payment of all amounts due to the Flexible Drawing Facility Provider under the Flexible Drawing Facility Agreement (other than Flexible Drawing Facility Subordinated Amounts, if any) (any such fees to be paid including any value added tax chargeable thereon, as applicable);
- (iv) (a) all interest unpaid in respect of the Class B Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class B Notes; and (c) any other amounts due in respect of the Class B Notes;
- (v) (a) all interest unpaid in respect of the Class C Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class C Notes; and (c) any other amounts due in respect of the Class C Notes;
- (vi) payment of any Withholding Compensation Amounts and any Hedge Provider Subordinated Amounts, if any, due and payable to any Hedge Provider in respect of any Hedge Agreement;
- (vii) provision for any Flexible Drawing Facility Subordinated Amounts then due or overdue to the Flexible Drawing Facility Provider and/or any substitute flexible drawing facility provider under the Flexible Drawing Facility Agreement or a substitute flexible drawing facility agreement (as the case may be) (each including any value added tax chargeable thereon, as applicable);
- (viii) provision for any Administration Subordinated Fee then due or overdue to the Administrators and/or any substitute administrator under the Administration Agreement (each including any value added tax chargeable thereon, as applicable);
- (ix) all amounts due and payable by the Issuer (a) to PFPLC under the Services Letter and the Deed of Charge, (b) to PML, MTL, MTS and PFPLC under the Mortgage Sale

Agreement, the Administration Agreement and the Deed of Charge, (c) to the Subordinated Lenders and any Additional Subordinated Lender under the Subordinated Loan Agreement, and (d) to the Issue Services Provider under the Fee Letter (each including any value added tax chargeable thereon, as applicable);

- (x) provision for payment to the Issuer to retain in the Revenue Ledger an amount equivalent to one quarter of 0.01 per cent. of the amount of interest due and payable on the Principal Amount Outstanding of the Notes on the relevant Interest Payment Date;
- (xi) payment to MTS (as Seller) in respect of Deferred Purchase Consideration;
- (xii) payment to PML (as Seller) in respect of Deferred Purchase Consideration; and
- (xiii) the surplus (if any) to the Issuer.

Mandatory Redemption in Part

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

Up to and including the Interest Payment Date on which the ratio of the aggregate Principal Liability Outstanding of the Class B Notes and the aggregate Principal Liability Outstanding of the Class C Notes to the aggregate Principal Liability Outstanding of the Notes is 0.06:1 or more (in each case after the application of Available Redemption Funds on that Interest Payment Date) (such circumstance constituting the “**Determination Event**”), all Available Redemption Funds will be applied *pro rata* and rateably in mandatory redemption of the Class A Notes.

On each Interest Payment Date which falls after the occurrence of the Determination Event, provided that each of the following are satisfied ((a) and (b) together referred to as the “**Redemption Tests**”):

- (a) on such Interest Payment Date, after (i) the application of the moneys in the Transaction Account representing the credit balance on the Revenue Ledger in accordance with the priority of payments set out in clause 6.1.2 of the Deed of Charge and described herein under “Priority of Payments – prior to enforcement” (including any amounts debited from the First Loss Ledger and applied in accordance with the priority of payments as specified in “First Loss Fund” below) on that Interest Payment Date, and (ii) any drawing made under the Subordinated Loan Agreement on that Interest Payment Date, there is a credit balance of zero or greater on the Principal Deficiency Ledger; and
- (b) on the immediately preceding Principal Determination Date the then outstanding balance, including arrears of interest and all other sums due and payable but unpaid (the “**Current Balance**”) of Mortgages which are more than three months in arrears represents less than 15 per cent. of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than

three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised (in each case otherwise than as a result of the making of a Flexible Drawing Advance) within the 12 months immediately preceding such time),

then:

- (i) while any Class A Note remains outstanding, Available Redemption Funds will be applied in redemption of the Class A Notes, the Class B Notes and the Class C Notes so that the ratio referred to in the previous Determination Event paragraph is achieved and then maintained, provided that any Available Redemption Funds applied to redeem the Class B Notes and the Class C Notes will be applied *pro rata* and provided that the aggregate of the Principal Liability Outstanding of the Class B Notes and the Principal Liability Outstanding of the Class C Notes is greater than or equal to 1.19 per cent. of the Initial Principal Amount of the Notes; or
- (ii) if all Class A Notes have been redeemed in full, all Available Redemption Funds will be applied to redeem *pro rata* the Class B Notes and the Class C Notes.

If any of the Redemption Tests is not satisfied then all Available Redemption Funds will be applied to redeem first the Class A Notes in full, second the Class B Notes in full and thirdly the Class C Notes in full.

Notwithstanding the foregoing, on each Interest Payment Date which occurs after the occurrence of the Determination Event, the Subordinated Available Redemption Funds (as defined in Condition 5(a)), being a specified portion of the Available Redemption Funds, will be applied in or towards mandatory redemption of the Class B Notes after applying amounts to cover item (v) as set out under "Priority of Payments – prior to enforcement" above (to the extent that amounts under item (v) have not already been paid from amounts standing to the credit of the Revenue Ledger on the relevant Interest Payment Date) and the mandatory redemption of the Class C Notes after applying amounts to cover item (vii) as set out under "Priority of Payments – prior to enforcement" above (to the extent that amounts under item (vii) have not already been paid from amounts standing to the credit of the Revenue Ledger on the relevant Interest Payment Date). The Class A Available Redemption Funds (as defined in Condition 5(a)), being the remainder of the Available Redemption Funds, will be applied in mandatory redemption of the Class A Notes until all the Class A Notes have been redeemed in full.

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

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

- (A) the aggregate of:

- (i) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to a person other than the Issuer and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) (but excluding amounts so credited as the result of the occurrence of Flexible Drawing Capitalised Advances) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the “**Collection Period**”));
- (ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (aa) the aggregate Initial Principal Amount of the Notes on issue and (bb) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (x) the amounts paid by the Issuer to the Sellers by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement; and (y) the amount applied to establish the First Loss Fund on the Closing Date;
- (iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Notes on the Interest Payment Date relative thereto; and
- (iv) any part of the amount deducted pursuant to paragraph (B)(i) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making the relevant payments in respect of which such amount was so deducted;

Less

- (B) the aggregate of:
 - (i) the amount estimated by the Issuer to be the likely shortfall, on each Interest Payment Date that will occur before the next Principal Determination Date, of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on each such Interest Payment Date;
 - (ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the

relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) to the extent that such principal amount has been funded using amounts falling within (A)(i) above;

- (iii) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages; and
- (iv) the aggregate amount (the “**Flexible Drawing Facility Principal Debt**”) of principal which has or will become due and repayable on or before the next Interest Payment Date in respect of Flexible Drawing Facility Advances,

in each such case (save for (B)(ii) and (B)(iii)) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date. Amounts (B)(i) to (B)(iv) shall be paid in priority according to the order listed, except to the extent that any of items (B)(ii) or (B)(iii) is identified as being due and payable prior to the determination of amounts due in priority thereto in which case amounts shall be allocated for payment of such item upon such identification.

Optional Redemption of Class A Notes

In the event that the Issuer or any Paying Agent is obliged to make any withholding or deduction from payments in respect of any of the Notes, or in the event that the Issuer or any Hedge Provider is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under any Hedge Agreement, or in the event of certain other United Kingdom taxation changes described in Condition 5(c) (Redemption for Taxation or Other Reasons) then, all (but not some only) of the Class A Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date as more particularly provided in Condition 5(c).

The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer has agreed under the Basis Hedge Agreement and may agree under any Permitted Basis Hedge Agreement that it will, subject to and in accordance with the agreed order of priority of payments referred to under “Priority of Payments – prior to enforcement” above, pay Withholding Compensation Amounts to the Basis Hedge Provider or Permitted Basis Hedge Provider (as appropriate) (see “The Issuer – Hedging Arrangements”).

Furthermore, as more particularly provided in Condition 5(d), the Issuer will also be entitled, but not obliged, to redeem all (but not some only) of the Class A Notes at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date falling in or after March 2011.

All (but not some only) of the Class A Notes may, at the option of the Issuer, be redeemed at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date on

which the aggregate Principal Liability Outstanding of the Notes then outstanding is less than 20 per cent. of the Initial Principal Amount of the Notes provided that all the Class B Notes and the Class C Notes are redeemed in full at the same time.

Optional Redemption of Class B Notes

In the event that the Issuer or any Paying Agent is obliged to make any withholding or deduction from payments in respect of the Class B Notes, or in the event that the Issuer or any Hedge Provider is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under any Hedge Agreement, or in the event of certain other United Kingdom taxation changes described in Condition 5(c) (Redemption for Taxation or Other Reasons) then, provided that there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date as more particularly provided in Condition 5(c). The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer has agreed under the Basis Hedge Agreement and may agree under any Permitted Basis Hedge Agreement that it will, subject to and in accordance with the agreed order of priority of payments referred to under "Priority of Payments – prior to enforcement" above, pay Withholding Compensation Amounts to the Basis Hedge Provider or Permitted Basis Hedge Provider (as appropriate) (see "The Issuer – Hedging Arrangements").

As more particularly provided in Condition 5(d), provided that there are no Class A Notes then outstanding or all of the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes, at the option of the Issuer, may be redeemed in full at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date falling in or after March 2011 or, if the Class A Notes have already been redeemed in full, on any Interest Payment Date falling on or after the date on which all the Class A Notes were redeemed in full. No such optional redemption of any Class B Notes may be made unless the Class C Notes are redeemed in full at the same time.

Optional Redemption of Class C Notes

In the event that the Issuer or any Paying Agent is obliged to make any withholding or deduction from payments in respect of the Class C Notes, or in the event that the Issuer or any Hedge Provider is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under any Hedge Agreement, or in the event of certain other United Kingdom taxation changes described in Condition 5(c) (Redemption for Taxation or Other Reasons) then, provided that there are no Class A Notes and no Class B Notes then outstanding or all the Class A Notes and the Class B Notes are to be redeemed in full at the same time, all (but not some only) of the Class C Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date as more particularly provided in Condition 5(c). The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer has agreed under the Basis Hedge Agreement and may agree under any Permitted Basis Hedge Agreement that it will, subject to and in accordance with the agreed order of priority of payments referred to under "Priority of Payments – prior to

enforcement” above, pay Withholding Compensation Amounts to the Basis Hedge Provider or Permitted Basis Hedge Provider (as appropriate) (see “The Issuer – Hedging Arrangements”).

As more particularly provided in Condition 5(d), provided that there are no Class A Notes or Class B Notes then outstanding or all of the Class A Notes and/or Class B Notes are to be redeemed in full at the same time, all (but not some only) of the Class C Notes, at the option of the Issuer, may be redeemed in full at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date falling in or after March 2011 or, if the Class A Notes and the Class B Notes have already been redeemed in full, on any Interest Payment Date falling on or after the date on which all the Class A Notes and the Class B Notes were redeemed in full.

Purchase of Notes

The Issuer may not purchase Notes at any time.

Final Redemption

To the extent not otherwise redeemed:

- (i) the Class A Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in September 2033;
- (ii) the Class B Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in September 2033; and
- (iii) the Class C Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in September 2033.

Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor

The Principal Amount Outstanding of a Note shall be its Initial Principal Amount less the aggregate amount of the principal repayments that have been made or fallen due (whether or not paid) on that Note. The Principal Liability Outstanding of a Note shall be its Initial Principal Amount less the aggregate amount of all Principal Payments in respect of that Note that have been paid prior to such date. The Pool Factor for each Note during an Interest Period will be determined by dividing the Principal Amount Outstanding of such Note on the first day of that Interest Period (after deducting any principal repayment due on that day) by the Initial Principal Amount (expressed as an integer) of that Note and rounded upwards to the sixth decimal place.

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

The Mortgages

The mortgages, the beneficial interest in which will be acquired by the Issuer and which will form part of the security for the Notes (the “**Mortgages**”), will comprise mortgages which were originated or legal title was otherwise acquired by the Title Holders and in respect of which the relevant Title Holder remains the legal owner. The Mortgages comprise either (a) owner-occupied residential mortgages or (b) commercial mortgages which comprise wholly commercial properties or a mixture of residential and commercial properties.

The borrowers in respect of the Mortgages are either individuals (Mortgages where the borrowers are individuals being “**Individual Mortgages**”) or limited liability companies incorporated in England and Wales, Northern Ireland or

Scotland (Mortgages where the borrowers are such limited liability companies being “**Corporate Mortgages**”).

The Mortgages will be acquired by the Issuer from the relevant Seller pursuant to a mortgage sale agreement to be dated on or before the Closing Date, between the Issuer, each Seller, MTL, MTS, PFPLC, the Trustee and the Warehouseurs (the “**Mortgage Sale Agreement**”). Immediately prior to such acquisition, pursuant to the Mortgage Sale Agreement, PML will re-acquire the majority of the PML Mortgages and MTS will acquire the majority of the MTL Mortgages and re-acquire the MTS Mortgages from the Warehouseurs (the Warehouseurs having previously purchased the beneficial interest in such PML Mortgages, MTL Mortgages and MTS Mortgages as part of bank-financed warehousing arrangements).

Location of the properties secured by the Mortgages

The Mortgages are secured by charges (the “**English Mortgages**”) over freehold or leasehold residential and commercial properties located in England or Wales (the “**English Properties**”), by mortgages or charges (the “**Northern Irish Mortgages**”) over freehold or long leasehold residential and commercial properties located in Northern Ireland (the “**Northern Irish Properties**”) or by standard securities (the “**Scottish Mortgages**”) over heritable or long leasehold residential properties located in Scotland (the “**Scottish Properties**”) and, together with the English Properties and the Northern Irish Properties, the “**Properties**”). References herein to freehold property and to leasehold property shall, in respect of the Scottish Properties, be construed as being references to heritable property and long leasehold property respectively.

Accruals and arrears in respect of the Mortgages

Mortgages purchased by the Issuer may be mortgages which have been originated subsequent to the Provisional Pool Date (as defined in “The Provisional Mortgage Pool” below) and on or prior to the Closing Date. As at the Closing Date there will be Mortgages which are to be sold to the Issuer which will have outstanding arrears in excess of one current monthly payment under such Mortgages (“**Arrears Mortgages**”). As at the Provisional Pool Date, Arrears Mortgages comprised £28,203,272.77 by aggregate Provisional Balance (as defined in the section below headed “The Provisional Mortgage Pool”) of the Provisional Mortgage Pool (as defined under “Selection of Mortgages” below). Any arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any Mortgage (“**Pre-Closing Accruals and Arrears**”) will be purchased by the Issuer, and any amount received by the Administrator or by, or on behalf of, the Issuer representing Pre-Closing Accruals and Arrears will be credited to the Revenue Ledger for application in the Priority of Payments.

Deferred Purchase Consideration

As part consideration for the acquisition of the Mortgages, the Issuer shall pay “**Deferred Purchase Consideration**” (in relation to MTL Mortgages and MTS Mortgages to MTS and in relation to PML Mortgages to PML) on each Interest Payment Date subject to and as specified in the applicable priority of payments in an amount equal to the remaining balance (if any) of the moneys available on such Interest Payment Date for application in accordance with “Priority of Payments – prior to enforcement” above as agreed between PML, MTS and the Issuer.

Selection of Mortgages

The Mortgages to be purchased by the Issuer will be selected from the pool of mortgages to which the statistical and other information contained in this Offering Circular relates (see “The Provisional Mortgage Pool” below) and from other mortgages not included in the Provisional Mortgage Pool.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 37 years. Principal payments may be made in whole or in part at any time during the term of a Mortgage at the option of the relevant borrower. Any such payments received by the Issuer in respect of a

Mortgage (whether or not scheduled) will form part of the moneys included in the calculation of Available Redemption Funds. The calculation of Available Redemption Funds also includes deductions from the foregoing amounts to the extent of Mandatory Further Advances.

The Mortgages will comprise Standard Variable Rate Mortgages, Fixed Rate Mortgages, LIBOR-Linked Mortgages, Capped Rate Mortgages (to the extent that any Mortgages are converted to Capped Rate Mortgages) and/or Base Rate Tracker Mortgages (see “The Mortgages” below) which met certain lending criteria at the time of origination. The Issuer will have the benefit of warranties given by the relevant Seller in relation to the Mortgages sold by that Seller to the Issuer. Each Seller will be required to purchase any Mortgage sold by it in relation to which there is a material breach of warranty.

Further Advances in respect of the Mortgages

Each further advance (each a “**Further Advance**”) made by or on behalf of the Issuer in relation to the Mortgages will be either a Mandatory Further Advance, a Flexible Drawing Capitalised Advance (see “The Mortgages – Information on the Mortgages – Flexible Mortgages” below) or a Discretionary Further Advance. Each further advance in respect of a Mortgage representing any part of the original advance retained pending completion of construction or refurbishment and each Flexible Drawing Cash Advance made to the borrower under a Flexible Mortgage (see “The Mortgages – Information on the Mortgages – Flexible Mortgages” below) is referred to as a “**Mandatory Further Advance**”. Any further advance in respect of a Mortgage other than a Mandatory Further Advance is referred to as a “**Discretionary Further Advance**”.

In all cases where a Mandatory Further Advance in respect of a Mortgage is to be made, the Issuer expects to fund such Mandatory Further Advance from the principal moneys then held by it referred to in paragraph (A) of the definition of Available Redemption Funds (see “Mandatory Redemption in Part” above). If, and to the extent that, the Issuer does not have sufficient funds to make any such Mandatory Further Advances the Issuer will be entitled to borrow further amounts from the Subordinated Lenders under the Subordinated Loan Agreement and the Subordinated Lenders will be under an obligation to make any such amounts available to the Issuer. In addition, but without prejudice thereto, the Subordinated Lenders may, at their discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances (see “Subordinated Loan Agreement” below). To the extent that there are no Available Redemption Funds or amounts drawn by the Issuer (the Issuer being obliged to apply for such a drawing) under the Subordinated Loan Agreement to fund a Mandatory Further Advance in respect of a Flexible Drawing Cash Advance required to be made under a Flexible Mortgage beneficially owned by the Issuer, the Issuer will fund such Mandatory Further Advance by making a drawing under the Flexible Drawing Facility Agreement (up to the then Flexible Drawing Facility Available Amount). For further details of the Flexible Drawing Facility Agreement see “Credit Structure” below.

The Issuer may make Discretionary Further Advances and Mandatory Further Advances to the extent that these are funded by advances made to it under the Subordinated Loan Agreement (see “Subordinated Loan Agreement” below).

Conversion of Mortgages

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

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

Receipt of moneys in respect of Mortgages

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages will be paid into the “**Collection Accounts**” which are specified as such in the Trust Deed and which comprise: (a) an account in the name of PML at National Westminster Bank plc at 4 High Street, Solihull, West Midlands B91 3WL, (b) accounts in the name of MTS at Barclays Bank PLC at London Corporate Banking, 1 Churchill Place, London E14 5HP, (c) accounts in the name of MTL at The Royal Bank of Scotland plc at 5 - 10 Great Tower Street, London EC3P 3HX, and (d) each replacement or additional Collection Account in relation to the Mortgages in accordance with the Administration Agreement. Each person in whose name a Collection Account is maintained is a “**Collection Account Holder**”.

All moneys received in respect of the Mortgages into a Collection Account will be transferred not later than the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

On or about the Closing Date each Collection Account Holder will enter into a declaration of trust (each being a “**Collection Account Declaration of Trust**”) under which such Collection Account Holder will declare that all direct debit payments made by borrowers under the Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages which are credited to the relevant Collection Account are held on trust for the Issuer until they are applied in the manner described above.

Mortgage Administration

Pursuant to an agreement to be entered into on or before the Closing Date between the Administrators, each Seller, each Title Holder, the Issuer and the Trustee (the “**Administration Agreement**”), PFPLC will administer the PML Mortgages on behalf of the Issuer and MTS will administer the MTL Mortgages and MTS Mortgages on behalf of the Issuer. Each Administrator will set the rates of interest applicable to the Mortgages administered by it (where relevant). The Issuer will pay each Administrator fees for its services as an Administrator as follows: (i) an “**Administration Senior Fee**” comprising: (a) a fee to PFPLC as an Administrator at the rate of not more than 0.15 per cent. per annum, and (b) a fee to MTS as an Administrator at the rate of not more than 0.15 per cent. per annum, and (ii) an “**Administration Subordinated Fee**” comprising: (a) a fee to PFPLC as an Administrator at the rate of not more than 0.15 per cent. per annum, and (b) a fee to MTS as an Administrator at the rate of not more than 0.15 per cent. per annum, in each case such rates being inclusive of VAT and each such fee being calculated by applying such rate to the aggregate Interest Charging Balances of the outstanding Mortgages administered by the relevant Administrator at the beginning of each Collection Period and each such fee will be due quarterly in arrear on each Interest Payment Date and paid as specified in accordance with the applicable priority of payments. Any substitute administrator appointed would receive a fee consistent with that commonly charged at that time for the provision of mortgage administration services. Pursuant to an agreement to be entered into on the Closing Date with the Substitute Administrator (the “**Substitute Administrator Agreement**”), the Substitute Administrator will agree to be substitute administrator and, in the event that it became the administrator, it would become entitled (in place of PFPLC and/or MTS, as

applicable) to the Administration Senior Fee at the rate of 0.15 per cent. per annum, in each case such rates being exclusive of VAT and each such fee being calculated by applying such rate to the aggregate Interest Charging Balances of the outstanding Mortgages to be administered by the Substitute Administrator at the beginning of each Collection Period and each such fee will be due quarterly in arrear on each Interest Payment Date and paid as specified in accordance with the applicable priority of payments.

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

Insurances

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

In addition, with respect to Interest-only Mortgages there is no scheduled amortisation of principal, and consequently, upon the maturity of such a Mortgage, the borrower will be required to make a "bullet" payment that will represent the entirety of the principal amount outstanding. The ability of such a borrower to repay an Interest-only Mortgage at maturity may depend on such borrower's ability to refinance the Property or obtain funds from another source (such as a pension policy or a unit trust or an endowment policy) and the Mortgage Conditions in respect of such Mortgages may not require such borrowers to put in place such alternative funding arrangements (see "Risk Factors" below).

First Loss Fund

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount (the "**First Loss Fund Initial Amount**") which equals 0.30 per cent. of the aggregate Initial Principal Amount of the Notes and will credit such amount to a separate first loss ledger (the "**First Loss Ledger**") for the purpose of establishing a fund (the "**First Loss Fund**").

Subject to certain conditions as described under "Credit Structure - First Loss Fund" below, the First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of or provision for the amounts referred to in items (i) to (ix) inclusive in the priority of payments set out in "Priority of Payments – prior to enforcement" above where the income of the Issuer and the amount available to the Issuer (if any) on such Interest Payment Date in any Shortfall Fund, as described below, is insufficient to pay such amounts.

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

On each Interest Payment Date revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (ix) inclusive in the priority of payments set out in "Priority of Payments – prior to enforcement" above will be applied to replenish the First Loss Fund to the Required Amount.

Subject as provided in the following two paragraphs, the Required Amount (the “**Required Amount**”) will be the amount of the First Loss Fund on the first Principal Determination Date or such other amount (including a reduction thereof) as may have been agreed with the Rating Agencies.

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

Shortfall Fund

The Issuer may at any time, with the prior consent of the Subordinated Lenders, draw down under the Subordinated Loan Agreement and credit such amounts to the Transaction Account for the purpose of establishing a shortfall fund (the “**Shortfall Fund**”). If at any time the relevant Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and all amounts recovered in respect of early redemption amounts (as to which see “Reinvestment of Income” below) is less than 1.8 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until (and including) the Interest Payment Date falling in March 2012 and 2.20 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case above LIBOR for the period from and including the immediately preceding Interest Payment Date up to but excluding the following Interest Payment Date, then the Administrator may do so only if there is a sufficient credit balance in the Shortfall Fund (net of all provisions previously made in the period from and including the immediately preceding Interest Payment Date up to but excluding the following Interest Payment Date) in order to provide for the shortfall which would arise at the end of the then current Interest Period and the Issuer makes a provision in the Shortfall Fund equal to such shortfall.

“**LIBOR**” means in respect of any Interest Period the Reference Rate in respect of the Notes in respect of that Interest Period as determined in accordance with Condition 4(c)(ii) or, in the event that no Notes are outstanding, determined by the Administrator using the same method set out in Condition 4(c)(ii).

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

Flexible Drawing Facility

On or about the Closing Date, the Issuer will enter into a sterling revolving credit facility agreement (the “**Flexible Drawing Facility Agreement**”, which term will include any extended or replacement facility) with a liquidity facility provider whose short term unsecured, unguaranteed and unsubordinated debt

ratings are not below F1+ from Fitch or A-1+ from S&P (unless the Rating Agencies confirm in writing that a liquidity facility provider with short term unsecured, unguaranteed and unsubordinated debt rating below those stipulated above can be appointed) (the “**Flexible Drawing Facility Provider**”). Under the terms of the Flexible Drawing Facility Agreement, the Flexible Drawing Facility Provider will make available a “**Flexible Drawing Facility**” which may be utilised by the Issuer on any date from time to time to fund Flexible Drawing Advances with respect to Flexible Mortgages beneficially owned by the Issuer to the extent that there are no Available Redemption Funds or amounts drawn by the Issuer (the Issuer being obliged to apply for such a drawing) under the Subordinated Loan Agreement for such purpose. On any Interest Payment Date (a) principal outstanding in respect of all Flexible Drawing Facility Advances will be repaid to the extent that funds standing to the credit of the Principal Ledger are to be applied on such Interest Payment Date in accordance with Condition 5(a) in such repayment, and (b) all other amounts (other than Flexible Drawing Facility Principal Debt and Flexible Drawing Facility Subordinated Amounts, if any) due and payable to the Flexible Drawing Facility Provider under the Flexible Drawing Facility Agreement on such Interest Payment Date shall be paid to the extent that funds are to be applied for such purpose in accordance with the Deed of Charge (see “Priority of Payments – prior to enforcement” above). For further details of the Flexible Drawing Facility Agreement see “Credit Structure” below.

Basis Hedging Arrangements

On the Closing Date, the Issuer will have entered into an agreement (the “**Basis Hedge Agreement**” which expression shall include any replacement of such agreements and including the relevant confirmation to such agreements and replacements) with JPMorgan Chase Bank, National Association as the basis hedge provider (the “**Basis Hedge Provider**”) and any interest rate swaps or caps or other hedging arrangements as required thereunder, each in accordance with requirements of each Rating Agency to hedge any Fixed Rate Mortgages that are acquired by it on the Closing Date.

In relation to any Fixed Rate Mortgages or Capped Rate Mortgages arising upon conversion of any Mortgages into Fixed Rate Mortgages or Capped Rate Mortgages, the Issuer will be obliged to enter into hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes.

Additional hedging arrangements (each a “**Permitted Basis Hedge Agreement**” and, together with the Basis Hedge Agreement, the “**Hedge Agreements**”) may be provided by any bank or financial institution provided that on the date on which it makes such arrangements available to the Issuer, such bank or financial institution has a rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Notes (unless such arrangements are guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then current ratings of the Notes) and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge (any such bank or financial institution being a “**Permitted Basis Hedge Provider**” and, together with the Basis Hedge Provider, the “**Hedge Providers**”).

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

Reinvestment of Income

Cash in the Transaction Account must be invested in sterling denominated securities, bank accounts or other obligations of or rights against entities whose long term debt is rated AAA by Fitch and AAA by Standard & Poor’s or

whose short term debt is rated at least F1 by Fitch and A-1 by Standard & Poor's (or in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes and no Class B Notes outstanding, the Class C Notes) (each an "**Authorised Investment**"). Any Authorised Investments made by the Issuer must also satisfy certain further criteria described in "Mortgage Administration – Reinvestment of Income" below.

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

Further, any moneys invested as Authorised Investments in entities rated F1 by Fitch may not be invested for a period of more than 30 days. Any moneys invested in entities rated A-1 by Standard & Poor's (whether as Authorised Investments or standing as a balance on the Transaction Account) may not be invested for a period of more than 30 days and such investments may not exceed 20 per cent. of the then aggregate Principal Amount Outstanding of the Notes.

The proceeds of, and any income earned on, any investment in any Authorised Investments will be credited to the Revenue Ledger for application as set out under "Priority of Payments – prior to enforcement" or "Priority of Payments – post-enforcement", as the case may be, above.

Form and Denominations

Each Note is being offered solely outside the United States in reliance on Regulation S to non-U.S. Persons in offshore transactions (as defined in Regulation S).

The Notes of each Class will initially be represented by Temporary Global Notes without Coupons or Receipts, which will be deposited with a common depository (the "**Common Depository**") for Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**") and Euroclear Bank S.A./N.V. ("**Euroclear**") on or about the Closing Date.

Interests in each Temporary Global Note will be exchangeable, in whole or in part, for interests in a Permanent Global Note representing Notes of the same Class, without Coupons or Receipts, not earlier than forty (40) days after the Closing Date upon certification of non-U.S. beneficial ownership.

Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes (see "Description of the Notes and the Security – Issue of Notes in Definitive Form" below).

While Notes are represented by a Global Note, each payment on those Notes will be made via the Paying Agents to the relevant Holder of that Global Note (or the Holder's nominee). After receipt of such a payment, that Holder should credit the relevant participants' accounts in the relevant Clearing System in proportion to those participants' holdings as shown on the records of that Clearing System, in accordance with that Clearing System's rules and procedures. Payments by participants in a Clearing System to the beneficial owners of the Notes will be governed by standing instructions, customary practice and any statutory or regulatory requirements as may be in effect from time to time, as is now the case with securities held by the accounts of customers registered in "street name". These payments will be the responsibility of the relevant participant and not of any Holder (or its nominee)

of a Global Note, any Clearing System, any Paying Agent, the Trustee or the Issuer. None of the Issuer, the Trustee, any Manager or any Paying Agent will have any responsibility or liability for any aspect of the records of the Clearing Systems relating to or payments or credits made by the Clearing Systems on account of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records of the Clearing Systems relating to those beneficial interests.

Relationship between classes of Noteholders

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

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

The Notes will constitute direct, secured and limited recourse obligations of the Issuer, will not be obligations of, or guaranteed by PFPLC, PML, the Warehouse, MTL, MTS, PGC or any other company in the same group of companies as PGC (other than the Issuer), the Trustee, the Managers, the Flexible Drawing Facility Provider or any other person other than the Issuer and will be secured by the same security. The Notes of each Class will rank *pari passu* without preference or priority between themselves.

For the relationship between classes of Noteholders, see “Risk Factors” below.

Fee Letter

PFPLC (in such capacity, the “**Issue Services Provider**”) has agreed to arrange the issue of the Notes on behalf of the Issuer. In particular, the Issue Services Provider has negotiated the terms of the issue of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. PFPLC (as defined in “Subordinated Lenders” below) will pay, on behalf of the Issuer, or reimburse to the Issuer, any expenses payable

by the Issuer in connection with the issue of the Notes. Such expenses are expected to amount to approximately £650,000.

The Issuer will agree under a fee letter to be entered into on the Closing Date between the Issuer, PFPLC and the Trustee (the “**Fee Letter**”) that it will pay the Issue Services Provider an arrangement fee of 0.4 per cent. of the aggregate Initial Principal Amount of the Notes and that it will repay PFPLC all expenses paid by PFPLC in connection with the issue of the Notes in instalments on the business day following each Interest Payment Date over a period of four years from the Closing Date. Amounts to be paid under the Fee Letter will bear interest at a rate of 4 per cent. per annum above the Reference Rate applicable to the Notes during the Interest Period relating to the Notes ending on (but excluding) that Interest Payment Date as determined under Condition 4 (or such other rate which PFPLC and the Issuer agree to be a fair commercial rate at the time) payable in arrear on the business day following each Interest Payment Date and the payment of which will be subordinated as described in “Priority of Payments – prior to enforcement” above.

Services Letter

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

Subordinated Lenders

MTS, in its capacity as a Subordinated Lender (as defined below), and PFPLC, will advance amounts in accordance with and under the terms of the Subordinated Loan Agreement (see “Subordinated Loan Agreement” below) in the proportions of 96 per cent. and 4 per cent., respectively.

Subordinated Loan Agreement

MTS (in such capacity, a “**Subordinated Lender**”) and PFPLC (in such capacity, a “**Subordinated Lender**” and, together with MTS, the “**Subordinated Lenders**”) will make available to the Issuer under a subordinated loan agreement to be entered into on or before the Closing Date a subordinated loan facility (the “**Subordinated Loan Agreement**”). MTS will advance 96 per cent. and PFPLC will advance 4 per cent. of any amount or amounts drawn under the Subordinated Loan Agreement, and repayments of any amount advanced will be made *pro rata* to the share of each Subordinated Lender. An amount or amounts will be drawn down by the Issuer under the Subordinated Loan Agreement on the Closing Date to establish the First Loss Fund at the initial Required Amount and achieve the initial ratings on the Notes and fund the FRS 26 Adjustment.

The Subordinated Lenders will also agree to make advances available to the Issuer, if and to the extent that the Issuer does not have sufficient Available Redemption Funds, to enable it to make any Mandatory Further Advances which it is required to make. In addition, but without prejudice thereto, the Subordinated Lenders may, at their discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances. In addition, the Subordinated Lenders may, at their discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable it to make any Discretionary Further Advances. The Issuer shall not be entitled to make a Discretionary Further Advance where it is unable to fund such Discretionary Further Advance accordingly.

The Subordinated Lenders will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions specified in items (i) to (x) inclusive in the priority of payments set out in “Priority of Payments – prior to enforcement” above, by paying directly to each Hedge Provider any Hedge Provider Subordinated Amounts due and payable on such Interest Payment Date, (ii) at any time where the Issuer, or the Administrator on the Issuer’s behalf, waives any prepayment charges applicable to any Mortgage, by paying to the Issuer an amount equal to such waived prepayment charge and (iii) to enable the Issuer to pay that part of the purchase price for Mortgages represented by Pre-Closing Accruals and Arrears and the FRS 26 Adjustment.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of each Subordinated Lender, for the purpose of establishing or increasing the Shortfall Fund. In addition, the Subordinated Lenders may, at their discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement in order to fund (if necessary) purchases by the Issuer of Caps or other hedging arrangements (and any related guarantee) to hedge the Issuer’s interest rate exposure on Fixed Rate Mortgages (or Capped Rate Mortgages to the extent that any Mortgages are converted to Capped Rate Mortgages).

The Issuer may from time to time borrow further sums from each Subordinated Lender or other lenders (together with each Subordinated Lender, the “**Additional Subordinated Lenders**”) on the terms of the Subordinated Loan Agreement.

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

Governing law

Each Relevant Document and each Note and all matters arising from the Relevant Documents and the Notes are governed by, and shall be construed in accordance with, English law other than (a) those aspects of the Relevant Documents specific to the Scottish Mortgages, which are governed by, and shall be construed in accordance with, Scots law, and (b) those aspects of the Relevant Documents specific to the Northern Irish Mortgages, which are governed by, and shall be construed in accordance with, Northern Irish law.

RISK FACTORS

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

The Notes solely obligations of the Issuer

The Notes will be solely the obligations of the Issuer. The Notes will constitute direct, secured and limited recourse obligations of the Issuer, will not be obligations of, or guaranteed by PFPLC, PML, the Warehouse, MTL, MTS, PGC or any other company in the same group of companies as PGC (other than the Issuer), the Trustee, the Managers, the Flexible Drawing Facility Provider or any other person other than the Issuer and will be secured by the same security. Furthermore, none of PFPLC, PML, the Warehouse, MTL, MTS, PGC, the Trustee, the Managers, the Flexible Drawing Facility Provider, nor any person other than the Issuer will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes. The Notes will not be guaranteed by any person.

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

Funds available to the Issuer

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

Limited liquidity – Notes

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

Matters relating to the Mortgages

Limited liquidity – Mortgages

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

Setting of rates of interest in respect of the Mortgages

Each Administrator will, on behalf of the Issuer and the Trustee, set, where relevant, the rates of interest applicable to the Mortgages administered by it (other than Fixed Rate Mortgages and Capped Rate Mortgages (to the extent that any Mortgages are converted to Capped Rate Mortgages)) during the applicable fixed rate period and other than LIBOR Linked Mortgages and Base Rate Tracker Mortgages. Each Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages, taking into account all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and all amounts recovered in respect of early redemption amounts, is not less than 1.8 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until and including the Interest Payment Date falling in March 2012 and 2.20 per cent. (or such higher percentage as the Issuer

may from time to time select and notify to the Trustee) thereafter in each case above LIBOR (as defined in “Credit Structure – 3. Shortfall Fund” below) at that time. Each Administrator may set or maintain a lower weighted average mortgage interest rate if and to the extent that the resultant shortfall can be provided for out of an available credit balance in any Shortfall Fund.

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

In limited circumstances and other than in relation to Fixed Rate Mortgages and Capped Rate Mortgages (to the extent that any Mortgages are converted to Capped Rate Mortgages) during the applicable fixed rate or capped rate period and, other than in relation to the LIBOR-Linked Mortgages and Base Rate Tracker Mortgages, the Trustee or the Issuer or any substitute administrator appointed by the Trustee or the Substitute Administrator will be entitled to set the rates of interest applicable to the MTL Mortgages, the MTS Mortgages and/or the PML Mortgages, as applicable. These circumstances include a breach by the relevant Administrator of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders. In such circumstances, the Trustee may, subject to the terms of the Administration Agreement, terminate such Administrator’s authority to set the rates of interest applicable to the Mortgages administered by it and/or terminate the appointment of such Administrator (see “Mortgage Administration – Termination of the appointment of the Administrators” below).

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

Representations and Warranties

Each Seller will make certain representations and warranties in the Mortgage Sale Agreement. Except as described under “The Mortgages – Acquisition of Mortgages” below, neither the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in relation to the Mortgages and each will rely instead on the warranties given in the Mortgage Sale Agreement by the Sellers. For further information on the representations and warranties to be given by each Seller in respect of the Mortgages sold by it to the Issuer, see “The Mortgages – Searches and Warranties in respect of the Mortgages” below.

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

Each Seller will also agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage sold by it to the Issuer is at any time on or after the Closing Date found by a competent court, whether on

application of a borrower, the Office of Fair Trading or otherwise, to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, it shall repurchase or procure the repurchase of the Individual Mortgage concerned.

Perfection of title

The Issuer's title to the Mortgages it acquires from the Sellers will only be perfected in certain circumstances by the execution of transfers and assignments of Mortgages to the Issuer, the carrying out of requisite registrations and recordings and the giving of notice to any borrower or guarantor. In the meantime, neither the Issuer nor the Trustee will acquire legal title to any of the English Mortgages, the Northern Irish Mortgages or the Scottish Mortgages and they will not be able to apply to the Land Registry, the Central Land Charges Registry, the Land Registry of Northern Ireland, the Registry of Deeds Belfast or the Registers of Scotland to register transfers or assignments of the Mortgages to perfect and/or protect their interests. Neither the Issuer nor the Trustee will be giving notice to any borrower or guarantor in respect of any transfer or assignment of the Mortgages.

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

Collectability of loans

The collectability of amounts due under the Mortgages is subject to credit, liquidity and interest rate risks and will generally fluctuate in response to, among other things, market interest rates, general economic conditions, the financial standing of borrowers, the extent to which borrowers make prepayments and redraw amounts (in the case of Flexible Mortgages) under their Mortgages, and other similar factors. Other factors (which may not affect real property values) may have an impact on the ability of borrowers to repay Mortgages. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies and bankruptcy petitions by borrowers and could ultimately have an adverse impact on the ability of borrowers to repay Mortgages.

In addition, the ability of the Issuer to dispose of a property at a price sufficient to repay the amounts outstanding under the relevant Mortgage will depend upon the availability of buyers for the property.

Risks of losses associated with declining property values

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

Investors should be aware that no revaluation of any property subsequent to any initial valuation at origination has been undertaken by MTL, PML, the Issuer, each Administrator, the Trustee or any other person for the purposes of the transactions described in this document, but may have been undertaken by MTL, PML or the Administrators for other purposes such as for the extension of Further Advances, enforcement or other administrative purposes.

Other matters

Third party rights

Third party rights (for example, rights of occupation or rights of a subsequent mortgagee or security holder) may arise subsequent to the completion of the initial advance to a borrower. None of the Administrators,

the Title Holders, the Sellers, the Issuer or the Trustee has undertaken or will undertake any investigation or search of any kind prior to the making of a Mandatory Further Advance to a borrower or, in some circumstances, the making of a Discretionary Further Advance.

Mandatory Further Advances

In respect of certain of the Mortgages, Mandatory Further Advances are required to be made to borrowers (see “Mortgage Administration – Further Advances” below). The Issuer expects to fund Mandatory Further Advances to be made by it for any given period from the moneys referred to in paragraph (A) of the definition of “Available Redemption Funds” in Condition 5(a). The Issuer may not, however, receive sufficient funds to meet the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off (or exercise the analogous rights in Scotland) the amounts of any Mandatory Further Advances which the Issuer has failed to make against amounts owing by those borrowers and/or to sue the Issuer for damages for breach of contract. Accordingly, if and to the extent that the Issuer does not have sufficient funds to make any such Mandatory Further Advances, the Issuer will be entitled to (a) borrow further amounts from the Subordinated Lenders under the Subordinated Loan Agreement and the Subordinated Lenders will be under an obligation to make any such amounts available to the Issuer (the Issuer being obliged to apply for such a drawing), or (b) in respect of a Flexible Drawing Cash Advance required to be made under a Flexible Mortgage to the extent that insufficient funds are drawn by the Issuer under the Subordinated Loan Agreement, by drawing a Flexible Drawing Facility Advance under the Flexible Drawing Facility Agreement, to the extent the Issuer has entered into such an agreement on the Closing Date.

Relationship between classes of Noteholders

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

Directors’ certificates

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

Risk of losses associated with Interest-only Mortgages

Approximately 69.78 per cent. by value of the Mortgages in the Provisional Mortgage Pool constitute Interest-only Mortgages (as defined under “The Mortgages” below). Interest-only Mortgages are originated with a requirement that the borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest-only Mortgage, the borrower will be required to make a “bullet” payment that will represent the entirety of the principal amount outstanding. The ability of such a borrower to repay an Interest-only Mortgage at maturity frequently may depend on such borrower’s ability to refinance the Property or obtain funds from another source such as a pension policy or a unit trust or an endowment policy. Neither the Issuer, the Trustee, the Title Holders, the Sellers,

the Administrators nor the Warehouse has verified that the borrower has any such other source of funds and has not obtained security over the borrower's right in respect of any such other source of funds. The ability of a borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the borrower's equity in the Property, the financial condition of the borrower, tax laws and general economic conditions at the time. Moreover, the Mortgage Conditions in respect of Interest-only Mortgages do not require a borrower to put in place alternative funding arrangements.

Regulatory Considerations

General

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

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

A contract is a "**regulated mortgage contract**" for the purposes of the Regulated Activities Order if it is originated after the Mortgage Regulation Date, or originated prior to the Mortgage Regulation Date but varied after the Mortgage Regulation Date such that a new contract is entered into, at the time it is entered into, (i) the contract is one under which the lender provides credit to an individual or to trustees, (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage or charge (or, in Scotland, a first ranking standard security) on land (other than timeshare accommodation) in the United Kingdom and (iii) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person. Based on this definition, Corporate Mortgages, where credit is provided to limited liability companies incorporated in England and Wales, Northern Ireland or Scotland and not to an individual or to trustees should not be regulated mortgage contracts for these purposes. The Provisional Mortgage Pool contains a small number of regulated mortgage contracts that have been originated by MTS, which, as further described below, is an authorised person under FSMA.

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

The Issuer will not itself be an authorised person under the FSMA. However, in the event that an Individual Mortgage is varied, such that a new contract is entered into and that contract constitutes a regulated mortgage contract then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity. MTS as Administrator is an authorised person under FSMA and will use its reasonable endeavours to keep in force, such an authorisation in respect of itself. The Administration Agreement will also provide that the appointment of the relevant Administrator will, unless the Issuer and the Trustee agree otherwise, be terminated with immediate effect if at any time that Administrator does not have any authorisation under the FSMA which it is required to have in order to perform the services which it has agreed in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in circumstances where the Issuer is itself not so authorised.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

The Unfair Terms in Consumer Contracts Regulations 1999 (the "**UTCCR**") will apply to any term of an agreement entered into from 1 October 1999 by a "consumer" within the meaning of the UTCCR where the term has not been individually negotiated (these superseded the 1994 regulations which will apply to agreements entered into from 1 July 1995 to 30 September 1999 and in all material respects are the same

as the UTCCR). Any term found to be “unfair” within the meaning of the Regulations will not be binding on the consumer.

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

Consumer Credit Act

Certain Individual Mortgages may be regulated credit agreements within the meaning of the Consumer Credit Act 1974 (“**CCA**”). Regulated credit agreements secured on land are unenforceable without a court order. Non-compliance with certain provisions of the CCA may render a regulated credit agreement totally unenforceable.

The Sellers will warrant in the Mortgage Sale Agreement that in the case of Individual Mortgages, no agreement for any Individual Mortgage is in whole or in part a consumer credit agreement (as defined in section 8 of the CCA) or, to the extent that any such Individual Mortgage is in whole or in part a regulated agreement or consumer credit agreement, the procedures set out in the CCA have been complied with in all material respects. The remedy against a Seller in respect of breach of warranty shall be to require the Seller to repurchase the relevant Mortgage.

Consumer Credit Legislation

Royal Assent was given on 30 March 2006 to the Consumer Credit Act 2006 (the “**CCA 2006**”), which amends parts of the CCA. The CCA 2006 contains a number of provisions which may impact the Individual Mortgages. In particular the CCA 2006 contains a power for a court to alter the terms of a credit agreement where it considers that the relationship between the creditor and the debtor arising out of the agreement is “unfair” because of one or more of the following:

- (a) any of the terms of the agreement or of any related agreement;
- (b) the way in which the creditor exercised or enforced any of his rights under the agreement or any related agreement; or
- (c) any other thing done (or not done) by, or on behalf of, the creditor (either before or after the making of the agreement or any related agreement).

In this context “credit agreement” includes all agreements which would otherwise be exempt under Section 16 of the CCA (other than regulated mortgage contracts under the terms of the FSMA regime). The provisions have the scope to be applied with full retrospective effect. An order made by the court where a creditor-debtor relationship is found to be “unfair” may, among other things, order a creditor to repay sums already paid by the debtor, reduce the amount of future payments or otherwise alter the terms of the credit or related agreement. Some miscellaneous provisions of the CCA 2006 have already come into effect. Implementation of the sections relating to the “unfair relationship test” is currently planned for April 2007 (in respect of new credit agreements) and April 2008 (in respect of existing credit agreements).

Conflicts of interests

Certain of the parties to the transaction, including, without limitation, the Title Holders, the Sellers and the Warehousemen, may effect transactions in which they may have, directly or indirectly, a material interest or a relationship of any description with another party to such transaction or a related transaction, which may involve a potential conflict with an existing contractual duty to the Issuer under this transaction.

Certain investment considerations

No representation is made as to the proper characterisation of the Notes for legal investment purposes, financial institution regulatory purposes, or other purposes, or as to the ability of particular investors to purchase the Notes under applicable legal investment restrictions. These uncertainties may adversely affect the liquidity of the Notes. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should

consult with their legal advisers in determining whether and to what extent the Notes constitute legal investments or are subject to investment, capital or other restrictions.

Matters relating to the European Union

European Monetary Union

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

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State has been required, since 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State. However, Austria, Belgium and Luxembourg are required instead to apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period commenced on 1 July 2005 and terminates at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date. Therefore, payments of interest on the Notes which are made or collected through Belgium, Luxembourg, Austria or any other relevant country may be subject to withholding tax which would prevent holders of the Notes from receiving interest on their Notes in full. The terms and conditions of the Notes provide that, to the extent that it is possible to do so, a paying agent will be maintained by the Issuer in a Member State that is not required to withhold tax pursuant to the directive.

Change of Law

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

Withholding Tax under the Notes

In the event that withholding taxes are imposed by or in any jurisdiction in respect of payments to Noteholders of amounts due pursuant to the Notes, neither the Issuer nor any Paying Agent nor any other person is obliged to gross up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of the imposition of such withholding taxes.

CREDIT STRUCTURE

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

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

Certain risks relating to the ratings of the Notes are described in “Risk Factors – The Issuer’s ability to meet its obligations under the Notes” above. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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

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

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

2. First Loss Fund

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount equal to 0.30 per cent. of the aggregate of the Initial Principal Amount of the Notes as at the Closing Date for the purpose of establishing the First Loss Fund. The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of the amounts referred to in items (i) to (ix) inclusive in the priority of payments specified under “Transaction Overview–Priority of Payments–prior to enforcement” above where the income of the Issuer, and the amount available to the Issuer on such Interest Payment Date in the Shortfall Fund, is insufficient to pay such amounts.

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

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

3. Shortfall Fund

The Issuer may at any time, with the prior consent of the Subordinated Lenders, draw down under the Subordinated Loan Agreement for the purpose of establishing the Shortfall Fund. If at any time the relevant Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage administered by it so that the weighted average of the interest rates applicable to such Mortgages, taking account of all hedging arrangements entered into by the Issuer and all

income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and all amounts recovered in respect of early redemption amounts, is less than 1.8 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until (and including) the Interest Payment Date falling in March 2012, and 2.20 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case above LIBOR at that time, then such Administrator may do so provided that (1) there is a sufficient credit balance in the Shortfall Fund (net of all provisions previously made during the period from and including the immediately preceding Interest Payment Date up to but excluding the following Interest Payment Date) in order to provide for the shortfall which would arise at the end of the then current Interest Period and (2) the Issuer makes a provision in the Shortfall Fund equal to such shortfall. On each Interest Payment Date, the full amount of the Shortfall Fund will be available to the Issuer to be applied, together with the Issuer's other net income, to the items referred to in "Transaction Overview – Priority of Payments – prior to enforcement" above.

In this Offering Circular, "**LIBOR**" means in respect of any Interest Period the Reference Rate in respect of the Notes in respect of that Interest Period as determined in accordance with Condition 4(c)(ii) or, in the event that no Notes are outstanding, determined by the Administrator using the same method set out in Condition 4(c)(ii).

4. Transfer of Funds from the Collection Accounts

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

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

5. Principal Deficiency Ledger

The allocation of funds standing to the credit of the Transaction Account will be recorded in various ledgers, including the Principal Ledger and the Revenue Ledger, maintained by the Administrator in the Issuer's book-keeping records.

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

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

the Notes or amounts ranking *pari passu* therewith or in priority thereto, in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Mortgages.

Moneys in the Transaction Account representing the credit balance on the Revenue Ledger shall, after making the payments or provisions required to be met in priority to item viii of the priority of payments set out in “Transaction Overview – Priority of Payments – prior to enforcement” above, be applied in an amount necessary to reduce to zero any debit balance on the Principal Deficiency Ledger. The Principal Deficiency Ledger will also be credited on each occasion a Flexible Drawing Capitalised Advance is made in respect of a Flexible Mortgage, by the amount of such Flexible Drawing Capitalised Advance (see “The Mortgages – Information on the Mortgages – Flexible Mortgages” below).

If during the period immediately following an Interest Payment Date to (but excluding) the next Principal Determination Date there is a credit balance on the Principal Deficiency Ledger and during such period there are funds from time to time standing to the credit of the Principal Ledger which are not expected to be applied in making Further Advances, such funds shall be transferred and credited to the Revenue Ledger and corresponding debits made to the Principal Ledger and the Principal Deficiency Ledger until there is no longer any such credit balance on the Principal Deficiency Ledger.

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

6. The Class A Notes, the Class B Notes and the Class C Notes

Neither the Class B Noteholders nor the Class C Noteholders will be entitled to receive any payment of interest unless and until all interest amounts then due to the Class A Noteholders have been paid in full and the Class C Noteholders will not be entitled to receive any payment of interest unless and until all interest amounts then due to the Class B Noteholders have been paid in full, in accordance with the priority of payments set out in “Transaction Overview – Priority of Payments – prior to enforcement” above.

In the event that on any Interest Payment Date, while any Class A Note remains outstanding, the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes (after deducting the amount of any Subordinated Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date), then an amount up to such excess shall be applied at item (iv) as set out under “Priority of Payments - prior to enforcement” above in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger (and the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds).

In the event that on any Interest Payment Date, while any Class B Note remains outstanding, the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate Principal Amount Outstanding of the Class C Notes (after deducting an amount to be applied in the redemption of the Class C Notes on the Principal Determination Date relating to such Interest Payment Date), then an amount up to such excess shall be applied at item (vi) as set out under “Priority of Payments–prior to enforcement” above in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger (and the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds).

The Class A Notes will rank *pari passu* and rateably in their right to receive both interest and principal without any preference or priority. On each Interest Payment Date which occurs before the Determination Event (see “Transaction Overview – Mandatory Redemption in Part”), all Available Redemption Funds will be applied *pari passu* and rateably in mandatory redemption of the Class A Notes.

On each Interest Payment Date which occurs on or after the Determination Event, provided that each of the following are satisfied ((a) and (b) together referred to as the “**Redemption Tests**”):

- (i) on such Interest Payment Date, after (i) the application of the moneys in the Transaction Account representing the credit balance on the Revenue Ledger in accordance with the priority of payments set out in “Priority of Payments – prior to enforcement” above (including any amounts debited from the First Loss Ledger and applied in accordance with the priority of payments as specified in “First Loss Fund” below) on that Interest Payment Date, and (ii) any drawing made under the Subordinated Loan Agreement on that Interest Payment Date, there is a credit balance of zero or greater on the Principal Deficiency Ledger; and
- (ii) on the immediately preceding Principal Determination Date the then outstanding balance, including arrears of interest and all other sums due and payable but unpaid (the “**Current Balance**”) of Mortgages which are more than three months in arrears represents less than 15 per cent. of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised (in each case otherwise than as a result of the making of a Flexible Drawing Advance) within the 12 months immediately preceding such time), *then*:
 - (i) while any Class A Note remains outstanding, Available Redemption Funds will be applied in redemption of the Class A Notes, the Class B Notes and the Class C Notes so that the ratio referred to under the definition of Determination Event is achieved and then maintained, provided that any Available Redemption Funds applied to redeem the Class B Notes and the Class C Notes will be applied *pro rata* and provided that the aggregate of the Principal Liability Outstanding of the Class B Notes and the Principal Liability Outstanding of the Class C Notes is greater than or equal to 1.19 per cent. of the Initial Principal Amount of the Notes; or
 - (ii) if all Class A Notes have been redeemed in full, all Available Redemption Funds will be applied to redeem *pro rata* the Class B Notes and the Class C Notes.

If any of the Redemption Tests is not satisfied then all Available Redemption Funds will be applied to redeem first the Class A Notes in full, secondly the Class B Notes in full and thirdly the Class C Notes in full.

Notwithstanding the foregoing, on each Interest Payment Date which occurs after the occurrence of the Determination Event, the Subordinated Available Redemption Funds (as defined in Condition 5(a)), being a specified portion of the Available Redemption Funds, will be applied in or towards mandatory redemption of the Class B Notes after applying amounts to cover item (v) as set out under “Priority of Payments–prior to enforcement” above (to the extent that amounts under item (v) have not already been paid from amounts standing to the credit of the Revenue Ledger on the relevant Interest Payment Date) and the mandatory redemption of the Class C Notes after applying amounts to cover item (vii) as set out under “Priority of Payments–prior to enforcement” above (to the extent that amounts under item (vii) have not already been paid from amounts standing to the credit of the Revenue Ledger on the relevant Interest Payment Date). The Class A Available Redemption Funds (as defined in Condition 5(a)), being the remainder of the Available Redemption Funds, will be applied in mandatory redemption of the Class A Notes until all the Class A Notes have been redeemed in full.

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

7. Subordinated Loan Agreement

The Subordinated Lenders will make available to the Issuer a subordinated loan facility under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund to the Required Amount and, together with the proceeds of the issue of the Notes, to enable the Issuer to pay the amounts payable by the Issuer by way of purchase price for the Mortgages on the Closing Date, thereby allowing it to achieve the initial rating on the Notes. Any amounts drawn will be advanced by the Subordinated Lenders in the proportions of 96 per cent. from

MTS and 4 per cent. from PFPLC and repayments will be made to each Subordinated Lender *pro rata* to its share of any advance.

Each Subordinated Lender will also agree to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make. In addition, but without prejudice thereto, the Subordinated Lenders may, at their discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances. In addition, the Subordinated Lenders may, at their discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable it to make any Discretionary Further Advances.

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

- (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions specified in items (i) to (x) inclusive set out in “Transaction Overview – Priority of Payments – prior to enforcement” above, to pay any Hedge Provider Subordinated Amounts due and payable to any Hedge Provider on such Interest Payment Date;
- (ii) at any time where the Issuer or the Administrator on the Issuer’s behalf, waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge; and
- (iii) to fund (if necessary) the purchase by the Issuer of amounts represented by Pre-Closing Accruals and Arrears and the FRS 26 Adjustment in relation to Mortgages by the Issuer.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of the relevant Additional Subordinated Lender (1) for the purpose of establishing or increasing the Shortfall Fund, and/or (2) to fund the purchase of Caps or other hedging arrangements (or any related guarantees) to hedge the Issuer’s interest rate exposure upon conversion of any Mortgages into Fixed Rate Mortgages or Capped Rate Mortgages (to the extent that any Mortgage is converted to a Capped Rate Mortgage). The Issuer may from time to time borrow further sums from any Additional Subordinated Lender on the terms of the Subordinated Loan Agreement. On any Interest Payment Date, sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (see “Transaction Overview – Priority of Payments – prior to enforcement” above) (provided that, while any Notes remain outstanding, no such repayment may be made if it would result in the Principal Amount Outstanding in respect of the Subordinated Loan being less than the Required Amount and provided further that each Subordinated Lender or relevant Additional Subordinated Lender and the Issuer may agree that any such repayment may be waived or deferred in whole or in part).

8. Hedging Arrangements

Each Administrator will have responsibility for setting the interest rates on the Mortgages administered by it in accordance with the provisions of the Administration Agreement and the terms and conditions of the Mortgages. The interest rates payable by the Issuer with respect to the Notes are calculated as a margin over LIBOR for GBP deposits as described in Condition 4.

In respect of Fixed Rate Mortgages, each Administrator is unable to vary the rate of interest during the fixed rate period set out in the relevant Mortgage Conditions; in respect of Capped Rate Mortgages (to the extent that any Mortgage is converted to a Capped Rate Mortgage), the Administrator is unable to increase the rate of interest above the capped rate during the capped rate period set out in the relevant Mortgage Conditions; in respect of LIBOR-Linked Mortgages, the interest rate is set at a fixed margin over LIBOR for three month GBP deposits (determined quarterly in accordance with the Mortgage Conditions); and in respect of Base Rate Tracker Mortgages, the interest rate is set at a fixed margin over the Bank of England base rate from time to time. As a result, the Issuer may be exposed to the risk of an adverse interest differential between the rate of interest receivable in respect of the Fixed Rate Mortgages, Capped Rate Mortgages, LIBOR-Linked

Mortgages and Base Rate Tracker Mortgages, on the one hand, and the rate of interest payable on the Notes on the other hand.

On the Closing Date, the Issuer will have entered into hedging arrangements under the Basis Hedge Agreement, in accordance with the requirements of the Rating Agencies, to hedge any Fixed Rate Mortgages which were acquired by it on the Closing Date. In addition, in relation to any Fixed Rate Mortgages or Capped Rate Mortgages (to the extent that any Mortgage is converted to a Capped Rate Mortgage) which arise upon conversion of any Mortgages subsequent to the Closing Date, the Issuer will be obliged to enter into additional hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes.

See “The Issuer – Hedging Arrangements” below for further information on aspects of the Issuer’s hedging arrangements.

9. Flexible Drawing Facility

On or about the Closing Date, the Issuer will enter into a Flexible Drawing Facility Agreement with a Flexible Drawing Facility Provider. Under the terms of the Flexible Drawing Facility Agreement, the Flexible Drawing Facility Provider will make available a Flexible Drawing Facility which may be utilised by the Issuer on any date from time to time to fund Flexible Drawing Advances with respect to Flexible Mortgages beneficially owned by the Issuer to the extent that there are no Available Redemption Funds or amounts drawn by the Issuer (the Issuer being obliged to apply for such a drawing) under the Subordinated Loan Agreement for such purpose.

The “**Flexible Drawing Facility Limit**” means 5 per cent. of the aggregate of the Flexible Mortgage Maximum Balance based on the closing pool except that on any Interest Payment Date it shall be the greater of (i) 5 per cent. of the aggregate of the Flexible Mortgage Maximum Balance at the immediately preceding Interest Payment Date, (ii) 2 per cent. of the aggregate of the Flexible Mortgage Maximum Balance at the immediately preceding Interest Payment Date and (iii) the maximum amount which the Flexible Drawing Facility Limit has been on any Interest Payment Date on or after the date upon which the Flexible Drawing Facility is first drawn. Any variation in the method of calculation of the Flexible Drawing Facility Limit shall require that the Rating Agencies have given prior written confirmation that such variation will not adversely affect the then current ratings of the Notes. The Flexible Drawing Facility Provider will not be obliged by any party to advance funds on any Interest Payment Date beyond such maximum amount.

The maximum amount that can be drawn on any Business Day under the Flexible Drawing Facility is the then “**Flexible Drawing Facility Available Amount**”, being the lower of (a) the then Flexible Drawing Facility Limit less the aggregate amount of each advance (each a “**Flexible Drawing Facility Advance**” which expression shall include each amount at that time which has been debited to the Flexible Drawing Facility Ledger and is to be treated as a drawing under the Flexible Drawing Facility) then outstanding under the Flexible Drawing Facility; and (b) the then aggregate Principal Amount Outstanding of the Class A Notes. The Flexible Drawing Facility Provider will not be obliged to advance funds on any date beyond such Flexible Drawing Facility Available Amount.

The commitment of the Flexible Drawing Facility Provider under the Flexible Drawing Facility will expire on the earlier of (a) the last day of the Flexible Drawing Facility Commitment Period, (b) the date the Class A Notes are redeemed in full, (c) enforcement of the Security in accordance with the Deed of Charge unless cancelled on an earlier date pursuant to the provisions of the Flexible Drawing Facility Agreement and (d) the day the Flexible Drawing Facility Commitment is reduced to zero in accordance with the Flexible Drawing Facility Agreement. The Issuer may, not more than 30 and not less than 20 days prior to the end of the Flexible Drawing Facility Commitment Period, request the Flexible Drawing Facility Provider to agree to provide a sterling, committed, revolving liquidity facility on the same terms as the terms of the Flexible Drawing Facility Agreement and commencing on the Business Day prior to the last day of the Flexible Drawing Facility Commitment Period. If the Flexible Drawing Facility Provider does not agree to provide a sterling, committed, revolving liquidity facility on the same terms as the Flexible Drawing Facility Agreement (“**Flexible Drawing Facility Non-Renewal Event**”), the Issuer shall request (and the Flexible Drawing Facility Provider shall be obliged to make) an advance equal to the then Flexible Drawing Facility Available Amount and shall pay such

advance into the Transaction Account and shall establish and credit such amount to a ledger in the Issuer's accounting books (the "**Flexible Drawing Facility Ledger**").

On any Interest Payment Date (a) principal outstanding in respect of all Flexible Drawing Facility Advances will be repaid to the extent that funds standing to the credit of the Principal Ledger are to be applied on such Interest Payment Date in accordance with Condition 5(a) in such repayment and paid directly to the Flexible Drawing Facility Provider, and (b) all other amounts (other than Flexible Drawing Facility Principal Debt) due and payable to the Flexible Drawing Facility Provider under the Flexible Drawing Facility Agreement on such Interest Payment Date shall be paid to the extent that funds are to be applied for such purpose in accordance with the Deed of Charge (see "Transaction Overview – Priority of Payments – prior to enforcement" above). For the purposes of payments under the Deed of Charge, "**Flexible Drawing Facility Subordinated Amounts**" shall mean nil if a Flexible Drawing Facility Non-Renewal Event has not occurred, otherwise the greater of (a) nil and (b) all interest, fees, expenses and all other sums, due and payable to the flexible Drawing Facility Provider in respect of all additional amounts drawn down under the Flexible Drawing Facility Agreement as a result of such Flexible Drawing Facility Non-Renewal Event, less any income arising from the investment of such additional amounts drawn and any fees which would have been due had a Flexible Drawing Facility Non-Renewal Event not occurred.

"**Flexible Drawing Facility Commitment**" means at any time the commitment of the Flexible Drawing Facility Provider to make advances from time to time up to (in aggregate) the lower of (a) 5 per cent. of the aggregate of the Flexible Mortgage Maximum Balance based on the closing pool less the aggregate amount at that time of the Flexible Drawing Facility which has been reduced pursuant to the Flexible Drawing Facility Agreement; and (b) the Flexible Drawing Facility Limit at that time.

"**Flexible Drawing Facility Commitment Period**" means the period from and including the Closing Date to and including the day falling 364 days after the Closing Date or such other period as may be agreed pursuant to the Flexible Drawing Facility Agreement.

If at any time the short term unsecured, unguaranteed and unsubordinated debt rating of the Flexible Drawing Facility Provider falls below F1+ from Fitch or A-1+ from S&P or such other short term unsecured, unguaranteed and unsubordinated debt rating as the Rating Agencies may stipulate (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 "**Flexible Drawing Facility Provider Required Rating**") and the Flexible Drawing Facility Provider is not replaced by a suitable Flexible Drawing Facility Provider with the Flexible Drawing Facility Provider Required Rating within 30 days of such downgrade, the Issuer shall request an advance equal to the then Flexible Drawing Facility Available Amount and shall pay such advance into the Transaction Account and shall establish and credit such amount to the Flexible Drawing Facility Ledger. In that event drawings and repayment of drawings in respect of the Flexible Drawing Facility shall be by means of debits and credits to the Flexible Drawing Facility Ledger until such time that the Flexible Drawing Facility Provider subsequently obtains the Flexible Drawing Facility Provider Required Rating again or is replaced by a suitable Flexible Drawing Facility Provider with the Flexible Drawing Facility Provider Required Rating.

DESCRIPTION OF THE NOTES AND THE SECURITY

The issue of the Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on or about 4 January 2007. The Notes will be constituted by a trust deed (the “**Trust Deed**”) expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the Noteholders (as defined in Condition 1(a)). The proceeds of the Notes will be applied by the Issuer as described in “Use of Proceeds” below.

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Deed of Charge to be entered into by the Issuer, the Trustee, PFPLC, PML, MTL, MTS, the Issue Services Provider, the Flexible Drawing Facility Provider, the Subordinated Lenders, Homeloan Management Limited (the “**Substitute Administrator**”) and the Basis Hedge Provider (the “**Deed of Charge**”). Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge.

The Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement (as defined in the Administration Agreement), the Mortgage Sale Agreement and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof, Citigroup Centre, 14th Floor, Canada Square, Canary Wharf, London E14 5LB and at the specified offices for the time being of the Paying Agents.

Certain United States legal investment considerations

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or the securities laws of any state of the United States or any other relevant jurisdiction. For certain restrictions on resales, see “Restrictions on Purchase and Transfer of the Notes”.

Each Note is being offered solely outside the United States in reliance on Regulation S under the Securities Act (“**Regulation S**”) to non-U.S. Persons in offshore transactions (as defined in Regulation S).

Initial principal amount of Global Notes and denomination

The Initial Principal Amount of each Global Note relating to a class of the Notes will equal the aggregate initial principal amount of each Note in the class of Notes represented by that Global Note. The Initial Principal Amount of each Global Note will in aggregate equal the aggregate initial principal amount of each Note in the class of Notes represented by that Global Note.

The “**Notes**” (being the Class A Notes, the Class B Notes and the Class C Notes) are issued in minimum denominations of £50,000. Each holding of Notes must be an integral multiple of £1,000 and for not less than the minimum denomination.

Deposit of Global Notes in Clearing Systems

Each Global Note is expected to be deposited with, and registered in the name of, or a nominee of, Citibank, N.A., London Branch as common depositary (the “**Common Depositary**”) for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, société anonyme, Luxembourg (“**Clearstream, Luxembourg**”) and, together with Euroclear, the “**Clearing Systems**”) on the Closing Date.

Upon deposit of a Global Note in a Clearing System, the relevant Clearing System will credit each subscriber of the Notes represented by that Global Note with the principal amount of Notes for which that subscriber has subscribed and paid. The accounts to be credited shall be designated by the Lead Manager.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg have advised the Issuer as follows: Euroclear and Clearstream, Luxembourg each hold securities for their account holders and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risk from lack of simultaneous transfers of securities. Euroclear and Clearstream, Luxembourg each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deal with domestic securities markets in several countries through established depository and custodial relationships. The respective systems of Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective account holders may settle trades with each other. Account holders in both Euroclear and Clearstream, Luxembourg are world wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system. An account holder's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under such rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective account holders. The address of Euroclear is 3 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J F Kennedy, L-1855, Luxembourg.

Notices to Noteholders may be made to the Clearing System

Any notice to Noteholders in respect of Notes represented by Global Notes shall be deemed to have been duly given if sent to Euroclear and/or Clearstream, Luxembourg (as applicable) and shall be deemed to have been given on the date on which such notice was so sent.

Clearance and settlement of transfers of interests in Global Notes

Title to the Global Notes and, if issued, any Definitive Notes (see "Issue of Notes in Definitive Form" below) will pass by transfer as described in Condition 1 - "Issue, Form, Denomination and Title". **Restrictions on the offer, sale, purchase, resale, pledge or transfer of Notes are described in "Restrictions on Purchase and Transfer of the Notes" below.**

Holding of beneficial interests in Global Notes

Ownership of beneficial interests in the Global Notes will be limited to persons that have accounts with a Clearing System ("**participants**") or persons that hold interests in the Global Notes through participants ("**indirect participants**"), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearing System, either directly or indirectly. Indirect participants shall also include persons that hold beneficial interests through such indirect participants. Euroclear and Clearstream, Luxembourg as applicable, will credit the participants' accounts with the respective amount of Notes beneficially owned by such participants on each of their respective book-entry registration and transfer systems.

Investors may hold beneficial interests in respect of a Global Note directly through Euroclear or Clearstream, Luxembourg, if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. Euroclear and Clearstream, Luxembourg will hold beneficial interests in each Global Note on behalf of their account holders through securities accounts in the respective account holders' name on Euroclear's and Clearstream, Luxembourg's respective book entry registration and transfer system.

Beneficial interests in the Global Notes will be shown on, and transfers of book entry interests or the interest therein will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to the interests of their participants) and on the records of participants or indirect participants (with respect to the interests of their indirect participants).

Except as described below under "Issue of Notes in Definitive Form", participants or indirect participants in a Clearing System will not be entitled to receive physical delivery of Notes in definitive form and will not be considered the holders thereof under the Trust Deed or the Notes. Such participants or indirect

participants in a Clearing System will have no rights under the Trust Deed with respect to the Global Notes held on their behalf by the Common Depository for Euroclear and Clearstream, Luxembourg and the Common Depository for Euroclear and Clearstream, Luxembourg may be treated by the Issuer, the Trustee and any agent of the Issuer or the Trustee as the holder of such Global Notes as the case may be, for all purposes whatsoever. Accordingly, each person holding a beneficial interest in the Global Notes must rely on the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and indirect participants must rely on the procedures of the participants or indirect participants through which such person owns its interest in the relevant Global Notes, to exercise any rights and obligations of a holder of Notes under the Trust Deed.

The Issuer understands that, under existing industry practices, if either the Issuer or the Trustee requests any action of owners of beneficial interests in Global Notes or if an owner of a beneficial interest in a Global Note desires to give instructions or take any action that a holder is entitled to give or take under the Trust Deed, Euroclear or Clearstream, Luxembourg, as the case may be, would authorise the participants owning the relevant beneficial interest in the Global Note to give instructions or take such action, and such participants would authorise indirect participants to give or take such action or would otherwise act upon the instructions of such indirect participants.

Procedures for payments in respect of the Notes

Agency Agreement

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

Payments in respect of the Global Notes

The Issuer expects that in accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment in respect of a Global Note held by the Common Depository for Euroclear and Clearstream, Luxembourg, the respective systems will, in accordance with their rules and procedures, promptly credit their participants’ accounts with payments in amounts proportionate to their respective beneficial interests in such Global Note as shown in the records of Euroclear or of Clearstream, Luxembourg. None of the Issuer, the Trustee, any Manager, any Paying Agent and any of their respective agents will have any responsibility or liability for any aspect of the records of the Clearing Systems relating to or payments or credits made by the Clearing Systems on account of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records of the Clearing Systems relating to those beneficial interests.

The Issuer also expects that payments by participants to owners of beneficial interests in a Global Note held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in “street name” or in the names of nominees for such customers. Such payments will be the responsibility of such participants or indirect participants. None of the Issuer, the Trustee, any Manager, any Paying Agent and any of their respective agents will have any responsibility or liability for any aspect of the records relating to or payments made on account of a participant’s ownership of beneficial interests in such Global Notes or for maintaining, supervising or reviewing any records relating to a participant’s ownership of beneficial interests in such Global Notes.

Security

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

- (1) a sub-charge over the Mortgages which comprise English Mortgages and Northern Irish Mortgages and an assignation in security of the Issuer's interest in the Mortgages which comprise Scottish Mortgages (consisting of the Issuer's beneficial interest under the trusts declared by the Title Holders pursuant to the Scottish Declarations of Trust) purchased by the Issuer from any Seller under the Mortgage Sale Agreement;
- (2) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;
- (3) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the Services Letter, under the Flexible Drawing Facility Agreement, under the Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the Agency Agreement, under the Collection Account Declarations of Trust, under the Cross-collateral Mortgage Rights Deed, under the Subscription Agreement, under the Basis Hedge Agreement and under any Caps or other hedging arrangements entered into by the Issuer;
- (4) an assignment of the Issuer's rights to all moneys standing to the credit of the Transaction Account and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);
- (5) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and
- (6) a floating charge (the **"Floating Charge"**) (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not already subject to fixed security but extending over all the Issuer's undertaking and all the assets of the Issuer as are situated in Scotland or governed by Scots law.

The assets of the Issuer, which will constitute the security for the Notes, are referred to as the **"Security"**. The Security will also stand as security for any amounts payable by the Issuer to any Receiver, the Trustee, the Substitute Administrator, PML, PFPLC, MTL, MTS, the Issue Services Provider, the Flexible Drawing Facility Provider, the Subordinated Lenders, any Additional Subordinated Lender, the Basis Hedge Provider and each Permitted Basis Hedge Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the Services Letter, the Flexible Drawing Facility Agreement, the Subordinated Loan Agreement, the Basis Hedge Agreement and any Permitted Basis Hedge Agreement. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto.

Certain provisions of **"Recent Insolvency Legislation"** (comprising the Enterprise Act 2002, the Insolvency Act 2000 and the subordinate legislation made pursuant to those Acts) which, among other things, amended the corporate insolvency provisions of the Insolvency Act 1986, will apply to aspects of the Deed of Charge and the security created by the Issuer pursuant to the Deed of Charge. In particular: (a) if and when the applicable conditions in the Deed of Charge which entitle the Trustee to appoint an administrative receiver are satisfied, the Recent Insolvency Legislation preserves the Trustee's entitlement to make such an appointment, (b) the Recent Insolvency Legislation requires that up to £600,000 of enforcement realisations under the Floating Charge in respect of net property (being the amount of the Issuer's property which could be available for satisfaction of debts due to the holder(s) of any debenture secured by the Floating Charge) shall be made available for the satisfaction of the Issuer's unsecured debts (if any) in priority to the liabilities secured by the Floating Charge, and (c) the Issuer is exempt from the provisions of the Recent Insolvency Legislation which enable directors of a "small" company to obtain a moratorium for the company where those directors propose a company voluntary arrangement.

The corporate insolvency provisions of the Enterprise Act 2002 do not apply in Northern Ireland and the current law is contained in the Insolvency (Northern Ireland) Order 1989 (the **"1989 Order"**) as amended by the Insolvency (Northern Ireland) Order 2002. The 1989 Order has been further amended by the provisions of the Insolvency (Northern Ireland) Order 2005 (the **"2005 Order"**) which was brought into force by the Department of Enterprise, Trade and Investment (the **"Department"**) on 27 March 2006. The 2005 Order implemented in Northern Ireland corporate insolvency provisions which are identical to those introduced by the provisions of the Enterprise Act 2002 in England, Wales and Scotland. The changes

introduced in England, Wales and Scotland by the Insolvency Act 2000 in relation to “small” companies are mirrored in the Insolvency (Northern Ireland) Order 2002.

The Deed of Charge is governed by English law other than (a) such provisions thereof relating to the Scottish Mortgages and their collateral security as are particular to Scots law, which shall be construed in accordance with Scots law, and (b) such provisions thereof relating to the Northern Irish Mortgages and their collateral security as are particular to Northern Irish law, which shall be construed in accordance with Northern Irish law.

RESTRICTIONS ON PURCHASE AND TRANSFER OF THE NOTES

Because of the restrictions applicable to each Note (the “**Transfer Regulations**”), purchasers are advised to consult legal counsel prior to making any offer, sale, purchase, resale, pledge or transfer of the Notes.

The Notes have not been registered under the Securities Act or any United States state securities or “Blue Sky” laws or the securities laws of any other jurisdiction and, accordingly, may not be reoffered, resold, pledged or otherwise transferred except in accordance with the restrictions set forth in the Trust Deed and described under “Important Notice” above.

Certain restrictions in relation to the Notes

Transfers of Notes and interests in the Notes are subject to certain restrictions. A person acquiring a beneficial interest in a Note will be deemed to have made certain representations relating to compliance with all applicable securities and tax laws (see “Representations and agreements by Note Purchasers” below) and shall be deemed to have agreed to be bound by the transfer restrictions applicable to such Note and may be requested to agree in writing to be so bound.

In particular, to enforce the Transfer Regulations in relation to interests in any Global Note, the Trust Deed permits the Issuer to demand that the holder of any interest in a Global Note held by a U.S. Person as defined in Regulation S (a “U.S. Person”) at the time of acquisition of such interest if such interest occurred prior to the first Business Day that is 40 days after the later of the commencement of the offering of the Notes and the Closing Date (such period, the “Distribution Compliance Period”) in each case, sell such interest to a holder that is permitted under the Trust Deed and, if the holder does not comply with such demand within 30 days thereof, the Issuer may sell such holder’s interest in such Notes.

Prior to expiry of the Distribution Compliance Period U.S. Persons cannot hold interests in Global Notes

Investors may hold their interests in a Global Note directly through Euroclear or Clearstream, Luxembourg, if they are participants in Euroclear or Clearstream, Luxembourg, as the case may be, or indirectly through organisations that are participants in Euroclear or Clearstream, Luxembourg. Beneficial interests in a Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. Prior to the expiry of the Distribution Compliance Period, beneficial interests in a Global Note may not be held by a U.S. Person.

Transfers of Global Notes while held by or for the Clearing Systems

Unless and until beneficial interests in the Global Notes are exchanged for Definitive Notes, the Global Notes registered in the name of a nominee for a Clearing System may not be transferred except by Euroclear or Clearstream, Luxembourg to the Common Depositary or by the Common Depositary to Euroclear or Clearstream, Luxembourg, or another nominee of Euroclear and Clearstream, Luxembourg or by Euroclear and Clearstream, Luxembourg or any such nominee to a successor of Euroclear or Clearstream, Luxembourg, as the case may be, or a nominee of such successor.

Restrictions relating to the form of the Notes

The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. While a Note is represented by a Global Note this may impair the ability to own, transfer or pledge book-entry interests.

Restrictions contained in legends on the Global Notes

Unless determined otherwise by the Issuer in accordance with applicable law and so long as any class of Notes is outstanding, each Global Note will bear a legend substantially as follows:

“This Note has not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), any state securities laws in the United States or the securities laws of any other jurisdiction and may not be reoffered, resold, pledged or otherwise transferred except as permitted by this legend. The holder hereof, by its acceptance of this Note, represents, acknowledges and agrees that it will not reoffer, resell, pledge or otherwise

transfer this Note except in compliance with the Securities Act and other applicable laws and except to a person that is not a U.S. person (as defined in Regulation S under the Securities Act) outside the United States in compliance with Rule 903 or 904 of Regulation S under the Securities Act (1) upon delivery of all certifications, opinions and other documents that the Issuer or the Trustee may require and (2) in accordance with any applicable securities law of any state of the United States and any other jurisdiction.

This Note is not transferable except in accordance with the restrictions described herein and in the Trust Deed. Any sale or transfer in violation of the foregoing will be of no force and effect, will be void ab initio, and will not operate to transfer any rights to the transferee, notwithstanding any instructions to the contrary to the Issuer, the Trustee or any intermediary. Each transferor of this Note agrees to provide notice of the transfer restrictions set forth herein and in the Trust Deed to the transferee”.

Representations and agreements by Note Purchasers

Each purchaser and subsequent transferee (the “**Purchaser**”) of Notes represented by an interest in a Global Note (or any Definitive Note issued in exchange for an interest in a Global Note as described below under “Terms and Conditions of the Notes – 1. Issue, Form, Denomination and Title”) will be deemed to have represented and agreed as follows:

- (1) In connection with the purchase of the Notes:
 - (A) the Purchaser acknowledges that none of the Issuer or the Managers is acting as a fiduciary or financial or investment adviser for such Purchaser;
 - (B) such Purchaser is not relying (for the purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuer or the Managers other than any statements in a current offering circular for such Notes;
 - (C) such Purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary and has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Trust Deed) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuer or the Managers; and
 - (D) such Purchaser is neither a “U.S. person” as defined in Regulation S, nor is it acquiring the Notes for the account of a U.S. person and it is acquiring the Notes outside the United States in an offshore transaction meeting the requirements of Regulation S.
- (2) Such Purchaser understands that the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, the Notes have not been and will not be registered under the Securities Act, and, if in the future such Purchaser decides to offer, resell, pledge or otherwise transfer the Notes, such Notes may be offered, resold, pledged or otherwise transferred only in accordance with the provisions of the Trust Deed and the legend on such Notes. Such Purchaser acknowledges that no representation has been made as to the availability of any exemption under the Securities Act or any state securities laws for resale of the Notes.
- (3) Such Purchaser is aware that, except as otherwise provided in the Trust Deed, Notes being sold to it, if any, in reliance on Regulation S will be represented by one or more permanent Global Notes, and that in each case beneficial interests therein may be held only through Euroclear or Clearstream, Luxembourg.
- (4) Such Purchaser understands that any resale or other transfer of beneficial interests in a Global Note prior to expiry of the Distribution Compliance Period to U.S. Persons shall not be permitted.
- (5) Such Purchaser will provide notice to each Person to whom it proposes to transfer any interest in the Notes of the transfer restrictions and representations set forth in the Trust Deed.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Each Class of Notes will initially be in the form of a Temporary Global Note without Coupons or Receipts which will be deposited on or around the Closing Date with a common depositary for Clearstream, Luxembourg and Euroclear. Interests in each Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note representing Notes of the same Class, without Coupons or Receipts, on a date not earlier than forty (40) days after the Closing Date (the “**Exchange Date**”) upon certification as to non-U.S. beneficial ownership. No payments of principal, interest or any other amounts payable in respect of the Notes will be made under the Temporary Global Notes unless exchange for interests in the relevant Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Each Permanent Global Note will become exchangeable in whole, but not in part, for Definitive Notes in minimum denominations of £50,000 each, with Coupons for payments of interest, Receipts for payments of principal and Talons for further Coupons and Receipts attached, each at the request of the bearer of the relevant Permanent Global Note against presentation and surrender of such Permanent Global Note to the Principal Paying Agent if either of the following events (each, an “**Exchange Event**”) occurs:

- (a) Clearstream, Luxembourg or Euroclear is closed for business for a continuous period of fourteen (14) days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no other clearing system acceptable to the Trustee is then in existence; or
- (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will on the next Interest Payment Date be required to make any deduction or withholding for or on account of tax from any payment in respect of such Notes which would not be required were such Notes in Definitive form.

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons, Receipts and Talons attached, in an aggregate principal amount equal to the principal amount of the relevant Permanent Global Note to the bearer of such Permanent Global Note against the surrender of such Permanent Global Note at the Specified Office of any Paying Agent within thirty (30) days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Notes and the Permanent Global Notes will contain provisions which modify the Conditions as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of each Temporary Global Note and each Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the relevant Temporary Global Note or, as the case may be, the relevant Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes.

Notices: Notwithstanding Condition 12 (Notices), while (i) all the Notes are represented by Permanent Global Notes (or by Permanent Global Notes and/or Temporary Global Notes) and the Permanent Global Notes (or each Permanent Global Note and/or each Temporary Global Note) are deposited with a common depositary for Clearstream, Luxembourg and/or Euroclear and (ii) so long as the Notes are listed on the London Stock Exchange and the rules of the London Stock Exchange so permit, notices to Noteholders may be given by delivery of the relevant notice to Clearstream, Luxembourg and/or Euroclear, rather than by publication in accordance with Condition 17 (Notices to Noteholders). Such notices shall be deemed to have been given to the Noteholders in accordance with Condition 12 (Notices) on the date of delivery to Clearstream, Luxembourg and/or Euroclear.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions (subject to completion and amendment, the “**Conditions**”) which apply to the Notes and, if Definitive Notes were to be issued, will be endorsed on the Notes. The Conditions set out below will apply to the Notes in definitive form and, save as modified by the Global Notes, the Notes in global form.

1. Issue, Form, Denomination and Title

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

First Flexible (No. 7) PLC (the “**Issuer**”) has issued the “**Notes**” (which comprise:

- (i) the £260,500,000 Class A Notes (the “**Class A Notes**”);
- (ii) the £4,050,000 Class B Notes (the “**Class B Notes**”); and
- (iii) the £4,050,000 Class C Notes (the “**Class C Notes**”),

pursuant to a trust deed (the “**Trust Deed**”) dated on or about 25 January 2007 (or such later date as is agreed between the Issuer and the Lead Manager for the issue of the Notes (the “**Closing Date**”) between the Issuer and Citicorp Trustee Company Limited (the “**Trustee**”, which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (together the “**Class A Noteholders**”), the holders for the time being of the Class B Notes (together the “**Class B Noteholders**”) and the holders for the time being of the Class C Notes (together the “**Class C Noteholders**” and, together with the Class A Noteholders and the Class B Noteholders, the “**Noteholders**”).

The Noteholders and the holders of the related interest coupons (“**Couponholders**”) and holders of the related principal receipts (“**Receiptholders**”) will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge (as defined in Condition 2) and will be deemed to have notice of all the provisions of the Relevant Documents (as defined in Condition 3(a)(i)(B)). Expressions defined in those documents and not otherwise defined in these Conditions shall where used in these Conditions have the meanings indicated in the Relevant Documents. Certain provisions of these Conditions are summaries of the Relevant Documents and are subject to their detailed provisions. Copies of the Relevant Documents will be available for inspection at the principal London office of the Trustee and at the specified offices for the time being of the Principal Paying Agent.

(b) *Form of the Notes*

The beneficial interests represented by the Global Note will be exchanged for Notes of the relevant class in definitive form (each such Note a “**Definitive Note**”) only upon the occurrence of certain limited circumstances specified in the Trust Deed. Upon such an exchange the aggregate principal amount of the Definitive Notes shall be equal to the Principal Liability Outstanding of the Notes at the date on which notice of exchange is given of the corresponding Global Note subject to and in accordance with the detailed provisions of these Conditions, the Agency Agreement, the Trust Deed and the relevant Global Note.

- (i) Each Class of the Notes is initially represented by a Temporary Global Note in bearer form, without Coupons or Receipts, in the initial principal amount of £260,500,000 for the Class A Notes, £4,050,000 for the Class B Notes and £4,050,000 for the Class C Notes. Each Temporary Global Note will be deposited on behalf of the subscribers of each Class of the Notes with a common depository (the “**Common Depository**”) for Clearstream, Luxembourg and Euroclear on or about the Closing Date. Upon deposit of the Temporary Global Notes, Clearstream, Luxembourg or Euroclear (as the case may be) will credit each subscriber of the Notes with the principal amount of Notes of the relevant Class equal to the aggregate principal amount thereof for which it had subscribed and paid. Interests in each Temporary Global Note are exchangeable forty (40) days after the Closing Date (the “**Exchange Date**”), provided certification of non-U.S. beneficial ownership by the relevant Noteholders has been received, for interests in a Permanent Global Note in bearer form (which will also be deposited with the

Common Depositary) representing the same Class of Notes, without Coupons or Receipts. The expressions “**Global Notes**” and “**Global Note**” mean, respectively, (i) all the Temporary Global Notes and the Permanent Global Notes or the Temporary Global Note and the Permanent Global Note of a particular Class; or (ii) any Temporary Global Notes or Permanent Global Notes, as the context may require. On the exchange of the Temporary Global Note for the Permanent Global Note of the relevant Class, the Permanent Global Notes will remain deposited with the Common Depositary. Title to the Global Notes will pass by delivery. The Permanent Global Notes will only be exchangeable for Definitive Notes in certain limited circumstances described below.

For so long as any Notes are represented by a Global Note, interests in such Notes will be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg or Euroclear, as appropriate.

- (ii) If, while any of the Notes are represented by a Permanent Global Note, (i) Clearstream, Luxembourg or Euroclear is closed for business for a continuous period of fourteen (14) days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no other clearing system acceptable to the Trustee is then in existence; or (ii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will on the next Interest Payment Date be required to make any deduction or withholding for or on account of Tax from any payment in respect of such Notes which would not be required were such Notes in Definitive form, then the Issuer will issue Definitive Notes in respect of the Notes in exchange for the whole outstanding interest in the Permanent Global Note of each Class on the later of the Exchange Date and the day falling thirty (30) days after the occurrence of the relevant event.
 - (iii) Definitive Notes of each Class of Notes (which, if issued, will be issued in minimum denominations of £50,000 and integral multiples of £1,000 thereafter) will be serially numbered and will be issued in bearer form with (at the date of issue) interest coupons (“**Coupons**”), receipts for payments of principal (“**Receipts**”) and talons for further Coupons and Receipts (each, a “**Talon**”) attached at the time of issue. Title to the Definitive Notes, Coupons and Receipts shall pass by delivery.
 - (iv) The holder of any Note, of any Coupon and of any Receipt shall (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Note, Coupon or Receipt, as the case may be, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.
 - (v) For so long as any Note is represented by a Global Note, transfers and exchanges of beneficial interests in that Global Note and entitlement to payments under that Global Note will be effected subject to and in accordance with the rules and procedures from time to time of Euroclear and/or Clearstream, Luxembourg in the case of the Global Notes.
 - (vi) Beneficial interests in a Global Note may be held only through Euroclear or Clearstream, Luxembourg at any time. Prior to the expiry of the Distribution Compliance Period beneficial interests in a Global Note may not be held by a “**U.S. Person**” (as defined in Regulation S under the Securities Act).
 - (vii) References to “**Notes**” include the Global Notes and the Definitive Notes.
- (c) *Denomination of the Notes*
- The Notes are issued in minimum denominations of £50,000. Each holding of Notes must be an integral multiple of £1,000 for not less than the relevant minimum denomination.

2. Status and Relationship between the Classes of Notes

The Notes are obligations solely of the Issuer and are not obligations of, or guaranteed by, any other person. The Notes are secured by fixed and floating security over all of the Issuer's assets (the "**Security**") as more particularly described in a deed of sub charge and assignment (the "**Deed of Charge**") dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, Mortgage Trust Limited, Mortgage Trust Services PLC, Homeloan Management Limited, the Issue Services Provider, the Flexible Drawing Facility Provider, the Subordinated Lenders and the Basis Hedge Provider.

Notes in the same class rank *pari passu* and rateably without any preference or priority among themselves in their right to receive principal and interest. All the Class A Notes will rank *pari passu* and rateably in their right to receive both principal and interest. Prior to the Security becoming enforceable the Notes rank according to the priority of payments set out in clause 6.1.2 of the Deed of Charge (the "**Revenue Priority of Payments**") and clause 6.2 of the Deed of Charge (the "**Principal Priority of Payments**") and from and after the Security becoming enforceable the Notes rank according to the priority of payments set out in clause 8.2 of the Deed of Charge (the "**Enforcement Priority of Payments**"), in each case according to the terms of the Relevant Documents (as defined Condition 3(a)(i)(B)) and the Notes.

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

3. Covenants of the Issuer

- (a) So long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents or with the prior written consent of the Trustee:
- (i) carry on any business other than as described in the Offering Circular dated 23 January 2007 relating to the issue of the Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:
 - (A) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, drawing Mandatory Further Advances and Discretionary Further Advances;
 - (B) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Notes, the Subscription Agreement and the other agreements relating to the issue of the Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declarations of Trust, the Basis Hedge Agreement, any Caps, any Permitted Basis Hedge Agreement, the Fee Letter, the Flexible Drawing Facility Agreement, any other hedging arrangements entered into by the Issuer from time to time, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, each Scottish Declaration of Trust, the Cross-collateral Mortgage Rights Deed and all other agreements and documents comprised in the Security for the Notes (all as defined in the Trust Deed, the Deed of Charge or the Mortgage Sale Agreement) (together the "**Relevant Documents**");

- (C) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, among other things, make claims, payments and surrenders in respect of certain tax reliefs;
 - (D) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem Notes in accordance with their respective terms and conditions; and
 - (E) perform any act incidental to or necessary in connection with (A), (B), (C) or (D) above;
- (ii) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Deed of Charge, the Trust Deed, the Notes, the Fee Letter, the Flexible Drawing Facility Agreement, the Services Letter, the Basis Hedge Agreement, the Substitute Administrator Agreement, any Permitted Basis Hedge Agreement and the VAT Declaration of Trust and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;
 - (iii) create any mortgage, sub mortgage, charge, sub charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
 - (iv) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
 - (A) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Notes and the performance and observance of every covenant in the Trust Deed and in these Conditions on the part of the Issuer to be performed or observed;
 - (B) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;
 - (C) the Trustee is satisfied that the interests of the Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
 - (D) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
 - (E) the then current ratings of the Notes are not adversely affected;
 - (v) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the Security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
 - (vi) in a manner which adversely affects the then current ratings of the Notes, have any employees or premises or have any subsidiary;
 - (vii) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Accounts (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it; or
 - (viii) engage, or permit any of its affiliates to engage, in any activities in the United States (directly or through agents), derive, or permit any of its affiliates to derive, any income from sources within the United States as determined under U.S. federal income tax principles, and hold, or permit any of its affiliates to hold, any mortgaged property that would cause it or any of its affiliates to be engaged or deemed to be engaged in a trade or business within the United States as determined under U.S. federal income tax principles.

- (b) So long as any of the Notes remains outstanding the Issuer will procure that there will at all times be one or more persons appointed as administrator of the Mortgages (each an “**Administrator**”). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales, Northern Ireland and Scotland. An Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of any Administrator may be terminated by the Trustee if, among other things, such Administrator is in breach of its obligations under the Administration Agreement, which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class A Notes and the Class B Notes have been redeemed in full, the Class C Noteholders and such breach is not remedied or deemed to be remedied in accordance with the terms of the Administration Agreement. Upon the termination of the appointment of any Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement, but will have no liability under the Mortgage Sale Agreement.

4. Interest

(a) *Interest Payment Dates*

Interest shall accrue on a daily basis on the Principal Liability Outstanding (as defined in Condition 5(b)) of each Note from and including the Closing Date.

Subject to Condition 4(b), such accrued interest in respect of each Note (“**Interest**”) is due and payable in arrear on 15 June 2007 and thereafter quarterly on each subsequent 15 December, 15 March, 15 June and 15 September, or if any such day is not a Business day (as defined below), the next succeeding Business Day (each such day an “**Interest Payment Date**”).

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date relating to a Note and each successive period beginning on (and including) an Interest Payment Date relating to that Note and ending on (but excluding) the next Interest Payment Date is called an “**Interest Period**”.

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

In these Conditions, “**Business Day**” means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London.

(b) *Deferral of Interest on Class B Notes and Class C Notes, Additional Interest, Default Interest and Allocation of Interest*

- (i) On each Interest Payment Date relating to a Class B Note or a Class C Note the Interest which has accrued on each Class B Note or Class C Note during the Interest Period ending on (but excluding) that Interest Payment Date shall be due and payable on that Interest Payment Date only to the extent of the amount to be applied in payment of that Interest on that Interest Payment Date in accordance with paragraph (vi)(A) or (vii)(A) below (as appropriate) and the remainder of such Interest shall be deferred and from then onwards be treated as Deferred Interest (as defined below) instead of Interest.

In these Conditions “**Deferred Interest**” means on any date in respect of a Class B Note or a Class C Note the aggregate amount of accrued interest in respect of that Class B Note or Class C Note which has been deferred under paragraph (i) above and remains outstanding on that date.

- (ii) The full amount of Deferred Interest in relation to a Class B Note or a Class C Note shall be due and payable on the first date upon which the whole Principal Liability Outstanding in respect of that Class B Note or Class C Note becomes due for redemption and, prior to that date, shall be due and payable on each Interest Payment Date only to the extent of the amount to be applied in payment of that Deferred Interest on that Interest Payment Date in accordance with paragraph (vi)(B) or (vii)(B) below (as appropriate).
- (iii) Interest shall accrue on the aggregate outstanding amount of Deferred Interest in respect of a Class B Note or a Class C Note on each day that such Deferred Interest remains outstanding but has not yet become due and payable (excluding the amount, if any, of Deferred Interest which is paid or discharged on that day and excluding each day, if any, where Deferred Interest is paid on a later date in accordance with Condition 6 because the due date is not a Local Business Day) at the same Rate of Interest applicable to that Class B Note or Class C Note during the Interest Period in which that day falls.

In these Conditions “**Additional Interest**” means in respect of a Class B Note or a Class C Note on any date the aggregate amount of interest which has accrued under this paragraph (iii) which remains outstanding on that date. Additional Interest shall cease to accrue on Deferred Interest when such Deferred Interest becomes due and payable.

The full amount of Additional Interest in relation to a Class B Note or a Class C Note shall be due and payable on the first date upon which the whole Principal Liability Outstanding in respect of that Class B Note or Class C Note becomes due for redemption and, prior to that date, shall be due and payable on each Interest Payment Date only to the extent of the amount to be applied in payment of such Additional Interest on that Interest Payment Date in accordance with paragraph (vi)(C) or (vii)(C) below (as appropriate).

- (iv) Interest shall accrue on the aggregate outstanding amount of Interest, as applicable, Deferred Interest and Additional Interest in respect of a Note (being the “**Overdue Interest**”) on each day that Overdue Interest in relation to that Note is due and payable but remains outstanding (excluding the amount, if any, of Overdue Interest which is paid or discharged on that day and excluding each day, if any, where Overdue Interest is paid on a later date in accordance with Condition 6 because the due date is not a Local Business Day) at the same Rate of Interest applicable to that Note during the Interest Period relating to that Note in which that day falls.

In these Conditions “**Default Interest**” means in respect of a Note on any date the aggregate amount of interest which has accrued under this paragraph (iv) which remains outstanding on that date.

The full amount of Default Interest in relation to a Note shall be due and payable on the first date upon which the whole Principal Liability Outstanding in respect of that Note becomes due for redemption and, prior to that date, shall be due and payable on each Interest Payment Date, as applicable, relating to that Note only to the extent of the amount to be applied in payment of such Default Interest on that Interest Payment Date, as applicable, in accordance with paragraph (v)(B), (vi)(D) or (vii)(D) below (as applicable).

- (v) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class A Notes will be applied as follows:
 - (A) first, in or towards the payment of any Interest, as applicable, then due in respect of each of those Notes *pro rata* to the amount of Interest, as applicable, then due on each of those Notes; and
 - (B) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.
- (vi) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class B Notes will be applied as follows:

- (A) first, in or towards the payment of any Interest then due in respect of each of those Notes *pro rata* to the amount of Interest then due on each of those Notes; and
 - (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
 - (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and
 - (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.
- (vii) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class C Notes will be applied as follows:
- (A) first, in or towards the payment of any Interest then due in respect of each of those Notes *pro rata* to the amount of Interest then due on each of those Notes; and
 - (B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Deferred Interest then outstanding on each of those Notes; and
 - (C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Additional Interest then outstanding on each of those Notes; and
 - (D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the amount of Default Interest then outstanding on each of those Notes.
- (c) *Rate of Interest*

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

- (i) In these Conditions:

“**Interest Determination Date**” means in relation to an Interest Period for which the applicable Rate of Interest shall apply, in respect of the Notes, the first day of the Interest Period;

“**Note Interest Rate Margin**” means in relation to:

- (A) each Class A Note, 0.12 per cent. per annum up to and including the Interest Period relating to that Note ending in March 2012 and thereafter 0.24 per cent. per annum;
- (B) each Class B Note, 0.18 per cent. per annum up to and including the Interest Period relating to that Note ending in March 2012 and thereafter 0.36 per cent. per annum; and
- (C) each Class C Note, 0.28 per cent. per annum up to and including the Interest Period relating to that Note ending in March 2012 and thereafter 0.56 per cent. per annum.

“**Reference Banks**” means Barclays Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee;

“**Reference Rate**” means:

- (A) in respect of the first Interest Period for each Note, the linear interpolation of:
 - (1) the arithmetic mean of the Reference Quotations for four month Quotation Deposits; and

- (2) the arithmetic mean of the Reference Quotations for five month Quotation Deposits;
- (B) in respect of subsequent Interest Periods for each Note, the arithmetic mean of the Reference Quotations for three month Quotation Deposits,

in each case rounded upwards, if necessary, to five decimal places;

“Reference Quotations” means:

- (A) where the Reference Screen is being used, quotations to leading banks for the relevant Quotation Deposits for same day value in the Quotation Market at or about the Quotation Time as displayed on the Reference Screen; and
- (B) where Reference Banks are being used, the offered quotations made by the relevant Reference Bank to leading banks for the relevant Quotation Deposits for same day value in the Quotation Market at or about the Quotation Time, details of which are provided by that Reference Bank to the Reference Agent;

“Reference Screen” means page number 3750 displayed on the Dow Jones/Telerate Monitor (or such replacement page on that service which displays the relevant information) or, if that service ceases to display the information, such other screen service as may be determined by the Issuer (with the approval of the Trustee, in its sole discretion);

“Quotation Deposits” means deposits of £10,000,000;

“Quotation Market” means the London inter bank market; and

“Quotation Time” means 11.00 a.m. London time on the relevant Interest Determination Date.

- (ii) In relation to each class of Notes, at or about the Quotation Time on each Interest Determination Date in relation to such class:
 - (A) the Reference Agent shall determine the Reference Rate on the basis of Reference Quotations using the Reference Screen in respect of such class; or
 - (B) if the Reference Agent is unable to determine a Reference Rate under paragraph (A) above, the Reference Agent shall determine that Reference Rate using the Reference Banks if, upon the Reference Agent requesting the relevant Reference Quotations from the principal London office of each of the Reference Banks, at least two of such Reference Banks provide the relevant details of those Reference Quotations to the Reference Agent; or
 - (C) if only one Reference Bank provides the Reference Agent with the relevant Reference Quotations under paragraph (B) above, the Reference Agent shall determine the relevant Reference Rate using the Reference Quotations of that Reference Bank and Reference Quotations of an additional bank which the Trustee indicates to the Reference Agent is, in the opinion of the Trustee, suitable to be and shall be treated as an additional Reference Bank for such purpose on that Interest Determination Date; or
 - (D) if no Reference Bank provides the Reference Agent with the relevant Reference Quotations under paragraph (B) above, the Reference Agent shall determine the relevant Reference Rate using the Reference Quotations of two other banks which the Trustee indicates to the Reference Agent are, in the opinion of the Trustee, suitable to be and shall be treated as Reference Banks for such purpose on that Interest Determination Date; or
 - (E) if the Trustee does not provide the indication contemplated under paragraph (C) above or does not provide either or both of the indications contemplated under paragraph (D) above (as applicable), or the relevant additional bank under paragraph (C) above or either or both of the other banks under paragraph (D) above (as applicable) does not or do not provide the relevant Reference Quotations, then the Reference Agent shall determine the relevant Reference Rate to be the most recent Reference Rate for that class which was determined under either paragraph (A) or (B) above.
- (iii) The Rate of Interest for each class of Notes for each Interest Period relating to such class shall be the aggregate of:
 - (A) the Note Interest Rate Margin in respect of that class; and

- (B) the Reference Rate for that class as determined under paragraph (ii)(A) above on the Interest Determination Date relating to that Interest Period.
- (iv) There shall be no maximum or minimum Rate of Interest.
- (d) *Determination of Rate of Interest and Calculation of Interest Payments and Other Interest Amounts*
- (i) Where a paragraph of these Conditions indicates that an amount is to be calculated in accordance with this Condition 4(d)(i), that amount shall be the product of the following formula (using the figures indicated in that paragraph) rounded to the nearest £0.01 (£0.005 being rounded upwards) (a “**Note Currency Unit**”):

$$\text{Calculation Amount} \times \text{Calculation Interest Rate} \times \frac{\text{Calculation Period}}{\text{Calculation Reference Period}}$$

where the Calculation Reference Period shall be 365.

- (ii) The Reference Agent will, as soon as practicable after the Quotation Time on each Interest Determination Date relating to a Note:
- (A) first determine the Rate of Interest applicable to that Note under Condition 4(c) for the Interest Period relating to that Interest Determination Date; and
- (B) then, separately for each class of Notes to which that Interest Determination Date relates, calculate an amount in respect of that class in accordance with Condition 4(d)(i) using that Rate of Interest as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period and:
- (1) in the case of the first Interest Determination Date for that class, using the aggregate Initial Principal Amount (as defined in Condition 5(b)) of that class of Notes as the Calculation Amount, and
 - (2) in the case of each other Interest Determination Date for that class, using as the Calculation Amount the aggregate Principal Liability Outstanding which will remain in respect of that class of Notes after the application of any Available Redemption Funds on the first day of the Interest Period to which that Interest Determination Date relates; and
- (C) then, in relation to each such class, calculate the aggregate amount of Interest, as applicable, which will accrue on each Note in that class during that Interest Period by apportioning the amount calculated in relation to that class under paragraph (B) above between the Notes in that class *pro rata* to the Principal Amount Outstanding which will remain in respect of each Note in that class after the application of any Available Redemption Funds on the first day of the Interest Period to which that Interest Determination Date relates, rounding each amount so apportioned down to the nearest Note Currency Unit.

The amount calculated in respect of a Note under paragraph (C) above shall be the “**Interest Payment**” in respect of that Note on that Interest Determination Date relating to that Interest Period.

- (iii) On (or as soon as practicable after) the last Business Day of the month preceding the month in which an Interest Payment Date falls, the Issuer shall determine (or cause the Administrator to determine) in respect of each Note to which that Interest Payment Date, as applicable, relates:
- (A) the amount, if any, of Interest which will be paid on each Note on that Interest Payment Date, as the case may be;
- (B) the amount, if any, of Deferred Interest which will be paid on each Class B Note and Class C Note on that Interest Payment Date;
- (C) the amount, if any, of Deferred Interest which will have accrued and remain outstanding on each Class B Note and Class C Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date);

- (D) the amount, if any, of Additional Interest which will have accrued on each Class B Note and Class C Note during the Interest Period ending on (but excluding) that Interest Payment Date by:
 - (1) separately calculating for the Class B Notes and Class C Notes an amount in respect of that class in accordance with Condition 4(d)(i) using the Rate of Interest applicable to Additional Interest in respect of that Interest Period as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period, and using the aggregate amount of Deferred Interest outstanding in respect of that class of Notes as at the end of the first day of that Interest Period as the Calculation Amount; and
 - (2) then apportioning the amount calculated in relation to that class under paragraph (1) above between the Notes in that class *pro rata* to the aggregate amount of Deferred Interest outstanding in relation to each Note in that class, rounding each amount so apportioned down to the nearest Note Currency Unit;
- (E) the amount, if any, of Additional Interest which will be paid on each Class B Note and Class C Note on that Interest Payment Date;
- (F) the amount, if any, of Additional Interest which will have accrued and remain outstanding on each Class B Note and Class C Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date);
- (G) the amount, if any, of Default Interest which will have accrued on each Note during the Interest Period ending on (but excluding) that Interest Payment Date by:
 - (1) separately calculating for each class of Notes an amount in respect of that class in accordance with Condition 4(d)(i) using the Rate of Interest applicable to Default Interest in respect of that Interest Period as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period, and using the aggregate amount of Overdue Interest outstanding in respect of that class of Notes as at the end of the first day of that Interest Period as the Calculation Amount; and
 - (2) then apportioning the amount calculated in relation to that class under paragraph (1) above between the Notes in that class *pro rata* to the aggregate amount of Overdue Interest outstanding in relation to each Note in that class, rounding each amount so apportioned down to the nearest Note Currency Unit;
- (H) the amount, if any, of Default Interest which will be paid on each Note on that Interest Payment Date; and
- (I) the amount, if any, of Default Interest which will have accrued and remain outstanding on each Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date).

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

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to each class of Notes for each Interest Period and the relevant Interest Payment Date as applicable, to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as any Notes are listed by the U.K. Listing Authority and admitted to trading on the Gilt Edged and Fixed Interest Market of the London Stock Exchange plc (the "**London Stock Exchange**"), the London Stock Exchange, and will cause the same to be published in accordance with Condition 12 on or as soon as possible after the date of commencement of the relevant Interest Period.

The Issuer will cause the Deferred Interest (if any), the Additional Interest (if any) and the Default Interest (if any) applicable for each Interest Period to be notified to the Trustee, the Paying Agents and (for so long as the Notes are listed by the U.K. Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange, and will cause the same to be published in accordance with Condition 12 no later than the eighth Business Day prior to the relevant Interest Payment Date.

The Interest Payment, Deferred Interest, Additional Interest, Default Interest and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a shortening of the relevant Interest Period.

(f) *Determination or Calculation by Trustee*

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

(g) *Reference Banks and Reference Agent*

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

5. Redemption and Purchase

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

The Notes shall be subject to mandatory redemption in part on any Interest Payment Date in accordance with this Condition 5(a) if on the Principal Determination Date (as defined below) relating thereto there are any Available Redemption Funds (as defined below).

Prior to the service of an Enforcement Notice, the Issuer shall determine (or cause the Administrator to determine) the principal amount so redeemable in relation to each class of Notes and each Note within each class as follows:

(i) first:

- (A) the amount of the Class A Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date shall be allocated: if any Class A Note is outstanding on that Principal Determination Date, to the Class A Notes *pro rata* to the aggregate Principal Liability Outstanding of such class as at that Principal Determination Date provided that the amount so allocated to such class shall not exceed the aggregate Principal Liability Outstanding of that class, and then
- (B) the amount of the Subordinated Available Redemption Funds (as defined below) on that Principal Determination Date to be applied to redeem the Class B Notes on the following Interest Payment Date (after applying amounts due under Clause 6.1.2(e) of the Deed of Charge, to the extent not satisfied out of amounts standing to the credit of the Revenue Ledger), shall be allocated to the Class B Notes *pro rata* to the aggregate Principal Liability Outstanding of such class as at that Principal Determination Date provided that the amount so allocated to such class shall not exceed the aggregate Principal Liability Outstanding of that class, and then
- (C) the amount of the Subordinated Available Redemption Funds (as defined below) on that Principal Determination Date to be applied to redeem the Class C Notes on the following Interest Payment Date (after applying amounts due under Clause 6.1.2(g) of the Deed of Charge, to the extent not satisfied out of amounts standing to the credit of the Revenue Ledger), shall be allocated to the Class C Notes *pro rata* to the aggregate Principal Liability

Outstanding of such class as at that Principal Determination Date provided that the amount so allocated to such class shall not exceed the aggregate Principal Liability Outstanding of that class;

- (ii) then in respect of each class of Notes the amount, if any, so allocated to that class under paragraph (i) above shall be allocated to each Note in that class *pro rata* to the Principal Liability Outstanding of each such Note in that class, provided always that the amount so allocated shall not exceed the Principal Liability Outstanding of the relevant Note.

The amount allocated to a Note under paragraph (ii) above (and rounded down to the nearest Note Currency Unit) shall be the “**Principal Payment**” in respect of that Note on the Principal Determination Date relating to that Interest Payment Date.

On each Interest Payment Date an amount equal to the Available Redemption Funds (as determined on the preceding Principal Determination Date) allocated to Notes as described above shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in redemption of each of those Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of those Notes.

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

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

- (i) the aggregate of:
 - (A) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) (but excluding amounts so credited as the result of the occurrence of Flexible Drawing Capitalised Advances) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the “**Collection Period**”));
 - (B) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (aa) the aggregate Initial Principal Amount of the Class A Notes, the Class B Notes and the Class C Notes and (bb) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (x) the amounts paid by the Issuer to the Sellers by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement and (y) the amount applied to establish the First Loss Fund on the Closing Date;
 - (C) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Notes on the Interest Payment Date relative thereto; and
 - (D) any part of the amount deducted pursuant to paragraph (ii)(A) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making the relevant payments in respect of which such amount was so deducted;

less

- (ii) the aggregate of:
- (A) the amount estimated by the Issuer to be the likely shortfall, on the Interest Payment Date which will occur before the next Principal Determination Date, of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer payable on each such Interest Payment Date;
 - (B) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) to the extent that such principal amount has been funded using amounts falling within (i)(A) above;
 - (C) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages; and
 - (D) the aggregate amount (the “**Flexible Drawing Facility Principal Debt**”) of principal which has or will become due and repayable on or before the next Interest Payment Date in respect of Flexible Drawing Facility Advances,

in each such case (save for (B) and (C)) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date. Amounts (A) to (D) shall be paid in priority according to the order listed, except to the extent that any of items (B) or (C) is identified as being due and payable prior to the determination of amounts due in priority thereto in which case amounts shall be allocated for payment of such item upon such identification.

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

The “**Class A Available Redemption Funds**” shall equal:

- (i) on any Principal Determination Date falling up to and including the occurrence of the “**Determination Event**” being the first Interest Payment Date on which the ratio of (I) the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes is 0.06:1 or more (in each case after the application of Available Redemption Funds on that Interest Payment Date)), all of the Available Redemption Funds determined as at such Principal Determination up to the aggregate Principal Amount Outstanding of the Class A Notes; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The “**Subordinated Available Redemption Funds**” shall equal:

- (i) (A) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls up to and including the occurrence of the Determination Event; or
- (B) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls after the occurrence of the Determination Event and Class A Notes remain outstanding and will not be redeemed in full on the next Interest Payment Date and either of the following tests is not satisfied:
 - (I) on the Interest Payment Date immediately following the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that Interest Payment Date and any drawing

made under the Subordinated Loan Agreement on that Interest Payment Date, there is any credit balance of zero or greater on the Principal Deficiency Ledger; or

- (II) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent less than 15 per cent. of the then Current Balances of all of the Mortgages (paragraphs (I) and (II) together being the “**Redemption Tests**”),

nil;

- (ii) on each Principal Determination Date which falls after the occurrence of the Determination Event and on which Class A Notes remain outstanding and will not be redeemed in full on the next following Interest Payment Date, provided that both the Redemption Tests are satisfied that amount of the Available Redemption Funds (pro rata to the amount of the Class B Notes and the Class C Notes) determined as at such date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the aggregate Principal Liability Outstanding of the Class B Notes and the aggregate Principal Liability Outstanding of the Class C Notes to (II) the sum of the aggregate Principal Liability Outstanding of the Class A Notes and the aggregate Principal Liability Outstanding of the Class B Notes and the aggregate Principal Liability Outstanding of the Class C Notes after such application to become as nearly as possible equal to 0.06:1 provided that the aggregate Principal Liability Outstanding of the Class B Notes and the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below 1.19 per cent. of the Initial Principal Amount; and
- (iii) on any Principal Determination Date which is immediately prior to an Interest Payment Date on which no Class A Note remains outstanding, the total amount of the Available Redemption Funds and on the Principal Determination Date immediately prior to the Interest Payment Date on which the Class A Notes are to be redeemed in full, the amount of Available Redemption Funds in excess of the aggregate Principal Liability Outstanding of the Class A Notes on such Principal Determination Date.

On any Principal Determination Date falling after the Determination Event, if both the Redemption Tests are satisfied, the Subordinated Available Redemption Funds shall be applied *pro rata* between the Class B Notes and the Class C Notes according to the aggregate Principal Liability Outstanding of the Class B Notes and the aggregate Principal Liability Outstanding of the Class C Notes. On any Principal Determination Date, if any of the Redemption Tests is not satisfied, the Subordinated Available Redemption Funds (if any) shall be applied first to the Class B Notes up to the aggregate Principal Liability Outstanding of the Class B Notes and then to the Class C Notes up to the aggregate Principal Liability Outstanding of the Class C Notes.

On each Interest Payment Date an amount equal to the relevant Flexible Drawing Facility Principal Debt (as determined on the preceding Principal Determination Date) shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in or towards repayment of principal due and repayable in respect of Flexible Drawing Facility Advances.

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

- (i) On (or as soon as practicable after) each Principal Determination Date, the Issuer shall determine (or cause the Administrator to determine) (x) the amount of any Principal Payment in respect of each Note of a particular class due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding and the Principal Liability Outstanding of each Note of a particular class after deducting any Principal Payment due to be made in respect of each Note of that class on the next Interest Payment Date, and (z) the fraction in respect of each Note of a particular class expressed as a decimal rounded upwards to the sixth place (the “**Pool Factor**”), of which the numerator is the Principal Amount Outstanding of a Note of that particular class (as referred to in (y) above) and the denominator is the principal amount (expressed as an integer) of that Note upon issue. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Liability Outstanding of a Note, the Principal

Amount Outstanding of a Note and the Pool Factor in respect thereof shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The “**Principal Amount Outstanding**” of a Note on any date shall be the Initial Principal Amount of that Note less the aggregate amount of all Principal Payments in respect of that Note that have become due and payable (whether or not paid) prior to such date.

The “**Principal Liability Outstanding**” of a Note on any date shall be the Initial Principal Amount of that Note less the aggregate amount of all Principal Payments in respect of that Note that have been paid prior to such date.

“**Initial Principal Amount**” in relation to each Note means the initial face principal amount of that Note upon issue of the relevant Global Note relating to that Note.

- (ii) The Issuer, by not later than the seventh Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date, will cause each determination of a Principal Payment, Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor to be notified to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the relevant Notes are listed by the U.K. Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange and will cause details of each determination of a Principal Payment, Principal Liability Outstanding, Principal Amount Outstanding and Pool Factor to be published in accordance with Condition 12 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Notes of a particular class on any Interest Payment Date a notice to this effect will be given to the Noteholders of that class.
 - (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding, the Principal Liability Outstanding or the Pool Factor applicable to Notes of a particular class in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph (b) and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.
- (c) *Redemption for Taxation or Other Reasons*
- If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either:
- (i) on the next Interest Payment Date:
 - (A) the Issuer or any Paying Agent would be required to deduct or withhold from any payment of principal or interest in respect of any Notes; or
 - (B) the Issuer or any Hedge Provider would be required to deduct or withhold from amounts payable by it under any Hedge Agreement,any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any other jurisdiction or any political sub division thereof or any authority thereof or therein; or
 - (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period; or
 - (iii) the Issuer would, by virtue of a change in tax law applicable in the Issuer’s jurisdiction, not be entitled to relief for the purposes of such tax law for any material amount which it is obliged to pay, or against tax arising as a result of any payment the Issuer is treated as receiving for the purposes of such tax law under the Relevant Documents,

then the Issuer may, but shall not be obliged to, redeem all (but not some only) of the Notes of a particular class at their Principal Liability Outstanding together with all accrued interest provided that each of the following conditions is satisfied:

- (i) the Issuer has given written notice in accordance with Condition 12 not more than 90 days and not less than 20 days before that Interest Payment Date to the Trustee and the Noteholders in that class of its intention to redeem that class under this Condition 5(c);
 - (ii) the Issuer will be in a position on that Interest Payment Date to discharge (and so certifies to the Trustee):
 - (A) all its liabilities in respect of that class of Notes and each other class of Notes to be redeemed by the Issuer on that Interest Payment Date (including, in each case, all accrued Interest, Deferred Interest, Additional Interest and Default Interest outstanding); and
 - (B) all amounts required under the Deed of Charge to be paid in priority to or *pari passu* with those liabilities;
 - (iii) if that class comprises all or some of the Class A Notes, that Interest Payment Date will fall on or after the date all (but not some only) of the other Class A Notes (irrespective of class) have been redeemed, together with all accrued interest, in full;
 - (iv) if that class comprises all or some of the Class B Notes, that Interest Payment Date will fall on or after the date all (but not some only) of the other Class B Notes (irrespective of class) have been redeemed, together with all accrued interest, in full; and
 - (v) if that class comprises all or some of the Class C Notes, that Interest Payment Date will fall on or after the date all (but not some only) of the other Notes (irrespective of class) have been redeemed, together with all accrued interest, in full.
- (d) *Optional Redemption in Full*

On any Interest Payment Date the Issuer may redeem all (but not some only) of the Notes of a particular class at their Principal Liability Outstanding together with all accrued interest provided that each of the following conditions is satisfied:

- (i) the Issuer has given written notice in accordance with Condition 12 not more than 90 days and not less than 20 days before that Interest Payment Date to the Trustee and the Noteholders in that class of its intention to redeem that class under this Condition 5(d); and
- (ii) if an Event of Default has occurred or occurs on or before that Interest Payment Date, no Enforcement Notice has been served; and
- (iii) the Issuer will be in a position on that Interest Payment Date to discharge (and so certifies to the Trustee):
 - (A) all its liabilities in respect of that class of Notes and each other class of Notes to be redeemed by the Issuer on that Interest Payment Date (including, in each case, all accrued Interest, Deferred Interest, Additional Interest and Default Interest outstanding); and
 - (B) all amounts required under the Deed of Charge to be paid in priority to or *pari passu* with those liabilities; and
- (iv) if that Interest Payment Date will fall prior to March 2011, then:
 - (A) on that Interest Payment Date the aggregate Principal Liability Outstanding of all of the Notes is less than 20 per cent. of the Initial Principal Amount; and
 - (B) the Issuer also duly gives notice under and in accordance with this Condition 5(d) of its intention to redeem each other class of Notes then outstanding on that Interest Payment Date; and
- (v) if that Interest Payment Date will fall in or after March 2011, then each of the following is satisfied:
 - (A) if that class comprises all or some of the Class A Notes, all (but not some only) of the other Class A Notes have been redeemed, together with all accrued interest, in full on or before that Interest Payment Date;

- (B) if that class comprises all or some of the Class B Notes, all (but not some only) of the other Class B Notes have been redeemed, together with all accrued interest, in full on or before that Interest Payment Date; and
- (C) if that class comprises all or some of the Class C Notes, all (but not some only) of the other Notes have been redeemed, together with all accrued interest, in full on or before that Interest Payment Date,

provided that the Class B Notes may only be redeemed pursuant to this Condition 5(d)(v) to the extent that the Class C Notes are redeemed in full at the same time.

(e) *Redemption on Maturity*

If not otherwise redeemed:

- (i) the Class A Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in September 2033;
- (ii) the Class B Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in September 2033; and
- (iii) the Class C Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in September 2033.

(f) *Purchases*

The Issuer may not purchase any Notes.

(g) *Cancellation*

All Notes redeemed in full pursuant to the foregoing provisions will be cancelled forthwith and may not be resold or reissued.

(h) *Certification*

For the purposes of matters to be certified by the Issuer to the Trustee for the purposes of any redemption made pursuant to Condition 5(c) or Condition 5(d), as the case may be, the Trustee may rely upon any certificate of two Directors of the Issuer and such certificate shall be conclusive and binding on the Issuer and the Holders of each class of Notes to be redeemed pursuant to that Condition.

6. Payments

(a) *Payments of Interest and Principal*

Interest Payments in respect of the Definitive Notes will be made (subject as provided in Condition 8(c) (*Payments – Deductions for Unmatured Coupons for Notes Void*) and Condition 8(e) (*Payments – Payments of Interest on Improperly Withheld or Refused Notes*)) only against presentation and surrender of the relevant Coupons at the Specified Office of a Paying Agent and otherwise in accordance with the provisions of this Condition. Principal Payments in respect of the Definitive Notes will be made against presentation and surrender of the relevant Receipts (except where, after such presentation and surrender, the unpaid principal amount of a Definitive Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Definitive Note) in which case each Principal Payment will be made against presentation and surrender of such Definitive Note) at the Specified Office of a Paying Agent. Each such payment will be made in respect of the Notes, in Sterling at the Specified Office of a Paying Agent by transfer to a Sterling account maintained by the payee with a bank in London or, at the option of the holder, by Sterling cheque drawn by a bank in London.

(b) *Payments Subject to Fiscal Laws*

Payment of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment and to the provisions of the Agency Agreement and the Deed of Charge.

(c) *Deductions for Unmatured Coupons for Notes Void*

On the date upon which any Note becomes due and payable in full pursuant to Condition 5 (*Redemption and Purchase*), unmatured Coupons, Receipts and Talons (if any) appertaining thereto (whether or not attached to such Note) shall become void and no payment shall be made in respect thereof. If the due date for redemption of any Note is not an Interest Payment Date, accrued interest will be paid only against presentation and surrender of the relevant Note.

(d) *Presentation on Non-Business Days*

If the due date for payment of any amount in respect of any Note, Coupon or Receipt is not a Business Day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(e) *Payments of Interest on Improperly Withheld or Refused Notes*

If any amount of principal is improperly withheld or refused on or in respect of any Note or part thereof, the Interest which continues to accrue in respect of such Note in accordance with Condition 4 (*Interest*) will be paid against presentation of such Note at the Specified Office of a Paying Agent.

(f) *Partial Payments*

If a Paying Agent makes a partial payment in respect of any Note, Coupon or Receipt presented to it for payment, such Paying Agent will endorse on such Note, Coupon or Receipt a statement indicating the amount and date of such payment.

(g) *Exchange of Talons*

On or after the relevant Interest Payment Date on which the final Coupon or Receipt forming part of a Coupon or Receipt sheet is surrendered, each Talon forming part of such Coupon or Receipt sheet may be surrendered at the Specified Office of a Paying Agent for a further Coupon or Receipt sheet (including a further Talon) but excluding any Coupons or Receipts in respect of which claims have already become void pursuant to Condition 8 (*Prescription*). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon or Receipt will be delivered in respect of such Talon.

(h) *Duty to maintain a Paying Agent*

The initial Principal Paying Agent is Citibank, N.A., London Branch at its office at Citigroup Centre, 21st floor, Canada Square, Canary Wharf, London, E14 5LB. The Issuer may at any time (with the previous written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will at all times maintain a Paying Agent having a specified office in the City of London (the "**London Paying Agent**") and a Paying Agent (which may be the London Paying Agent) in an EU member state that will not be obliged to withhold or deduct amounts for and on account of tax pursuant to EU Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive and, in the case of the Paying Agent for the Notes, require that such Paying Agent's office for administering payments in respect of such Notes is located outside the United States or its possessions. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given in accordance with Condition 12.

7. Taxation

All payments in respect of the Notes, Coupons and Receipts will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent is required by applicable law, including any Directive of the European Union, to make any payment in respect of the Notes, Coupons and Receipts subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant

authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agents will be obliged to make any additional payments to holders of Notes, Coupons and Receipts in respect of such withholding or deduction.

8. Prescription

Claims against the Issuer for payments in respect of principal or interest on the Notes, Coupons and Receipts shall be prescribed and become void unless made within 10 years from the Relevant Date in respect thereof; the effect of which, in the case of a payment of principal, will be to reduce the Principal Liability Outstanding of such Note by the amount of such payment.

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

9. Events of Default

The Trustee at its discretion may, or if so requested in writing by the holders of (1) at least one quarter of the aggregate of the Principal Amount of the Class A Notes outstanding, (2) if all of the Class A Notes have been redeemed in full, at least one quarter of the aggregate of the Principal Amount of the Class B Notes outstanding or (3) if all of the Class A Notes and the Class B Notes have been redeemed in full, at least one quarter of the aggregate of the Principal Amount of the Class C Notes outstanding, or if so directed by (a) an Extraordinary Resolution of the Class A Noteholders, (b) if all of the Class A Notes have been redeemed in full, an Extraordinary Resolution of the Class B Noteholders or (c) if all of the Class A Notes and the Class B Notes have been redeemed in full, an Extraordinary Resolution of the Class C Noteholders (subject, in each case, to being indemnified to its satisfaction) shall (but, in the case of the happening of any of the events mentioned in (ii) to (v) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Class A Noteholders or, if there are no Class A Notes outstanding, to the interests of the Class B Noteholders or, if there are no Class A Notes and no Class B Notes outstanding, to the interests of the Class C Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class B Notes and/or the Class C Notes, as the case may be, only if the Issuer had, on the due date for payment of the amount of interest in question, sufficient cash to pay, in accordance with the provisions of the Deed of Charge, such interest (after payment of all sums which it is permitted under the Deed of Charge to pay in priority thereto or *pari passu* therewith)) give notice (an “**Enforcement Notice**”) to the Issuer that the Notes are, and each Note shall accordingly forthwith become, immediately due and repayable at their/its Principal Liability Outstanding together with accrued interest (including any Deferred Interest, Additional Interest and Default Interest (if any)) as provided in the Trust Deed if any of the following events (each an “**Event of Default**”) shall occur:

- (i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Notes or any of them, or for a period of 15 days or more in the payment on the due date of any interest upon the Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class A Noteholders or, if there are no Class A Notes then outstanding, by an Extraordinary Resolution of the Class B Noteholders or, if there are no Class A Notes or Class B Notes then outstanding, by an Extraordinary Resolution of the Class C Noteholders; or
- (iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the

undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or

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

The Trustee shall send the Principal Paying Agent a copy of any Enforcement Notice or other notice which the Trustee gives to the Issuer under this Condition 9 for release into the Clearing Systems and notification to the Noteholders.

10. Enforcement

At any time after the Notes become due and repayable at their Principal Amount Outstanding, subject to Condition 7, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the Security for the Notes and to enforce repayment of the Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been (1) so directed in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class A Notes outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders, or (2) if there are no Class A Notes then outstanding, so directed in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class B Notes outstanding or if so directed by an Extraordinary Resolution of the Class B Noteholders, or (3) if there are no Class A Notes and no Class B Notes then outstanding, so directed in writing by the holders of at least one-quarter of the Principal Amount Outstanding of the Class C Notes outstanding or if so directed by an Extraordinary Resolution of the Class C Noteholders and (ii) it shall have been indemnified to its satisfaction.

Notwithstanding the foregoing:

- (i) if the Class A Notes have become due and repayable pursuant to these Conditions otherwise than by reason of a default in payment of any amount due on the Class A Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class A Noteholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class A Noteholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith;
- (ii) provided that all of the Class A Notes have been redeemed in full, so long as any of the Class B Notes remains outstanding, if the Class B Notes have become due and repayable pursuant to these Conditions otherwise than by reason of a default in payment of any amount due on the Class B Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class B Noteholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow

prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class B Noteholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith; and

- (iii) provided that all of the Class A Notes and the Class B Notes have been redeemed in full, so long as any of the Class C Notes remains outstanding, if the Class C Notes have become due and payable pursuant to these Conditions otherwise than by reason of a default in payment of any amount due on the Class C Notes, the Trustee will not be entitled to dispose of the Security unless either a sufficient amount would be realised to allow discharge in full of all amounts owing to the Class C Noteholders and other creditors of the Issuer ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class C Noteholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

11. Replacement of Notes

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

12. Notices

All notices to Noteholders or any category of them shall be deemed to have been duly given to those Noteholders:

- (i) if information concerned in such notice shall appear on the relevant page of the Reuters Screen (presently page PGCF7) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Noteholders (the “**Relevant Screen**”), and in such case such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen; or
- (ii) if published in the *Financial Times* or, if such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other leading daily newspaper or newspapers printed in the English language as the Trustee shall approve in advance having (individually or in combination) a general circulation in the United Kingdom and Europe and in each such case such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above; or
- (iii) whilst the Notes then held by those Noteholders are represented by a Global Note, if delivered to Euroclear and/or Clearstream, Luxembourg in the case of a Global Note, for communication by them to those Noteholders, and in such case such notice shall be deemed to have been given to the relevant Noteholders on the day of such delivery to Euroclear and/or Clearstream, Luxembourg, as appropriate; or
- (iv) any other method or methods of giving notice sanctioned in advance by the Trustee if, in the Trustee’s sole opinion, such other method or methods is/are reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges, competent listing authorities and/or quotation systems on or by which the Notes are then listed, quoted and/or traded and provided that notice of such other method or methods is/are given to those Noteholders in such manner as the Trustee shall require,

and where a notice is given to those Noteholders using more than one of the methods described in the above paragraphs of this Condition, such notice shall be deemed to have been given on the first date on which such notice is deemed to have been given under those paragraphs.

While the Notes are listed on the official list maintained by the U.K. Listing Authority, copies of all notices given in accordance with these provisions shall be sent to a regulatory information service prescribed by the prospectus rules of the U.K. Listing Authority and to Euroclear and Clearstream, Luxembourg.

13. Meetings of Noteholders; Modifications; Consents; Waiver

The Trust Deed contains provisions for convening meetings of all Noteholders or Noteholders holding Notes of the same class (the “**Relevant Noteholders**”) to consider any matter affecting the interests of those Relevant Noteholders including, among other things, the sanctioning by Extraordinary Resolution of a modification of their Notes (including these Conditions as they relate to their Notes) or the provisions of any of the Relevant Documents.

In these Conditions a “**Basic Terms Modification**” means a modification of certain terms including, among other things, a modification which would have the effect of altering the date of maturity of any of the Notes, or postponing any day for payment of interest in respect of any of the Notes, reducing or cancelling the amount of principal payable in respect of any of the Notes, or reducing the rate of interest applicable to any of the Notes, or altering the majority required to pass an Extraordinary Resolution, or altering the currency of payment of any of the Notes, or altering the date or priority of redemption of any of the Notes.

The quorum at any meeting of the Relevant Noteholders for passing an Extraordinary Resolution of the Relevant Noteholders shall be two or more persons holding or representing over 50 per cent. of the aggregate Principal Amount of the Notes then outstanding held by the Relevant Noteholders or, at any adjourned meeting, two or more persons being or representing the Relevant Noteholders whatever the aggregate Principal Amount of the Notes then outstanding so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution by the Relevant Noteholders shall be two or more persons holding or representing over 75 per cent. of the aggregate Principal Amount of the Notes then outstanding held by the Relevant Noteholders, or at any adjourned such meeting two or more persons holding or representing over 25 per cent. of the aggregate Principal Amount of the Notes then outstanding held by the Relevant Noteholders. The quorum at any meeting of the Relevant Noteholders of any class of Notes for all business other than voting on an Extraordinary Resolution shall be two or more persons holding or representing not less than 5 per cent. of the aggregate Principal Amount then outstanding held by the Relevant Noteholders or at any adjourned such meeting, two or more persons being or representing the Relevant Noteholders, whatever the aggregate Principal Amount of the Notes then outstanding held by the Relevant Noteholders. While any Notes are represented by a Global Note or all such Notes are held by the same person, the holder of that Global Note or that person (as the case may be) shall be deemed to constitute a quorum for the purposes of meetings of or including the Relevant Noteholders of those Notes.

The majority required for an Extraordinary Resolution, including the sanctioning of a Basic Terms Modification, shall be 75 per cent. of the votes cast on that Extraordinary Resolution. Any other resolution shall be decided by a simple majority of votes cast (and in a case of equality of votes the Chairman of the relevant meeting shall have a casting vote).

A Basic Terms Modification shall not be effective unless sanctioned by an Extraordinary Resolution duly passed at separate meetings of the holders of each class of Notes. In any other case, no such separate meetings of holders of different classes of Notes will be required unless an Enforcement Notice has been served.

The Trust Deed contains provisions limiting the powers of the Class B Noteholders and the Class C Noteholders, among other things, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. In particular, an Extraordinary Resolution of the Class B Noteholders or the Class C Noteholders shall not be effective unless, among other things, the Trustee is of the sole opinion that it will not be materially prejudicial to the interests of the Class A Noteholders or it is sanctioned by an

Extraordinary Resolution of the Class A Noteholders. Except in certain circumstances the Trust Deed imposes no such limitations on the powers of the Class A Noteholders the exercise of which will be binding on the Class B Noteholders and the Class C Noteholders irrespective of the effect on the interests of the Class B Noteholders and the Class C Noteholders. Further, the Trust Deed contains provisions limiting the powers of the Class C Noteholders, among other things, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders and the Class B Noteholders. In particular, an Extraordinary Resolution of the Class C Noteholders shall not be effective unless, among other things, the Trustee is of the sole opinion that it will not be materially prejudicial to the interests of the Class A Noteholders or the Class B Noteholders or it is sanctioned by an Extraordinary Resolution of the Class A Noteholders and/or an Extraordinary Resolution of the Class B Noteholders (as applicable). Except in certain circumstances the Trust Deed imposes no such limitations on the powers of the Class A Noteholders and the Class B Noteholders, the exercise of which will be binding on the Class C Noteholders irrespective of the effect on the interests of the Class C Noteholders.

An Extraordinary Resolution passed at any meeting of Relevant Noteholders shall be binding on all those Relevant Noteholders whether or not they are present at the meeting and upon all Couponholders and Receiptholders relating thereto. No separate meetings of the holders of different classes of Notes will be required to pass an Extraordinary Resolution (except, for the avoidance of doubt, in relation to a Basic Terms Modification) unless the Trustee determines that there is a conflict in the interests of the Noteholders of one class and the Noteholders of another class in relation to that Extraordinary Resolution.

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

14. Indemnification of the Trustee

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

15. Notifications and Other Matters to be Final

Notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Notes, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator(s) or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Reference Agent, the Trustee, the Administrator(s), the Principal Paying Agent, the other Paying Agents (if any) and all Noteholders, Couponholders and Receiptholders and (subject as aforesaid) no liability to the Issuer, the Administrator(s) or the Noteholders, Couponholders or

Receiptholders shall attach to the Reference Banks, the Reference Agent, the Issuer, the Administrator(s) or the Trustee in connection with the exercise or nonexercise by them of their powers, duties and discretions.

16. Non-Petition and Limited Recourse

- (i) Each of the Noteholders, Couponholders and Receiptholders agrees with the Issuer that notwithstanding any other provision of the Relevant Documents, all obligations of the Issuer to the Noteholders, Couponholders and Receiptholders, including its obligations under the Notes and the Relevant Documents, are limited in recourse as set out below:
- (i) it will have a claim only in respect of the Security and will not have any claim, by operation of law or otherwise, against, or recourse to any of the Issuer's other assets; and
 - (ii) sums payable to each Noteholder, Couponholder or Receiptholder in respect of the Issuer's obligations to such Noteholder, Couponholder or Receiptholder shall be limited to the lesser of: (a) the aggregate amount of all sums due and payable to such Noteholder, Couponholder or Receiptholder; and (b) the aggregate amounts received, realised or otherwise recovered by or for the account of the Issuer in respect of the Security whether pursuant to enforcement of the Security or otherwise, net of any sums which are payable by the Issuer in accordance with the Deed of Charge and in priority to or *pari passu* with sums payable to such Noteholder, Couponholder or Receiptholder; and
 - (iii) upon the Trustee giving written notice to the Noteholders that it has determined in its sole opinion that there is no reasonable likelihood of there being any further realisations in respect of the Security (whether arising from an enforcement of the Security or otherwise) which would be available to pay amounts outstanding under the Relevant Documents and the Notes, the Noteholders, Couponholders or Receiptholders shall have no further claim against the Issuer in respect of any such unpaid amounts and such unpaid amounts shall be discharged in full.
- (ii) Notwithstanding Condition 10 (*Enforcement*), none of the Noteholders, Couponholders or Receiptholders or the parties to the Relevant Documents (save for the Trustee, who shall be entitled to appoint a receiver, administrator, receiver and manager or administrative receiver in connection with the enforcement of the Security created pursuant to the Deed of Charge), shall be entitled to petition or take any corporate action or other steps or legal proceedings for the winding-up, dissolution, court protection, examinership, reorganisation, liquidation, bankruptcy or insolvency of the Issuer or for the appointment of a receiver, administrator, receiver and manager, administrative receiver, trustee, liquidator, examiner, sequestrator or similar officer in respect of the Issuer or any of its revenues or assets for so long as the Notes are outstanding or for two years and a day after all sums outstanding and owing in respect of the Notes have been paid in full, provided that, the Trustee may prove or lodge a claim in liquidation of the Issuer initiated by another party and, provided further that, the Trustee may take proceedings to obtain a declaration or similar judgment or order as to the obligations and liabilities of the Issuer under the Deed of Charge.
- (iii) The obligations of the Issuer are corporate obligations only. None of the parties to the Relevant Documents shall have any recourse against any director, shareholder or officer of the Issuer in respect of any obligations, covenant or agreement entered into or made by the Issuer pursuant to the terms of the Deed of Charge or any other Relevant Document to which it is a party or any notice or documents which it is requested to deliver hereunder or thereunder.

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

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

18. Governing Law and Jurisdiction

The Notes are governed by, and shall be construed in accordance with, English law. The Issuer has agreed in the Trust Deed that the courts of England shall have non exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes (respectively, the “**Proceedings**” and “**Disputes**”) and, for such purposes, irrevocably submits to the jurisdiction of such courts. In the Trust Deed, the Issuer has waived any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agreed not to claim that any such court is not a convenient or appropriate forum.

USE OF PROCEEDS

The gross proceeds from the issue of the Notes on the Closing Date will be £268,600,000. Commissions will be payable to the Managers under the Subscription Agreement in connection with the issue of certain classes of the Notes as described in “Subscription and Sale” below. These commissions, together with certain other expenses of the issues, will be paid on behalf of or reimbursed to the Issuer by the Issue Services Provider as described in “The Issuer – Fee Letter” below. The net proceeds from the issue of the Notes, which will be approximately £268,371,690 (taking into account the sums paid by the Issue Services Provider to the Issuer in respect of such commissions and expenses on the Closing Date), will be applied towards payment to the Sellers of the purchase price for the Mortgages to be purchased pursuant to the Mortgage Sale Agreement on the Closing Date.

RATINGS

The classes of Notes are expected on issue to be assigned the following ratings:

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

Certain risks relating to the ratings of the Notes are described in “Risk Factors – The Issuer’s ability to meet its obligations under the Notes” above. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

ESTIMATED AVERAGE LIVES OF THE NOTES

For the purposes of this section of this Offering Circular, the average life of the Notes refers to the average amount of time that will elapse from the date of issuance of the Notes to the date of distribution to the relevant Noteholder of amounts distributed in net reduction of principal of such Notes (assuming no losses).

The average lives of the Notes cannot be predicted with any certainty, as the actual rate of redemption and prepayments under the Mortgages and a number of other relevant factors are unknown.

Calculations of the estimated average lives of the Notes can be made based on a model using certain assumptions. For example, the following tables were prepared based on the characteristics of the Mortgages to be included in the pool of Mortgages to be purchased by the Issuer and the following additional modelling assumptions:

- (a) the portfolio of Mortgages to be purchased by the Issuer on the Closing Date consists of Mortgages each having the characteristics defined below:

<i>Collateral Line</i>	<i>Current Principal Balance (£)</i>	<i>Weighted Average Initial Rate</i>	<i>Remaining Term to Maturity (Months)</i>	<i>Time to Rate Adjustment (Months)</i>	<i>Remaining Interest Only Period (Months)</i>	<i>Repline</i>
1	207,766,374.84	7.18%	106	0	106	IO, Float
2	153,599.77	4.32%	98	88	98	IO, Fix
3	89,989,750.30	6.66%	166	0	0	REP, Float
4	59,825.47	4.00%	120	120	0	REP, Fix

- (b) the Issuer exercises its rights to redeem the Notes on the earlier to occur of (i) the Interest Payment Date falling in March 2012 and (ii) the Interest Payment Date on which the aggregate Principal Liability Outstanding of all of the Notes is less than 20 per cent. of the Initial Principal Amount of the Notes;
- (c) in addition to the Scheduled payments derived from the collateral lines in (a) above, the Mortgages are subject to prepayments (without including Flexible Drawing Advances) at annualised rates expressed as a percentage of the outstanding principal amount of the Mortgages ("**CPR**") indicated in the relevant column headings in the table below;
- (d) no Mortgages are sold or purchased by the Issuer after the Closing Date;
- (e) there are no Further Advances or conversions in respect of the Mortgages;
- (f) the Mortgages are fully performing and there are no delinquencies or defaults experienced on the mortgages;
- (g) no principal deficiency arises;
- (h) the portfolio composition of Mortgage characteristics remains the same throughout the life of the Notes;
- (i) the Notes will be redeemed in accordance with the Conditions;
- (j) the Closing Date is 25 January 2007; and
- (k) the mortgage rate for each collateral line is the weighted average initial rate.

The average annualised repayment, redemption and prepayment rates on the Mortgages referred to in assumption (c) above may substantially vary from one interest period to another. The average annualised repayment, redemption and prepayment rates shown above are purely illustrative and do not represent the full range of possibilities for such Mortgages.

Assumptions (d) to (j) above relate to circumstances which are not predictable.

The actual characteristics and performance of the Mortgages are likely to differ from the assumptions used in constructing the tables set forth below, which are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected that the Mortgages will prepay at a constant rate until maturity, that all of the Mortgages will prepay at the same rate or that there will be no defaults or delinquencies on the Mortgages. Any difference between such assumptions and the actual characteristics and performance of the Mortgages will cause the weighted average life of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage of CPR.

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of payment of principal (including prepayments, redemptions before the end of the mortgage term, Flexible Drawing Advances under Flexible Mortgages, sale proceeds arising on enforcement of a Mortgage and repurchases of Mortgages due to, among other things, breaches of any of the warranties given by the Sellers under the Mortgage Sale Agreement) on the Mortgages and the price paid by the holders of the Notes. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgages.

It will also be affected by the fact that 52.86 per cent. of Mortgages by value of drawn balances in the Provisional Mortgage Pool are Flexible Mortgages which provide the relevant Borrower with the option to obtain Flexible Drawing Advances if and to the extent that such Borrower has previously made prepayments on its Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments. However, the amount of such Flexible Drawing Advance is limited to ensure that the outstanding balance of the Mortgage after such Flexible Drawing Advance is no greater than the principal balance of the Mortgage which would have been outstanding at such time if the Borrower had made payments in accordance with the repayment plan used by the Administrator to provide

a baseline for repayment of the Mortgage. See “Mortgage Administration – Further Advances – Mandatory Further Advances” below for a description of how Flexible Drawing Advances are to be funded by the Issuer.

Redemptions before the end of a mortgage term may be as a result of a Borrower voluntarily refinancing or selling the relevant property or as a result of enforcement proceedings under the relevant Mortgage, as well as the receipt of proceeds from buildings insurance and life insurance policies (where relevant). In addition, repurchases of Mortgages required to be made under the Mortgage Sale Agreement will have the same effect as early redemption of such Mortgages.

The rates of redemption and prepayment and the amount of Flexible Drawing Advances by Borrowers under Flexible Mortgages cannot be predicted and are influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing, local and regional economic conditions and homeowner mobility. Therefore, no assurance can be given as to the level of prepayments, redemptions and Flexible Drawing Advances that the Mortgage Pool will experience.

Subject to the foregoing discussions and assumptions, the following tables indicate the estimated average lives of the Notes calculated on the basis indicated above:

Estimated average life of the Notes in years

<i>Class</i>	<i>0 per cent. CPR</i>	<i>5 per cent. CPR</i>	<i>10 per cent. CPR</i>	<i>15 per cent. CPR</i>	<i>20 per cent. CPR</i>	<i>25 per cent. CPR</i>	<i>30 per cent. CPR</i>	<i>35 per cent. CPR</i>
A Notes	4.94	4.36	3.84	3.38	2.99	2.64	2.26	1.91
B Notes	5.14	5.14	5.14	5.03	4.68	4.32	3.69	3.14
C Notes	5.14	5.14	5.14	5.03	4.68	4.32	3.69	3.14

The average lives of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the above assumptions and estimates will prove in any way to be realistic and the above estimated average lives must therefore be viewed with caution.

THE ISSUER

Introduction

The Issuer was incorporated in England (registered number 4579544) as a public limited company under the Companies Act 1985 on 1 November 2002 as First Flexible (No. 7) PLC. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE and its telephone number is 0121 712 2323. Twenty six per cent. of the share capital of the Issuer is held by Paragon Mortgages (No. 16) Limited, a company limited by guarantee incorporated under the laws of England (registered number 4786771) and seventy four per cent. of the share capital of the Issuer is held by PGC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed by the U.K. Listing Authority and is traded on the London Stock Exchange.

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

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

The Issuer has not engaged, since its incorporation, in any material activities other than (i) those incidental to its registration as a public limited company under the Companies Act 1985, (ii) obtaining a certificate from the Registrar of Companies pursuant to section 117 of the Companies Act 1985, (iii) the authorisation of the issue of the Notes and the matters contemplated in this Offering Circular and the authorisation and execution of the other documents referred to in this Offering Circular to which it is a party, (iv) applying for a standard licence under the Consumer Credit Act 1974, (v) applying for registration and registering under the Data Protection Act 1998, and (vi) applying to join the Paragon VAT Group and, in each case, any other activities incidental to any of the foregoing. The Issuer has not, prior to the Closing Date, commenced operations. No financial statements of the Issuer have been made up as at the date of this Offering Circular.

Since 1 November 2002, being the date of incorporation of the Issuer, there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer.

Directors and Secretary

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

<i>Name</i>	<i>Business Address</i>	<i>Principal activities</i>
Nicholas Keen	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Finance Director of PGC, PFPLC, each Seller, MTL, PSFL and Arianty
John Gemmell	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Director of Financial Accounting and Secretary of PGC and Director and Secretary of PFPLC, each Seller, MTL and the Warehouseurs
Richard Shelton	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Solicitor and Director of PFPLC, each Seller, MTL and the Warehouseurs

<i>Name</i>	<i>Business Address</i>	<i>Principal activities</i>
Adem Mehmet	30-34 Moorgate London EC2R 6PQ	Director of PFPLC, each Seller, MTL and the Warehouse
James Fairrie	Tower 42, Level 11 25 Old Broad Street London EC2N 1HQ	Director of Wilmington Trust SP Services (London) Limited

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

The Issuer has no employees.

Management and Activities

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

The Issuer will covenant to observe certain restrictions on its activities which are detailed in “Terms and Conditions of the Notes – 3. Covenants of the Issuer” above.

Fee Letter

PFPLC (in such capacity, the “**Issue Services Provider**”), has agreed to arrange the issue of the Notes on behalf of the Issuer. In particular, the Issue Services Provider has negotiated the terms of the issue of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Managers. PFPLC will pay, on behalf of the Issuer, or reimburse to the Issuer, any expenses payable by the Issuer in connection with the issue of the Notes.

The Issuer will agree under a fee letter to be entered into on the Closing Date between the Issuer, PFPLC, and the Trustee (the “**Fee Letter**”) that it will pay the Issue Services Provider an arrangement fee of 0.4 per cent. of the aggregate Initial Principal Amount of the Notes and that it will repay PFPLC all expenses paid by PFPLC in connection with the issue of the Notes in instalments on the business day following each Interest Payment Date over a period of four years from the Closing Date. Amounts to be paid under the Fee Letter will bear interest at a rate of 4 per cent. per annum above the Reference Rate applicable to the Notes during the Interest Period relating to the Notes ending on (but excluding) that Interest Payment Date as determined under Condition 4 (or such other rate which PFPLC and the Issuer agree to be a fair commercial rate at the time) payable in arrear on the business day following each Interest Payment Date (including any value added tax chargeable thereon as applicable). Amounts owing to the Issue Services Provider under the Fee Letter will be subordinated in the manner described in “Transaction Overview – Priority of Payments – prior to enforcement” above.

Subordinated Loan Agreement

By the Subordinated Loan Agreement (which is to be made between each Subordinated Lender, the Issuer and the Trustee and to be dated the Closing Date) the Subordinated Lenders will agree to make available to the Issuer a loan facility, under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund at the initial Required Amount and together with the proceeds of the issue of the Notes, to enable the Issuer to pay the amounts payable by the Issuer by way of purchase price for the Mortgages on the Closing Date thereby allowing it to achieve the initial ratings on the Notes. Under the terms of the Subordinated Loan Agreement, the Subordinated Lenders will also agree to make

advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make. In addition, but without prejudice thereto, each Subordinated Lender may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances.

In addition, the Subordinated Lenders may, at their discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable it to make any Discretionary Further Advances.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of each Subordinated Lender, for the purpose of establishing or increasing the Shortfall Fund and, in addition, the Subordinated Lenders may lend further sums to the Issuer under the Subordinated Loan Agreement to be used by the Issuer to purchase Caps or other hedging arrangements and related guarantees (where required) in respect of Converted Mortgages. The Issuer may from time to time borrow further sums from the Additional Subordinated Lenders on the terms of the Subordinated Loan Agreement. Amounts owing to any Additional Subordinated Lenders under the Subordinated Loan Agreement will be subordinated in the manner described in "Transaction Overview – Priority of Payments – prior to enforcement" above.

The Subordinated Lenders will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it to pay any Hedge Provider Subordinated Amounts due and payable to each Hedge Provider on such Interest Payment Date; (ii) at any time where the Issuer, or the Administrator on the Issuer's behalf, waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge; and (iii) to enable the Issuer to pay that part of the purchase price for Mortgages represented by Pre-Closing Accruals and Arrears and the FRS 26 Adjustment.

Interest under the Subordinated Loan Agreement will be payable by the Issuer quarterly on or after the first Business Day after each Interest Payment Date commencing with the Interest Payment Date falling in June 2007 on the amount of the loan at the rate of 4 per cent. per annum above the Reference Rate applicable to the Notes during the Interest Period relating to those Notes ending on (but excluding) that Interest Payment Date as determined under Condition 4 (or such other rate which each Subordinated Lender and the Issuer agree is a fair commercial rate at the relevant time). Principal will be repayable on the earlier of (i) the day following the last Interest Payment Date falling in September 2033 and (ii) the first day on which there are no Notes outstanding except that on any Interest Payment Date sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (see "Transaction Overview – Priority of Payments – prior to enforcement" above) (provided that, while any Notes remain outstanding, no such repayment may be made if it would result in the principal amount outstanding in respect of the Subordinated Loan being less than the Required Amount). Payments of interest under the Subordinated Loan Agreement may only be made by the Issuer if, after applying its net income (other than principal receipts in respect of the Mortgages) in making a number of other payments or provisions, the Issuer still has sufficient funds for the purpose as more particularly described in "Transaction Overview – Priority of Payments – prior to enforcement" above. The Subordinated Lenders and the Issuer may agree that any payments of interest and repayments of principal under the Subordinated Loan Agreement may be waived or deferred (in whole or in part).

Hedging Arrangements

Interest rate basis hedging arrangements

On the Closing Date, the Issuer will have entered into hedging arrangements under the Basis Hedge Agreement in accordance with the Rating Agencies' requirements to hedge any Fixed Rate Mortgages which are acquired by it on the Closing Date.

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

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

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

After payment of, or allocation of amounts to, items (i) to (xi) inclusive in the order of priority of payments set out in “Transaction Overview – Priority of Payments – prior to enforcement” above, the Issuer may reserve funds on a Principal Determination Date to enable it to purchase Caps or other hedging arrangements (and related guarantees) in the succeeding Interest Period. Except as mentioned in the paragraphs below relating to Withholding Compensation Amounts, under no circumstances will the Issuer be liable to make any payment to the provider of any Cap.

Ratings of Basis Hedge Provider and transfer of Basis Hedge Agreements

Under the Basis Hedge Agreement, in the event that the relevant ratings of the Basis Hedge Provider, or its respective guarantor, as applicable, is or are, as applicable, downgraded by a Rating Agency below the relevant ratings specified (in accordance with the requirements of Fitch and S&P) in the Basis Hedge Agreement (the “**Hedge Trigger Ratings**”) and (in some cases) as a result of such downgrade the then current ratings of the class of Notes relating to the Basis Hedge Agreement, would or may, as applicable, be adversely affected, then the Basis Hedge Provider will, in accordance with the Basis Hedge Agreement, be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the Basis Hedge Agreement, (ii) arranging for its obligations under the Basis Hedge Agreement to be transferred to an entity with ratings required by the relevant Rating Agency as specified in the Basis Hedge Agreement (in accordance with the requirements of the relevant Rating Agency), (iii) procuring another entity, with ratings required by the relevant Rating Agency as specified in the Basis Hedge Agreement (in accordance with the requirements of the relevant Rating Agency), to become co obligor in respect of its obligations under the Basis Hedge Agreement, or (iv) taking such other action as it may agree with the relevant Rating Agency.

Where the Basis Hedge Provider provides collateral in accordance with the terms of the Basis Hedge Agreement, such collateral (“**Hedge Collateral**”) will, upon receipt by the Issuer, be credited to the Hedge Collateral Ledger (created to record such amounts) and transferred (if in cash form) to the Transaction Account. Any Hedge Collateral provided by the Basis Hedge Provider will not form part of the amounts to be applied under the Revenue Priority of Payments, Principal Priority of Payments or Enforcement Priority of Payments (as defined in Condition 2) except until it is applied in or towards satisfaction of amounts due by the Basis Hedge Provider to the Issuer in accordance with the terms under which the Hedge Collateral was provided.

Provided that it has obtained the prior written approval of the Issuer, the Basis Hedge Provider may, at its own expense, transfer its obligations in respect of the Basis Hedge Agreement to another entity provided that such entity is acceptable to the Trustee and that the Rating Agencies confirm that such transfer of obligations would not result in a downgrade of the then current ratings of the Notes.

Termination payments upon early termination of hedging arrangements

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

The Basis Hedge Agreement may be terminated by the Basis Hedge Provider in circumstances including, broadly, where the Issuer is in default by reason of failure by the Issuer to make payments and where certain insolvency related or corporate reorganisation events affect the Issuer and in the event that proceedings are taken against the Issuer by the Trustee to enforce payment of the Notes. The Basis Hedge Agreement may be terminated by the Issuer in circumstances including, broadly, where the Basis Hedge Provider is in default by reason of failure by the Basis Hedge Provider to make payments, where the Basis Hedge Provider is otherwise in breach of the Basis Hedge Agreement or has made a misrepresentation and where certain insolvency related or corporate reorganisation events affect the Basis Hedge Provider.

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

Where the Issuer enters into a further Hedge Agreement to replace all or part of any Hedge Agreement which terminates early, the Issuer shall upon receipt apply the amount, if any, received in consideration for entry into that replacement Hedge Agreement in or towards payment of any termination payment then payable by the Issuer to the relevant Hedge Provider in respect of that Hedge Agreement which has terminated early and the remainder of that amount, if any, shall be credited to the Revenue Ledger.

Any termination payment due to the Issuer in respect of a hedging transaction which is being terminated at the option of the Issuer due to the early redemption, enforcement or sale of a Fixed Rate Mortgage or a Capped Rate Mortgage (to the extent that any Mortgages are converted to Capped Rate Mortgages) prior to the final redemption of the Notes will not be payable in full immediately but will be payable to the Issuer in the form of an annuity on each Interest Payment Date until the date on which the relevant swap or hedging agreement would have expired had it not been terminated early.

Withholding Compensation Amounts

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

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

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

Capitalisation and indebtedness

The capitalisation of the Issuer as at the date of this document is as follows:

<i>Share capital</i>	£
Authorised	
100,000 ordinary shares of £1 each	100,000
Issued	
50,000 ordinary shares of £1 each (paid up as to 25 pence each)	12,500
Borrowings	0.00

Notes:

- (1) The Issuer expects to issue the Notes on the Closing Date. In addition, an advance under the Subordinated Loan Agreement will be made on the Closing Date in an amount sufficient, among other things, to enable the Issuer to achieve the initial ratings on the Notes. The amount of this advance is expected to be approximately £3,261,541.05. The Notes and the Subordinated Loan Agreement will have the benefit of security.
- (2) As at the date of this document 74 per cent. of the issued shares in the Issuer are held by PGC and 26 per cent. are held by Paragon Mortgages (No.16) Limited.

The current financial period of the Issuer will end on 30 September 2007. As at the date of this Offering Circular, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities which are material.

There has been no material adverse change in the financial position or prospects of the Issuer since the date of its incorporation.

The Taxation of Securitisation Companies Regulations 2006

It is expected that, with effect from the Closing Date, the Issuer will fall within The Taxation of Securitisation Companies Regulations 2006 (the “**Regulations**”) and will be subject to corporation tax for its accounting periods beginning on or after 1 January 2007 on its retained profit, in accordance with the Regulations.

THE PARAGON VAT GROUP

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

Citicorp Trustee Company Limited (as successor to Morgan Guaranty Trust Company of New York) is the trustee of the fund which currently amounts to approximately £120,000. The Issuer will on the Closing Date become one of the beneficiaries of the trust (the other beneficiaries being, at the date of this Offering Circular, other special purpose companies holding mortgage assets administered by a member of the Paragon VAT Group) in relation to the VAT Account, such trust being constituted by a declaration of trust dated 19 March 1993, as subsequently supplemented, amended and restated (the "**VAT Declaration of Trust**").

THE BASIS HEDGE PROVIDER

On the Closing Date, the Basis Hedge Provider will be JPMorgan Chase Bank, National Association.

JPMorgan Chase Bank, National Association

JPMorgan Chase Bank, National Association (“**JPMCB**”) is a wholly owned bank subsidiary of JPMorgan Chase & Co. (“**JP Morgan Chase**”), a Delaware corporation whose principal office is located in New York, New York. JPMCB is a commercial bank offering a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of September 30, 2006, JPMorgan Chase Bank, National Association, had total assets of \$1,173.7 billion, total net loans of \$401.9 billion, total deposits of \$613.3 billion, and total stockholder’s equity of \$92.0 billion. These figures are extracted from JPMCB’s unaudited Consolidated Reports of Condition and Income as at September 30, 2006, which are filed with the Federal Deposit Insurance Corporation.

Additional information, including the most recent Form 10-K for the year ended December 31, 2005, of JPMorgan Chase & Co., the 2005 Annual Report of JPMorgan Chase & Co., as amended, and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information contained in the preceding three paragraphs relates to and has been obtained from JPMCB. The delivery of the Offering Circular shall not create any implication that there has been no change in the affairs of JPMCB since the date hereof, or that the information contained or referred to in the preceding three paragraphs is correct as of any time subsequent to its date.

THE FLEXIBLE DRAWING FACILITY PROVIDER

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London E14 5HP. Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank PLC was re-registered as a public limited company and its name was changed from “Barclays Bank International Limited” to “Barclays Bank PLC”.

Barclays Bank PLC and its subsidiary undertakings (taken together, the “**Barclays Group**”) is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Barclays Group and one of the largest financial services companies in the world by market capitalisation.

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

By Regulation, the European Union agreed that virtually all listed companies must use International Financial Reporting Standards (“**IFRS**”) adopted for use in the European Union in the preparation of their 2005 consolidated account. Barclays PLC and Barclays Bank PLC have applied IFRS from 1 January 2004, with the exception of the standards relating to financial instruments (IAS 32 and IAS 39) and insurance contracts (IFRS 4) which were applied only with effect from 1 January 2005. Therefore, in the 2005 Barclays PLC Annual Report and the 2005 Barclays Bank PLC Annual Report, the impacts of adopting IAS 32, IAS 39 and IFRS 4 are not included in the 2004 comparatives in accordance with First-time Adoption of International Financial Reporting Standards (IFRS 1). The results for 2005 are therefore not entirely comparable to those for 2004 in affected areas.

Based on Barclays Group’s audited financial information for the year ended 31 December 2005, the Barclays Group had total assets of £924,170 million (2004: £538,300 million), total net loans and advances¹ of £300,001 million (2004: £343,041 million), total deposits² of £313,811 million (2004: £328,516 million), and total shareholders’ equity of £24,243 million (2004: £16,849 million) (including minority interests of £1,578 million (2004: £211 million)). The profit before tax of the Barclays Group for the year ended 31 December 2005 was £5,311 million (2004: £4,589 million) after charging impairment loss on loans and advances and other credit risk provisions of £1,571 million (2004: £1,093 million).

The annual report on Form 20-F for the year ended 31 December 2005 of Barclays PLC and Barclays Bank PLC is on file with the Securities and Exchange Commission. Barclays will provide, without charge to each person to whom this Offering Circular is delivered, on the request of that person, a copy of the Form 20-F referred to in the previous sentence. Written requests should be directed to: Barclays Bank PLC, 1 Churchill Place, London E14 5HP, England, Attention: Barclays Group Corporate Secretariat.

¹ Total net loans and advances include balances relating to both banks and customer accounts.

² Total deposits include deposits from banks and customer accounts.

THE MORTGAGES

Origination and Sale of the Mortgages

All of the Mortgages forming part of the initial security for the Notes will be sold to the Issuer by the relevant Seller.

PML (being one of the Title Holders and one of the Sellers) is a private company and both PFPLC and PML are wholly owned subsidiaries of PGC. The ordinary share capital of PGC is listed by the U.K. Listing Authority. The registered address of PML is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. PML's principal activities are to originate mortgage loans secured on residential or other properties within the British Isles or elsewhere and to acquire mortgage loans from third parties.

MTL (being one of the Title Holders) is a private limited company incorporated under the laws of England, registered number 2048895, and since 30 June 2003 has been a wholly owned subsidiary of PGC. The registered address of MTL is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. MTL was incorporated on 21 August 1986 as Mortgage Trust Limited and on 4 September 1998 it was re-registered as a public limited company and changed its name to First Active Financial PLC. On 16 February 2001 MTL changed its name to Britannic Money PLC and then on 26 September 2003 was re-registered as a private limited company and renamed Mortgage Trust Limited. Since incorporation, MTL has become an established centralised lender operating in a variety of niche markets in the United Kingdom and its principal activities are the origination and servicing of residential mortgage loans on properties located across the United Kingdom.

MTS (being one of the Title Holders and one of the Sellers) is a public limited company incorporated under the laws of England, registered number 3940202, and since 30 June 2003 has been a wholly owned subsidiary of PGC. The registered address of MTS is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. MTS was incorporated on 1 March 2000 as firstactive.com plc and on 16 February 2001 it changed its name to britannicmoney.com plc and on 26 September 2003 changed its name to Mortgage Trust Services PLC. MTS's principal activity is the servicing of mortgage loans on properties across the United Kingdom.

Introduction of Mortgage Business

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

Information on the Mortgages

General

The Mortgages will all have had original maturities of between 6 years and 37 years. No Mortgage will fall to be repaid later than 30 September 2031.

All the Mortgages upon origination consist of mortgage loans which meet certain lending criteria (as described in "Lending Guidelines" below), and are secured by charges over freehold or leasehold properties located in England or Wales ("**English Mortgages**"), by mortgages or charges over freehold or long leasehold properties located in Northern Ireland ("**Northern Irish Mortgages**") or by standard securities over heritable or long leasehold residential properties located in Scotland ("**Scottish Mortgages**"). The English Mortgages, the Northern Irish Mortgages and the Scottish Mortgages are governed by applicable English law, Northern Irish law and Scots law respectively. The Issuer will have the benefit of warranties by the relevant Seller in relation to the Mortgages sold by it to the Issuer.

The properties which are the subject of the Mortgages (the "**Properties**") are residential properties or commercial properties or a mixture of residential and commercial properties located in England or Wales (the "**English Properties**"), in Northern Ireland (the "**Northern Irish Properties**") or in Scotland (the "**Scottish Properties**"). In the case of leasehold or (in Scotland) long leasehold Properties the lease has, except where permitted under the relevant lending criteria, at least 30 years to run beyond the term of the relevant Mortgage.

The borrowers in respect of the Mortgages are either individuals (Mortgages where the borrowers are individuals being “**Individual Mortgages**”) or limited liability companies incorporated in England and Wales, Northern Ireland or Scotland (Mortgages where the borrowers are such limited liability companies being “**Corporate Mortgages**”).

The Mortgages are subject to standard mortgage documents or terms and conditions which do not materially depart therefrom. Such terms and mortgage conditions applicable to the mortgages which are comprised in the mortgage documents shall be referred to herein as the “**Mortgage Conditions**”. These contain various covenants and undertakings by the borrower including covenants to make the monthly interest payments as notified to the borrower and to pay premia on buildings insurance policies effected in relation to the relevant Property. The Mortgage Conditions also contain provisions for the usual remedies of a mortgagee in the event of default by the borrower.

The majority of the Mortgages comprise owner-occupied mortgages which relate to property purchased by the borrower to be occupied by the borrower in each case. 2.85 per cent. of the Mortgages by aggregate Provisional Balance comprise commercial or mixed commercial/residential mortgages.

Repayment Types

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

Some Mortgages, when originated, provided for interest only to be paid monthly during their term, with no scheduled payment of principal prior to maturity (“**Interest only Mortgages**”). The relevant Title Holder recommends (but may not require) that borrowers arrange term life assurance in connection with Interest only Mortgages. The ability of any particular borrower to repay an Interest only Mortgage may depend on such borrower’s ability to refinance the Property or obtain funds from another source (such as a pension policy or unit trust or an endowment policy). Neither the Title Holders, the Sellers, MTS (in its capacity as Administrator), PFPLC nor the Warehouseholders has verified that the borrower has any such ability or other source of funds and has not obtained security over the borrower’s right in respect of any such other source of funds. The ability of a borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the borrower’s equity in the Property, the financial condition of the borrower, tax laws and general economic conditions at the time. Moreover, the Mortgage Conditions in respect of Interest only Mortgages do not require a borrower to put in place alternative funding arrangements.

Mortgage Interest Rate Types

The Mortgages will comprise any one of the following:

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

- (v) a Mortgage which is not at the relevant time a Fixed Rate Mortgage, LIBOR Linked Mortgage, or Base Rate Tracker Mortgage or Capped Rate Mortgage and under which the rate of interest payable by the borrower is variable and is capable of being reset by the Issuer or the Administrator (being, during each period in which interest accrues in that manner, a **“Standard Variable Rate Mortgage”**).

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

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

Flexible Mortgages

A proportion of the Mortgages (each a **“Flexible Mortgage”**) provide borrowers with the right to make principal overpayments and to obtain Flexible Drawing Advances from time to time as described below. See “The Provisional Mortgage Pool” below.

In relation to a Flexible Mortgage the borrower has the right to obtain Flexible Drawing Advances up to the then **“Flexible Drawing Available Amount”**, being the amount (if any) by which the then Flexible Mortgage Maximum Balance exceeds the actual balance outstanding in respect of the relevant Flexible Mortgage.

For these purposes, the **“Flexible Mortgage Maximum Balance”** at any time is the principal balance which would have been outstanding at such time in respect of the relevant Flexible Mortgage if the relevant borrower had only paid each minimum monthly payment as and when due. In the case of a Repayment Mortgage, the Flexible Mortgage Maximum Balance will reduce over the period of repayment of the advance secured by the Flexible Mortgage by the amount of each scheduled principal repayment comprised in the applicable minimum monthly payment. In the case of an Interest only Mortgage, the Flexible Mortgage Maximum Balance will usually be the full principal amount initially advanced secured by the Mortgage until repayment by the borrower at the scheduled maturity date. Accordingly, there will be a Flexible Drawing Available Amount during each period when the total payments made by the relevant borrower into his Flexible Mortgage account exceed the aggregate of (a) the total minimum monthly payments that have fallen due and payable in respect of the relevant Flexible Mortgage, and (b) the total amount of Flexible Drawing Advances which the borrower has obtained.

A borrower can obtain advances under a Flexible Mortgage from time to time in the following two ways:

- (i) the relevant borrower may withdraw an amount from his Flexible Mortgage account (each such amount so withdrawn being a **“Flexible Drawing Cash Advance”**); and/or
- (ii) the relevant borrower may request, and the Administrator may consent, to one or more of such borrower’s monthly payments being met (in whole or in part) by capitalising to his Flexible Mortgage account the amount of interest that was scheduled to be paid by the relevant monthly payment (each such amount of interest so capitalised being a **“Flexible Drawing Capitalised Advance”**) and allowing the amount of principal (if any) that was scheduled to have been repaid by the relevant monthly payment to remain outstanding on his Flexible Mortgage account;

in each case to the extent that the amount of such Flexible Drawing Cash Advance or Flexible Drawing Capitalised Advance (each a **“Flexible Drawing Advance”**) does not exceed the then Flexible Drawing Available Amount. Each time a Flexible Drawing Advance is made the balance outstanding in respect of the relevant Flexible Mortgage account will increase by the amount of such Flexible Drawing Advance. See

“Mortgage Administration – Further Advances – Mandatory Further Advances” below for a description of how Flexible Drawing Cash Advances are to be made by the Issuer. The relevant Title Holder’s and the Administrator’s ability to consent to a borrower obtaining a Flexible Drawing Capitalised Advance will be limited by the terms of the Administration Agreement.

Notwithstanding the foregoing, if the balance of the borrower’s Flexible Mortgage exceeds the Flexible Mortgage Maximum Balance, the borrower is required immediately to repay the excess. Any Flexible Mortgage which has an outstanding principal balance in excess of the Flexible Mortgage Maximum Balance is treated as in arrears and is administered in accordance with the enforcement procedures described below under “Mortgage Administration – Arrears and Default Procedures”.

On each occasion that a Flexible Drawing Capitalised Advance is made, the Administrator shall credit the Principal Deficiency Ledger by the amount of such Flexible Drawing Capitalised Advance (given it represents interest which, if it had been paid by the borrower, would have been credited to the Revenue Ledger and if the amount so credited had then been transferred to the Principal Ledger, and then used to fund a Further Advance, an amount equal thereto would have been credited to the Principal Deficiency Ledger).

Under the terms of some Flexible Mortgages the borrower is obliged to pay a monthly commitment fee (the “**Flexible Mortgage Commitment Fee**”) being calculated by multiplying a predetermined rate by the amount (if any) by which the Flexible Drawing Available Amount exceeds the Flexible Drawing Scheduled Available Amount. For these purposes the “**Flexible Drawing Scheduled Available Amount**” is, on the relevant date, a predetermined percentage (not exceeding 20 per cent. at the Closing Date) of the then Flexible Mortgage Maximum Balance. The Administrator may, but is not obliged to, vary that percentage provided that, if and when it is varied, it does not exceed 20 per cent.

The rate of the Flexible Mortgage Commitment Fee payable by the relevant borrower is a percentage per annum (being not less than 1 per cent.) set by the relevant Title Holder or the relevant Administrator and the relevant Administrator may, but is not obliged to, vary that percentage provided that, if and when it is varied, it is not less than 1 per cent. per annum. Any Flexible Mortgage Commitment Fee payable by a borrower will belong to the Issuer, will be credited to the Revenue Ledger in the Transaction Account and will be available for application in accordance with the relevant priority of payments. As at the Provisional Pool Date, £157,502,747.73 by value and 46.22 per cent. by number of the Mortgages in the Provisional Mortgage Pool are Flexible Mortgages and all of the borrowers in respect of the Flexible Mortgages in the Provisional Mortgage Pool were bound to pay a Flexible Mortgage Commitment Fee.

Redemption Provisions

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

Where a mortgage has a fixed rate, or offers new borrowers an incentive (as with a discounted rate or similar) early repayment charges are made in order to ensure incentives are effectively repaid should this occur.

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

Northern Irish Mortgages

A proportion of the Mortgages are Northern Irish Mortgages. These are secured over the relevant Properties by way of mortgage over unregistered properties or charge over registered properties.

Scottish Mortgages

A proportion of the Mortgages are Scottish Mortgages. Each Scottish Mortgage is secured over the relevant Property by way of a standard security, being the only means of creating a fixed charge or security

over heritable property (i.e. land and buildings) in Scotland. In respect of Scottish Mortgages, references in this Offering Circular to a “mortgage” and a “mortgagee” are to be read as references to such a standard security and the heritable creditor thereunder, respectively.

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

The main provisions of the Standard Conditions which cannot be varied by agreement relate to enforcement and redemption. Generally, where a breach by a borrower entitles the lender to require repayment an appropriate statutory notice must first be served. Firstly, the lender may serve a “calling up notice” with which the borrower has two months to comply, failing which the lender may enforce its rights under the standard security by sale or the other remedies provided by statute (court application only being necessary where the borrower fails to vacate the property). Alternatively, in the case of remediable breaches, the lender may serve a “notice of default”, in which event the borrower has only one month in which to comply, but also has the right to object to the notice by court application within 14 days of the date of service. In addition, the lender may in certain circumstances make direct application to the court without the requirement of a preliminary notice. The appropriate steps for enforcement will therefore depend on the circumstances of each case, and the Administrator will in practice proceed with the remedy most likely to be effective in enforcing or protecting the security. In contrast to the position in England and Wales, a heritable creditor has no power to appoint a receiver under a standard security.

Until recently, on court application being made by the lender for the relevant enforcement remedies (once a default by the borrower had been established by one of the methods detailed in the preceding paragraph) the Scottish courts were bound, except in very limited circumstances, to grant the enforcement remedies sought. However, this position has been altered by the Mortgage Rights (Scotland) Act 2001, which was brought into force on 3 December 2001. The principal effect of this Act has been to confer on the court a discretion, on the application of the borrower (or the borrower’s spouse, or partner) within certain time limits, to suspend the exercise of the lenders’ enforcement remedies for such period and to such extent as the court considers reasonable in the circumstances, having regard amongst other factors to the nature of the default, the applicant’s ability to remedy it, any action taken by the lender to assist the borrower in fulfilling its obligations and the availability of alternative accommodation.

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years, subject only to the payment of certain sums specified in Section 11 of that Act. The specified sums consist essentially of the principal monies advanced by the lender, interest thereon and expenses incurred by the lender in relation to that standard security.

Acquisition of Mortgages

At the date of this Offering Circular the PML Mortgages, MTS Mortgages and the MTL Mortgages are beneficially owned by either the Warehouse, PML or MTS. On the Closing Date PML (being one of the Sellers) will purchase the majority of the PML Mortgages and MTS (being one of the Sellers) will purchase the MTS Mortgages and the majority of the MTL Mortgages from the Warehouse and then (also on the Closing Date) PML will sell the PML Mortgages to the Issuer and MTS will sell the MTL Mortgages and MTS Mortgages to the Issuer pursuant to the Mortgage Sale Agreement.

The purchase consideration in respect of the Mortgages purchased on the Closing Date will be paid on the Closing Date. The purchase consideration payable by the Issuer to the relevant Seller in respect of the relevant Mortgages purchased from that Seller shall equal the Purchase Consideration plus the relevant Deferred Purchase Consideration. The “**Purchase Consideration**” shall comprise (i) the then principal balance in respect of the Mortgages sold by the relevant Seller on the relevant purchase date; plus (ii) the aggregate of all Pre-Closing Accruals and Arrears in respect of such Mortgages; less (iii) in respect of each such Arrears Mortgage, the amount of any provision which has been made against the recovery of amounts due under that Arrears Mortgage (in each case as at the relevant date of purchase); plus (iv) the

postings required to adjust the carrying value of the loans in the portfolio to that calculated under the “Amortised Cost Basis” as defined by Financial Reporting Standard 26 under UK GAAP, and as calculated by the relevant Administrator on the relevant purchase date (the “**FRS 26 Adjustment**”). The “**Deferred Purchase Consideration**” shall be payable on each Interest Payment Date subject to and as specified in the applicable priority of payments and shall comprise in relation to the MTL Mortgages and MTS Mortgages to MTS and in relation to the PML Mortgages to PML an amount equal to the remaining balance (if any) of the moneys available on such Interest Payment Date for application in accordance with the section entitled “Transaction Overview – Priority of Payments – prior to enforcement” above as agreed between the Issuer, PML and MTS.

Legal title to each of the Mortgages will remain with the relevant Title Holder until completion of the transfers of the English Mortgages (and, in the case of registered land, their registration at the Land Registry), of the transfers of the Northern Irish Mortgages (and in the case of registered land, their registration at the Land Registry of Northern Ireland and, in the case of unregistered land, their registration at the Registry of Deeds Belfast) and of the assignments of the Scottish Mortgages (and their registration or recording at Registers of Scotland) and notification to any borrower or guarantor. Until these steps are taken, the sale of the English Mortgages and the Northern Irish Mortgages will take effect in equity only and in relation to the Scottish Mortgages, the transfer of the beneficial interest therein will be effected by declarations of trust (each such declaration of trust, a “**Scottish Declaration of Trust**” and, together, the “**Scottish Declarations of Trust**”) by the relevant Title Holder in favour of the Issuer. Save in the circumstances to be set out in the Administration Agreement and described below, neither the Issuer nor the Trustee will apply to the Land Registry, the Central Land Charges Registry, the Land Registry of Northern Ireland, the Registry of Deeds Belfast or to Registers of Scotland to register or record the Issuer as the new registered or heritable proprietor of any Mortgages or register or record any interest of the Issuer or the Trustee in respect of the Mortgages, and accordingly in relation to the relevant Mortgages the situation described above as regards title thereto will continue to apply. (See “Perfection of title” below.)

Perfection of title

The sales by the Sellers to the Issuer of the Mortgages will only be perfected by the execution of transfers and assignments of the Mortgages, the carrying out of requisite registration or recording and giving notice to any borrower or guarantor in the circumstances set out below. Neither the Issuer nor the Trustee will be giving notice to any borrower or guarantor in respect of any transfer or assignment of the Mortgages. For so long as the relevant Title Holder retains legal title to a Mortgage, a third party dealing with the relevant Title Holder could obtain legal title free of the interests of the Issuer and the Trustee. For so long as the relevant Title Holder retains legal title to a Mortgage, it must be joined as a party to any legal proceedings against any borrower or in relation to the enforcement of that Mortgage. In this regard each Title Holder and each Seller has undertaken for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required in connection with, any such proceedings.

Further, the rights of the Issuer and the Trustee may be or become subject to interests of third parties and direct rights of borrowers against the relevant Title Holder: for example, a later encumbrance or transfer of the Mortgages, and/or equities created or arising before the transfer of the legal title is perfected: for example, rights of set off (or other analogous rights) as between the relevant borrowers and the relevant Title Holder (which, in particular, may arise in relation to the borrower’s right to make a Flexible Drawing Advance under a Flexible Mortgage) and the rights of borrowers to redeem their Mortgages by repaying the relevant loan directly to the relevant Title Holder. These could result in the Issuer receiving less money than anticipated. However, the risk of third party claims defeating or obtaining priority to the interests of the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by the relevant Title Holder and/or the relevant Seller of its contractual obligations or fraud, negligence or mistake on the part of the relevant Title Holder, the relevant Seller, the Issuer or their respective personnel or agents.

Until the transfer of the legal title is perfected, the borrower may continue making payments to the relevant Title Holder. Perfecting legal title would mean that the borrower would no longer be entitled to obtain a good receipt from the relevant Title Holder as mortgagee. Under the Mortgage Sale Agreement, each Title Holder and each Seller has undertaken that if at any time it receives (or there is received to its order) any property, interest, right or benefit agreed to be sold to the Issuer it will hold the same on trust for the Issuer as the beneficial owner thereof. Furthermore under each Collection Account Declaration of Trust the relevant Collection Account Holder will declare that all direct debit payments made by borrowers under the Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the

relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages credited to the relevant Collection Account are held on trust for the Issuer until they are transferred to the Transaction Account. Notice to borrowers in respect of the Mortgages would also prevent the Mortgages from being amended by the relevant Title Holder, the relevant Seller or the borrowers without the involvement of the Issuer.

Upon the occurrence of certain events such as (i) the valid service of an Enforcement Notice or a Protection Notice (each as to be defined in the Deed of Charge), or (ii) the termination of both MTS's and PFPLC's roles as Administrators under the Administration Agreement, or (iii) the relevant Title Holder being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which the relevant Title Holder is a member or with whose instructions it is customary for the relevant Title Holder to comply, to perfect the transfer of legal title to the Mortgages, or (iv) any change occurring in the law after the Closing Date rendering it necessary by law to perfect the transfer of legal title to the Mortgages, or (v) the security under the Deed of Charge or any material part of such security being in jeopardy and the Trustee deciding to take such action to reduce materially such jeopardy, or (vi) the payment in full of all moneys and other liabilities due or owing under the Notes, the Trust Deed and the Deed of Charge, or (vii) any date falling after December 2050, the Issuer or the Trustee will have the right to perfect legal title to the Mortgages by executing transfers and assignments of the Mortgages in the appropriate form (if necessary pursuant to irrevocable powers of attorney) effecting the necessary registrations, recordings and notifications and giving notice to the borrowers and any guarantors in respect of such Mortgages. The right of the Issuer and the Trustee to exercise the powers of the registered proprietor, registered owner, beneficial owner or heritable creditor of the Mortgages pending registration or recording will be secured by irrevocable powers of attorney granted by the relevant Title Holders and Sellers in favour of the Issuer, the relevant Administrators and the Trustee.

Searches and Warranties in respect of the Mortgages

Neither the Administrators, nor any Seller, nor any Title Holder, nor the Issuer nor the Trustee has made or caused to be made (or will make or cause to be made) on its behalf in relation to the Mortgages purchased by the Issuer any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make, other than a search, prior to completion of the purchase by the Issuer of the Mortgages on the Closing Date against each relevant Seller, Title Holder and the Warehouseholders in the relevant file held by the Registrar of Companies and in the Register of Inhibitions and Adjudications in Scotland. Neither the Issuer nor the Trustee has made nor will make any enquiry, search or investigation prior to the making of any Further Advance or at any time in relation to compliance by the relevant Title Holder, the relevant Administrator or any other person with any applicable lending guidelines, criteria or procedures or the adequacy thereof or with the provisions of the Mortgage Sale Agreement, the Administration Agreement, the Deed of Charge, or with any applicable laws or in relation to the execution, legality, validity, perfection, adequacy or enforceability of any Mortgages purchased on the Closing Date or any other security or the insurance contracts relating to the Properties and the Mortgages referred to herein.

In relation to all of the foregoing matters and the circumstances in which advances were made to borrowers prior to the purchase by the Issuer of the relevant Mortgages, the Issuer and/or the Trustee will rely entirely on the warranties to be given by the relevant Seller to the Issuer and the Trustee contained in the Mortgage Sale Agreement. These include warranties given in respect of Mortgages as at the relevant date of purchase pursuant to the Mortgage Sale Agreement as to the following: that, subject to registration or recording, the Mortgages in relation to each Property constitute valid and binding obligations of the borrower and are valid and subsisting mortgages, charges or standard securities over which no other mortgage, charge or standard security has priority other than any Mortgage which has also been sold to the Issuer.

In addition, warranties will be given by each Seller to the Issuer and the Trustee in the Mortgage Sale Agreement that in the case of the Individual Mortgages, no agreement for any Individual Mortgage is in whole or in part a regulated agreement or a consumer credit agreement (as defined in section 8 of the Consumer Credit Act 1974) or, to the extent that any such Individual Mortgage is in whole or in part a regulated agreement or consumer credit agreement, the procedures set out in the Consumer Credit Act 1974 have been complied with in all material respects.

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

The Subscription Agreement referred to in "Subscription and Sale" below contains warranties by each Administrator, each Title Holder and each Seller to the effect that the information in this Offering Circular with regard to the Mortgages to be purchased by the Issuer, the Properties, the insurance contracts relating to the Properties and the Mortgages, each Administrator and its business, each Title Holder and its business and the relevant Seller and its business is true and accurate in all material respects.

LENDING GUIDELINES

The following is a summary of the criteria that were applied to the substantial majority of the Mortgages in the Provisional Pool on the respective origination dates.

Property:	Located in England, Wales, Scotland, Northern Ireland, residential, commercial or mixed residential/commercial, of standard construction.
Loan Purpose:	In the case of residential mortgages, for owner occupation. In the case of commercial or mixed residential/commercial, for investment purposes or mixed owner occupation/investment.
Original Term:	Minimum 5 years. Maximum 40 years.
Security:	A first legal charge or standard security. In the case of commercial property or mixed residential/commercial property, a floating charge over the borrower's other assets or second mortgages may also be required if considered appropriate. In the case of a corporate borrower, a personal guarantee from one or more director may also be required.
Tenure:	Freehold, heritable or long leasehold. Leases to have a minimum of 30 years unexpired at the end of the mortgage term.
Repayment Type:	Capital repayment and/or interest only.
Applicant's Age:	Minimum age is 18 years.
Buildings Insurance:	Insurance is required on standard terms with an acceptable insurer for a sum not less than the full reinstatement value.
Valuation:	All valuations are required to be carried out by qualified valuers, (normally members of the Royal Institution of Chartered Surveyors or the Incorporated Society of Valuers and Auctioneers). For residential properties, the maximum permitted LTV is 100 per cent. excluding fees. In the case of commercial and mixed residential/commercial, the LTV will not normally exceed 85 per cent. excluding fees.
Income:	In the case of applicants for residential mortgages - Single applicant – up to 4.25 times the applicant's income Multiple applicants – up to 4.25 times primary income plus 1 times secondary income or up to 3.25 times joint income. In the case of applicants for commercial or mixed residential/commercial property assessment of income may also include rental income from the property. Verification of the applicant(s) income will normally be required from the employer(s) of the applicant(s). This may include, for example, the latest or most recent P60. In the case of self employed applicants, proof of income over a period of time will be required. This may include, for example, an Accountants' Certificate, audited accounts or bank statements.
Credit History:	A credit search is carried out in respect of each applicant, which must provide sufficient information to evidence a satisfactory credit profile.

Where the application is received in the name of a corporate, company searches and directors' searches will be undertaken which must show no evidence of adverse information which is material to the assessment of the case.

Where the search contains insufficient information to achieve this, further evidence will be required. This may include, for example, mortgage statements, bank statements or credit bureau information.

INSURANCE COVERAGE

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

Buildings Insurance

All Properties in respect of PML Mortgages except those mentioned in the following two paragraphs will be insured under the comprehensive block policy (the “**Block Policy**”), with the interests of PGC, the Issuer and the Trustee noted thereon. The Block Policy is a policy with AXA Insurance UK plc which carries on insurance business within the U.K. and whose address is 5 Old Broad Street, London EC2N 1AD. The premiums will be collected monthly by the relevant Administrator with the interest payments due on the Mortgages. In carrying out its role as an insurance mediator PML is an appointed representative of MTS and complies with the provisions of the FSA’s Handbook for the sale of general insurance.

In the case of MTL Mortgages and MTS Mortgages, the borrower is obliged under the terms of the Mortgage to ensure that the relevant Property is insured under a policy with an insurance company against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the valuer and to procure that MTL or MTS, as the case may be, is a named insured or its interest has been noted by the insurers.

Where the borrower specifically requested permission to make his own insurance arrangements in relation to any Mortgage, or where such arrangements are dictated by the existence of a lease, the relevant Administrator, will take all reasonable steps to ensure that the relevant Property is insured under a policy with an insurance company against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the Title Holder’s valuer and that the Title Holder is a named insured or its interest has been noted by the insurers.

The Issuer will also have the benefit of insurance, in the name of PGC (the “**Mortgage Impairment Contingency Policy**”) with Chubb Insurance Company of Europe S.A., an insurance company which carries on insurance business in the U.K. whose registered office is at 8th Floor, 82 King Street, Manchester M2 4WQ. The Mortgage Impairment Contingency Policy indemnifies the insured for damage to Property occurring as a direct result of the failure of the borrower to effect or renew adequate insurance cover, to make or pursue a legitimate insurance claim or to utilise the proceeds of any claim to repair such damage. It also indemnifies the insured in the event that it inadvertently omits to ensure that buildings insurance is in place on any property where it has an interest as mortgagee.

The Issuer will be or become a named insured under the Mortgage Impairment Contingency Policy. The Issuer’s interest in the Block Policy and Mortgage Impairment Contingency Policy insurance policies will, if the Trustee is not itself insured thereunder, be assigned to the Trustee but no notice of these assignments will be given to the insurers. Any claim under any such insurance will be made by the relevant Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

As is customary for insurances of this type, the insurances described above are subject to exclusions and deductibles.

Other Miscellaneous Insurances

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

The solicitors who acted on behalf of the relevant Title Holder in relation to the Mortgages should be covered by the professional indemnity insurance which solicitors are required to maintain by The Law Society, The Law Society of Northern Ireland or The Law Society of Scotland (as the case may be). This insurance should (if it has been taken out) provide compensation in the event that the relevant Title Holder

or the Issuer has a claim against such solicitors for negligence which is not satisfied by such solicitors out of their own resources. Licensed conveyancers who acted on behalf of the relevant Title Holder in relation to the English Mortgages should be covered by a professional indemnity scheme established under the Administration of Justice Act 1985. This scheme should provide compensation in the event that the relevant Title Holder or the Issuer has a claim against such licensed conveyancers for negligence which is not satisfied by such licensed conveyancers out of their own resources.

Qualified conveyancers who acted on behalf of the relevant Title Holder in relation to the Scottish Mortgages should be covered by professional indemnity insurance which qualified conveyancers are required to maintain by the Law Society of Scotland. This insurance should (if it has been taken out) provide compensation in the event that the relevant Title Holder or the Issuer has a claim against such qualified conveyancer for negligence which is not satisfied by such qualified conveyancers out of their own resources.

THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool, evidenced by the mortgages described below (the “**Provisional Mortgage Pool**”) as at 29 September 2006 (the “**Provisional Pool Date**”) consisted of 6,272 Mortgages having a Provisional Balance (as defined below) of £297,969,550.38.

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

The Mortgages to be purchased by the Issuer on the Closing Date will be selected from the Provisional Mortgage Pool.

All of the Mortgages forming part of the Provisional Mortgage Pool were originated between May 1982 and October 2005.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 37 years, with the latest scheduled maturity of any mortgage loan in the Provisional Mortgage Pool being not later than 30 September 2031.

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

Overview of the Provisional Mortgage Pool

	<i>First Flexible No.1 plc</i>	<i>First Flexible No.3 plc</i>	<i>TMC Tattenham No. 1 PLC</i>	<i>TMC Tattenham No. 2 PLC</i>	<i>Other</i>	<i>Total</i>
Aggregate Provisional Balance (£)	46,971,848.29	107,220,221.01	42,663,524.39	35,604,270.84	65,509,685.85	297,969,550.38
Number of Properties	940	1,971	1,192	820	1,349	6,272
Weighted Average LTV	51.62%	54.50%	60.43%	64.66%	60.48%	57.43%
Minimum LTV	0.03%	0.00%	0.01%	1.04%	0.03%	0.00%
Maximum LTV	95.29%	105.62%	121.48%	111.97%	166.17%	166.17%
Weighted Average Indexed LTV (Halifax)	28.29%	32.87%	24.61%	27.63%	30.48%	29.81%
Minimum Indexed LTV (Halifax)	0.01%	0.00%	0.00%	0.35%	0.01%	0.00%
Maximum Indexed LTV (Halifax)	72.48%	74.10%	57.14%	54.95%	86.76%	86.76%
Weighted Average Indexed LTV (Nationwide)	27.77%	33.03%	23.24%	25.93%	29.13%	29.09%
Minimum Indexed LTV (Nationwide)	0.01%	0.00%	0.00%	0.34%	0.01%	0.00%
Maximum Indexed LTV (Nationwide)	74.61%	75.97%	57.14%	54.95%	98.37%	98.37%
Weighted Average Seasoning (years)	6.84	5.36	17.97	16.77	13.74	10.60
Minimum Seasoning (years)	3.89	2.88	14.90	13.87	0.93	0.93
Maximum Seasoning (years)	18.27	11.15	20.22	20.14	24.40	24.40
Average Loan Size (£) ..	49,970.05	54,398.89	35,791.55	43,419.84	48,561.66	47,507.90
Minimum Loan Size (£) ..	26.80	0.35	4.48	921.87	17.40	0.35
Maximum Loan Size (£)	438,333.13	535,669.28	187,065.14	249,939.64	1,058,192.03	1,058,192.03
Weighted Average Remaining Term (years) ..	12.27	13.65	5.92	6.90	8.35	10.35
Minimum Remaining Term (years)	0.33	0.17	0.08	0.08	0.08	0.08
Maximum Remaining Term (years)	25.00	25.00	17.00	19.00	23.08	25.00
Interest Only	58.29%	46.34%	97.04%	96.25%	84.24%	69.78%
Repayment	41.71%	53.66%	2.96%	3.75%	15.76%	30.22%
Arrears: Current	96.58%	97.75%	91.39%	79.09%	80.06%	90.53%
1 - 2 months	0.88%	1.15%	3.09%	8.98%	5.71%	3.32%
2 - 3 months	1.78%	0.61%	2.32%	2.27%	3.69%	1.92%
3 - 4 months	0.34%	0.08%	0.67%	1.57%	1.48%	0.69%
> 4 months	0.41%	0.41%	2.53%	8.08%	9.05%	3.53%

Loan-to-Value Ratios

	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
> 0 <= 25.....	31,100,634.79	10.44%	1,517	24.19%
> 25 <= 50.....	79,811,453.68	26.79%	1,745	27.82%
> 50 <= 55.....	19,209,439.68	6.45%	357	5.69%
> 55 <= 60.....	19,539,002.32	6.56%	317	5.05%
> 60 <= 65.....	23,499,236.74	7.89%	376	5.99%
> 65 <= 70.....	21,962,342.12	7.37%	342	5.45%
> 70 <= 75.....	28,985,671.58	9.73%	377	6.01%
> 75 <= 80.....	23,621,900.52	7.93%	356	5.68%
> 80 <= 85.....	18,295,499.82	6.14%	284	4.53%
> 85 <= 86.....	3,212,558.71	1.08%	54	0.86%
> 86 <= 87.....	2,846,896.76	0.96%	47	0.75%
> 87 <= 88.....	2,505,934.92	0.84%	50	0.80%
> 88 <= 89.....	2,087,162.84	0.70%	38	0.61%
> 89 <= 90.....	2,096,766.38	0.70%	41	0.65%
> 90 <= 95.....	10,895,952.91	3.66%	224	3.57%
> 95 <= 97.....	3,783,300.29	1.27%	65	1.04%
> 97 <= 100.....	1,626,834.09	0.55%	33	0.53%
> 100.....	2,888,962.23	0.97%	49	0.78%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

The average loan-to-value (the “LTV”) weighted by Provisional Balance is 57.43 per cent. Investors should be aware that no revaluation of any property subsequent to any initial valuation at origination has been undertaken by MTL, PML, the Issuer, each Administrator, the Trustee or any other person for the purposes of the transactions described in this document, but may have been undertaken by MTL, PML or the Administrators for other purposes such as for the extension of Further Advances, enforcement or other administrative purposes.

Indexed Loan-to-Value Ratios - Halifax

<i>Loan to value ratios (%)</i>	<i>Current Balance £</i>	<i>% of total</i>	<i>Number of mortgages</i>	<i>% of total</i>
> 0 <= 25.....	110,948,676.71	37.23%	3,608	57.53%
> 25 <= 50.....	162,360,709.27	54.49%	2,473	39.43%
> 50 <= 55.....	9,370,195.13	3.14%	80	1.28%
> 55 <= 60.....	7,445,883.04	2.50%	60	0.96%
> 60 <= 65.....	3,741,317.92	1.26%	23	0.37%
> 65 <= 70.....	2,496,657.84	0.84%	16	0.26%
> 70 <= 75.....	1,537,160.11	0.52%	10	0.16%
> 75 <= 80.....	—	0.00%	—	0.00%
> 80 <= 85.....	29,910.48	0.01%	1	0.02%
> 85 <= 86.....	—	0.00%	—	0.00%
> 86 <= 87.....	39,039.88	0.01%	1	0.02%
> 87 <= 88.....	—	0.00%	—	0.00%
> 88 <= 89.....	—	0.00%	—	0.00%
> 89 <= 90.....	—	0.00%	—	0.00%
> 90 <= 95.....	—	0.00%	—	0.00%
> 95 <= 97.....	—	0.00%	—	0.00%
> 97 <= 100.....	—	0.00%	—	0.00%
> 100.....	—	0.00%	—	0.00%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

The average indexed LTV weighted by Provisional Balance is 29.81 per cent. indexed using Halifax House Price Index Historic Data.

Indexed Loan-to-Value Ratios - Nationwide

<i>Loan to value ratios (%)</i>	<i>Current Balance £</i>	<i>% of total</i>	<i>Number of mortgages</i>	<i>% of total</i>
> 0 <= 25	121,220,784.73	40.68%	3,794	60.49%
> 25 <= 50	151,082,998.74	50.70%	2,272	36.22%
> 50 <= 55	9,961,980.97	3.34%	87	1.39%
> 55 <= 60	6,699,827.80	2.25%	57	0.91%
> 60 <= 65	4,374,265.50	1.47%	31	0.49%
> 65 <= 70	3,165,549.14	1.06%	19	0.30%
> 70 <= 75	1,281,417.38	0.43%	9	0.14%
> 75 <= 80	113,775.76	0.04%	1	0.02%
> 80 <= 85	–	0.00%	–	0.00%
> 85 <= 86	–	0.00%	–	0.00%
> 86 <= 87	39,039.88	0.01%	1	0.02%
> 87 <= 88	–	0.00%	–	0.00%
> 88 <= 89	–	0.00%	–	0.00%
> 89 <= 90	–	0.00%	–	0.00%
> 90 <= 95	–	0.00%	–	0.00%
> 95 <= 97	–	0.00%	–	0.00%
> 97 <= 100	29,910.48	0.01%	1	0.02%
> 100	–	0.00%	–	0.00%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

The average indexed LTV weighted by Provisional Balance is 29.09 per cent. indexed using the Nationwide Regional Quarterly Indices (Post 1973).

Occupancy Type

<i>Product</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
Residential	289,471,360.05	97.15%	6,230	99.33%
Commercial and Mixed Residential/Commercial	8,498,190.33	2.85%	42	0.67%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

Product Summary by Rate Fixing Method

<i>Product</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
Standard Variable	219,962,882.43	73.82%	5,066	80.77%
Fixed	213,425.24	0.07%	5	0.08%
LIBOR-Linked	20,584,224.64	6.91%	244	3.89%
Capped	–	0.00%	–	0.00%
Base Rate Tracker	57,209,018.07	19.20%	957	15.26%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

Product Summary by Repayment Method

<i>Product</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
Interest-only	207,919,974.61	69.78%	4,293	68.45%
Repayment	90,049,575.77	30.22%	1,979	31.55%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

Loan Size

(£)	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
0.00 to 100,000	221,220,844.15	74.24%	5,792	92.35%
100,000.01 to 200,000	54,354,235.51	18.24%	408	6.51%
200,000.01 to 300,000	12,260,883.69	4.11%	51	0.81%
300,000.01 to 400,000	3,082,851.73	1.03%	9	0.14%
400,000.01 to 500,000	2,769,205.19	0.93%	6	0.10%
500,000.01 to 750,000	2,415,338.08	0.81%	4	0.06%
750,000.01 to 1,000,000	808,000.00	0.27%	1	0.02%
1,000,000.01 to 1,250,000	1,058,192.03	0.36%	1	0.02%
Over 1,250,000.01	–	0.00%	–	0.00%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

Average loan size £47,507.90

Property Tenure

(£)	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
Freehold	250,549,303.57	84.09%	5,071	80.85%
Leasehold	45,001,712.97	15.10%	1,132	18.05%
Heritable	2,418,533.84	0.81%	69	1.10%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

Seasoning of Mortgages by year

<i>Year of Origination</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
1982	54,745.51	0.02%	4	0.06%
1983	97,537.36	0.03%	8	0.13%
1984	303,704.35	0.10%	17	0.27%
1985	387,867.80	0.13%	16	0.26%
1986	4,168,557.62	1.40%	133	2.12%
1987	11,438,298.81	3.84%	357	5.69%
1988	25,541,498.59	8.57%	704	11.22%
1989	32,618,565.23	10.95%	613	9.77%
1990	23,791,155.57	7.98%	505	8.05%
1991	23,146,290.41	7.77%	507	8.08%
1992	2,525,008.96	0.85%	60	0.96%
1993	951,908.60	0.32%	39	0.62%
1994	1,287,299.24	0.43%	46	0.73%
1995	3,170,501.43	1.06%	125	1.99%
1996	5,483,860.08	1.84%	165	2.63%
1997	8,443,721.63	2.83%	239	3.81%
1998	13,404,322.72	4.50%	315	5.02%
1999	19,882,602.73	6.67%	442	7.05%
2000	37,866,911.60	12.71%	801	12.77%
2001	27,778,576.43	9.32%	484	7.72%
2002	29,829,599.07	10.01%	417	6.65%
2003	21,975,717.02	7.38%	253	4.03%
2004	3,658,389.25	1.23%	20	0.32%
2005	162,910.37	0.05%	2	0.03%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

Weighted average seasoning (years)

10.60

Maturity of Mortgages

<i>Remaining term to maturity (years)</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
> 0 < 5	43,866,823.87	14.72%	1,265	20.17%
> = 5 < 10	126,179,868.31	42.35%	2,895	46.16%
> = 10 < 15	56,547,854.36	18.98%	1,084	17.28%
> = 15 < 20	50,903,676.63	17.08%	814	12.98%
> = 20 < 25	20,313,110.40	6.82%	212	3.38%
> = 25 < 30	158,216.81	0.05%	2	0.03%
> = 30	–	0.00%	–	0.00%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

Weighted average remaining term to maturity (years) 10.35

Loan Purpose

<i>Loan Purpose</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
House/Flat Purchase	109,098,278.86	36.61%	2,308	36.80%
Remortgage	<u>188,871,271.52</u>	63.39%	<u>3,964</u>	63.20%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

Geographical Dispersion

<i>Defined Area</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
North	7,177,530.51	2.41%	210	3.35%
North West	26,047,719.99	8.74%	601	9.58%
Yorkshire & Humberside	19,048,497.88	6.39%	488	7.78%
East Midlands	24,475,483.43	8.21%	581	9.26%
West Midlands.....	20,930,594.67	7.02%	482	7.68%
East Anglia	12,815,784.26	4.30%	268	4.27%
South East (excluding Greater London)	106,215,375.60	35.65%	1,909	30.44%
South West	24,527,898.99	8.23%	537	8.56%
Greater London	33,550,487.42	11.26%	502	8.00%
Wales	7,591,911.08	2.55%	181	2.89%
Scotland	2,418,533.84	0.81%	69	1.10%
Northern Ireland.....	13,169,732.71	4.42%	444	7.08%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

Number of Months in Arrears

<i>No. of months</i>	<i>Provisional Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>
Up to 1	269,766,277.61	90.53%	5,814	92.70%
> 1 <= 2.....	9,900,242.84	3.32%	181	2.89%
> 2 <= 3.....	5,713,524.66	1.92%	87	1.39%
> 3 <= 4.....	2,066,795.40	0.69%	40	0.64%
> 4 <= 5.....	1,603,915.75	0.54%	31	0.49%
> 5 <= 6.....	1,192,047.53	0.40%	20	0.32%
> 6 <= 9.....	2,843,007.03	0.95%	45	0.72%
> 9 <= 12.....	2,711,376.39	0.91%	26	0.41%
> 12 <= 15.....	826,030.23	0.28%	11	0.18%
> 15 <= 18.....	436,131.16	0.15%	5	0.08%
> 18 <= 21.....	97,989.12	0.03%	1	0.02%
> 21 <= 14.....	501,560.08	0.17%	5	0.08%
> 24	310,652.58	0.10%	6	0.10%
Total	<u>297,969,550.38</u>		<u>6,272</u>	

Weighted average number of months in arrears (for arrears cases) 2.484

Flexible

<i>Loan Type</i>	<i>Current Principal Balance (£)</i>	<i>% of Total</i>	<i>Number of mortgages</i>	<i>% of Total</i>	<i>Escrow Balance (£)</i>
Flexible	157,502,747.73	52.86%	2,899	46.22%	31,732,519.48
Non-Flexible	140,466,802.65	47.14%	3,373	53.78%	–
	<u>297,969,550.38</u>		<u>6,272</u>		<u>31,732,519.48</u>

MORTGAGE ADMINISTRATION

Introduction

PFPLC will be appointed by each of the Issuer and the Trustee in respect of the PML Mortgages under the Administration Agreement to be its agent to administer the PML Mortgages. MTS will be appointed by each of the Issuer and the Trustee in respect of the MTL Mortgages and MTS Mortgages under the Administration Agreement to be its agent to administer the MTL Mortgages and MTS Mortgages. MTS and PFPLC will together be the Administrators and together will be referred to as “the Administrator” or “the Administrators” in this Offering Circular.

PFPLC is a public limited company incorporated under the laws of England, registered number 1917566 and is a wholly owned subsidiary of PGC. The registered address of PFPLC is St. Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE. PFPLC was incorporated on 29 May 1985 as Jordans 274 Public Limited Company and on 25 June 1985 changed its name to The Home Loans Corporation plc and on 29 August 1985 changed its name to The National Home Loans Corporation plc and on 7 April 1997 changed its name to Paragon Finance PLC. PFPLC’s principal activity is that of servicing residential mortgage loans on properties located across the United Kingdom.

MTS is a public limited company incorporated under the laws of England, registered number 3940202 and since 30 June 2003 has been a wholly owned subsidiary of PGC. The registered address of MTS is St. Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE. MTS was incorporated on 1 March 2000 as firstactive.com plc and on 16 February 2001 changed its name to britannicmoney.com plc and on 26 September 2003 changed its name to Mortgage Trust Services PLC. MTS’s principal activity is that of servicing residential mortgage loans on properties located across the United Kingdom.

The Administrators will administer the Mortgages with the diligence and skill that a reasonably prudent mortgage lender would apply in administering its own mortgages subject to the provisions of the Administration Agreement. The Administrators will undertake that in their role as administrator they will comply with any proper directions, orders and instructions which the Issuer or the Trustee may from time to time give to the Administrators in accordance with the provisions of the Administration Agreement. Save as provided therein, the Administration Agreement will be conditional upon completion of the Mortgage Sale Agreement taking place. Subject to certain conditions, the Administrators’ appointment can be terminated by the Trustee in the event of a breach by the Administrators of the terms of the Administration Agreement which, in the opinion of the Trustee is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders and the Class C Noteholders, or in the event of that Administrator’s insolvency. In addition, the Administrators’ appointment will, unless the Administrators, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time the Administrators do not have any authorisation under the FSMA which they are required to have in order to enable them to perform the services which they are to agree in the Administration Agreement to perform without them or the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

Mortgage Interest Rate

After completion of the Mortgage Sale Agreement and pursuant to the Administration Agreement, each Administrator (on behalf of the Issuer and the Trustee) will set or calculate the rates of interest applicable to the Mortgages administered by it in accordance with the Mortgage Conditions except in the case of Fixed Rate Mortgages and Capped Rate Mortgages (to the extent that any Mortgages are converted to Capped Rate Mortgages) except in certain limited circumstances when the Trustee or the Issuer or a substitute administrator or the Substitute Administrator will be entitled to do so.

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

In setting the interest rates on the Mortgages administered by it (where applicable), each Administrator will have regard to the rates of interest on the Notes but, as to the interrelation between the interest rates on

the Mortgages and the rate of interest on the Notes, see “Mortgage Interest Rate Shortfalls, Minimum Interest Rate and the Shortfall Fund” below.

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

The Issuer may at any time, with the prior consent of the Subordinated Lenders, draw down under the Subordinated Loan Agreement for the purpose of establishing a Shortfall Fund for purposes including that of providing funds, in the manner described in more detail below, to meet any shortfall arising from the interest rates set by the Administrators for the Mortgages averaging less than a specified rate above LIBOR (as defined in “Credit Structure – 3. Shortfall Fund” above) at that time.

If at any time an Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage administered by it so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and all early redemption amounts is less than 1.8 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until (and including) the Interest Payment Date falling in March 2012 and 2.20 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case, above LIBOR (as defined in “Credit Structure – 3. Shortfall Fund” above) at that time, it may do so only if and to the extent that there is a credit balance in the Shortfall Fund (if any) (net of all provisions previously made during the period from and including the immediately preceding Interest Payment Date up to but excluding the following Interest Payment Date) at least equal to the shortfall which would arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall.

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

Payments from Borrowers

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages purchased by the Issuer (including cheque payments and redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) will generally be paid first into a Collection Account and then will be transferred on not later than the next following Business Day, or as soon as practicable thereafter, to the Transaction Account. Under each Collection Account Declaration of Trust, the relevant Collection Account Holder will declare that all direct debit payments made by borrowers under the Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages which are credited to the relevant Collection Account are held on trust for the Issuer until they are applied in the manner described above. Each Collection Account Declaration of Trust is and will be supplemental to, additional to and subject to each other declaration of trust made or to be made from time to time by the relevant Collection Account Holder in respect of amounts credited from time to time to the relevant Collection Account which are not held on trust for the Issuer pursuant to the relevant Collection Account Declaration of Trust.

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

Arrears and Default Procedures

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

Each Administrator will endeavour to collect all payments due under or in connection with the Mortgages administered by it in accordance with procedures agreed from time to time with the Trustee and the Issuer but having regard to the circumstances of the borrower in each case. The procedures may include one or more of, making arrangements whereby a borrower's payments may be varied, pursuing (including taking legal action against) one or more guarantors of the sums owing under the Mortgage, sale of the relevant Property and taking legal action for possession and subsequent sale of the relevant Property.

Once possession of the property has been obtained, the relevant mortgagee has a duty to the borrower to take reasonable care to obtain the best price reasonably obtainable at the time for the property. Any failure to do so will put the relevant mortgagee at risk of an action for breach of such duty by the borrower, although it is for the borrower to prove breach of such duty. There is also a risk that a borrower may also take court action to force the relevant mortgagee to sell the property within a reasonable time. The net proceeds of sale of the Property (after payment of the costs and expenses of the sale) would be applied against the sums owing from the borrower to the extent necessary to discharge the Mortgage.

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

In relation to the enforcement of Scottish Mortgages see "The Mortgages – Scottish Mortgages" above.

Where the funds arising from application of the above procedures are insufficient to pay all amounts owing in respect of a Mortgage, such funds will be applied first in paying interest and costs, second in paying any arrears and accruals which have arisen since the Closing Date, third in paying principal owing in respect of such Mortgage and finally Pre-Closing Accruals and Arrears. If an amount is still outstanding (the "**outstanding amount**") in respect of the Mortgage, a provision will be made for the outstanding amount (to the extent that it represents principal owing in respect of a Mortgage) in the Principal Deficiency Ledger, forming part of the Issuer's accounts, although circumstances may arise in which this provision is subsequently reduced.

Cross-collateral Mortgages and Cross-collateral Rights

The conditions of MTL Mortgages and MTS Mortgages (each a "**Cross-collateral Mortgage**") provide, among other things, some "**Cross-collateral Rights**" which allow the relevant mortgagee of any such Cross-collateral Mortgage:

- (i) to declare immediately due and repayable each liability secured by that Cross-collateral Mortgage and to exercise the statutory power of sale under that Cross-collateral Mortgage if and when the mortgagee of any other Cross-collateral Mortgage in the name of the same mortgagor is entitled to declare immediately due and repayable any liability secured by that other Cross-collateral Mortgage, and
- (ii) to apply the proceeds of enforcement under the Cross-collateralised Mortgages of the relevant mortgagor against all liabilities secured by the Cross-collateralised Mortgages.

At or about the Closing Date the Issuer will enter into a "**Cross-collateral Mortgage Rights Accession Deed**" pursuant to which the Issuer shall become a party to a deed (being, together with the Cross collateral Mortgage Rights Accession Deed and each previous accession deed thereto, the "**Cross-collateral Mortgage Rights Deed**") entered into by the Trustee, MTL, MTS and, among others, persons who at the date of this Offering Circular have a beneficial interest in any Cross collateral Mortgage which includes Cross collateral Rights which may apply to one or more of the MTL Mortgages or MTS Mortgages or which may be subject to Cross-collateral Rights contained in one or more of the MTL Mortgages or MTS Mortgages.

The Cross-collateral Mortgage Rights Deed seeks to provide that each party thereto who is a beneficial owner of a Cross-collateral Mortgage (which, upon it becoming a party, will include the Issuer in respect of MTL Mortgages or MTS Mortgages): (i) shall only have Cross-collateral Rights in respect of Cross-collateral Mortgages that it beneficially owns; (ii) waives all rights to exercise Cross-collateral Rights in respect of other Cross-collateral Mortgages which are not beneficially owned by it; (iii) waives all rights to take any action or proceedings against any other beneficial owner of Cross-collateral Mortgages to exercise the Cross-collateral Rights of that other beneficial owner; (iv) waives any rights to the proceeds of enforcement of Cross-collateral Mortgages not beneficially owned by it; and (v) agrees that if it enforces a Cross-collateral Mortgage in respect of which Cross-collateral Rights attach, the proceeds of such enforcement after deduction of all related costs and expenses shall be applied by or on behalf of it in respect of the Cross-collateral Mortgages beneficially owned by it firstly to repay all amounts owing by the mortgagee under the enforced Cross-collateral Mortgage beneficially owned by it in accordance with the applicable Mortgage Conditions and, secondly, to the extent there are additional proceeds of enforcement, apply such proceeds in accordance with such Mortgage Conditions.

Further Advances

Each Further Advance made by or on behalf of the Issuer in relation to the Mortgages will be either a Mandatory Further Advance or a Discretionary Further Advance.

Mandatory Further Advances

Mandatory Further Advances are only required to be made to borrowers (a) for the purpose of advancing any part of the original advance which was retained pending completion of construction or refurbishment, and (b) where a Flexible Drawing Cash Advance is required to be made to the borrower under a Flexible Mortgage (see “The Mortgages – Information on the Mortgages – Flexible Mortgages” above).

In all cases where a Mandatory Further Advance in respect of a Mortgage is to be made, the Issuer expects to fund such Mandatory Further Advance from the principal moneys then held by it referred to in paragraph (a) of the definition of Available Redemption Funds (see “Transaction Overview – Mandatory Redemption in Part”). The Issuer may not receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set off (or exercise analogous rights in Scotland) the amounts of any Mandatory Further Advances which the Issuer has failed to make against amounts owing by those borrowers and/or to sue the Issuer for damages for breach of contract. Accordingly if, and to the extent that, the Issuer does not have sufficient funds to make any such Mandatory Further Advances the Issuer will be entitled to borrow further amounts from the Subordinated Lenders under the Subordinated Loan Agreement and the Subordinated Lenders will be under an obligation to make any such amounts available to the Issuer. In addition, but without prejudice thereto, the Subordinated Lenders may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances.

To the extent that there are no Available Redemption Funds or amounts drawn by the Issuer (the Issuer being obliged to apply for such a drawing) under the Subordinated Loan Agreement to fund a Mandatory Further Advance in respect of a Flexible Drawing Cash Advance required to be made under a Flexible Mortgage beneficially owned by the Issuer, the Issuer will fund such Mandatory Further Advance by making a drawing under the Flexible Drawing Facility Agreement (up to the then Flexible Drawing Facility Available Amount) to the extent the Issuer has entered into such an agreement on the Closing Date. For further details of the Flexible Drawing Facility Agreement see “Credit Structure” above.

Discretionary Further Advances

Each Further Advance in respect of a Mortgage which is not a Mandatory Further Advance will be a Discretionary Further Advance. At its discretion the Issuer may decide to make a Discretionary Further Advance on the security of the Property subject to the Mortgage on the request of a borrower provided that certain conditions in the Administration Agreement are satisfied and so long as it is secured on the relevant Property owned by the borrower but subject to the Mortgage.

In addition, the Issuer may make a Discretionary Further Advance to a borrower as part of its arrears and default procedures by capitalising certain outstanding arrears of interest payable by a borrower. The capitalisation of outstanding arrears constitutes a capitalisation for these purposes if the capitalised amount is added to the principal balance of the Mortgage and the relevant borrower's arrears are discharged.

In order to fund any Discretionary Further Advance, the Issuer will be entitled to request a further drawdown under the Subordinated Loan Agreement, although the Subordinated Lenders shall be under no obligation to make available any such advance so requested. The Issuer is not entitled to agree to make any Discretionary Further Advance unless the Subordinated Lenders have agreed, at their discretion, to make available an advance under the Subordinated Loan Agreement for such purpose.

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

Further Advances – general provisions

The Mortgage Sale Agreement provides that on each occasion that a Further Advance is made by or on behalf of and in the name of the relevant Title Holder to a borrower under and on the security of a Mortgage using funds provided for that purpose by or on behalf of the Issuer and/or Trustee, then the relevant Title Holder agrees to sell and will immediately upon making such Further Advance be deemed to have sold to the Issuer all its rights and interest to that Further Advance in consideration for the provision of those funds.

If the Issuer does not wish, or is unable, to make a Further Advance, the relevant Title Holder may (but is not obliged to) make that Further Advance on the security of a second mortgage or standard security over the Property in question (postponed to the relevant Mortgage).

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

Conversion of Mortgages

Each Administrator may agree or elect to convert a Mortgage administered by it from an Interest only Mortgage to a Repayment Mortgage (but not any other type of mortgage) or from a Repayment Mortgage to an Interest only Mortgage (but not any other type of mortgage). Save as aforesaid, neither Administrator is permitted to make a conversion to any other type of mortgage (or to any combination of such other types of mortgage other than a Repayment Mortgage) unless certain conditions, including the following, are first satisfied:

- (a) no Enforcement Notice or Protection Notice (as defined in the Deed of Charge) has been given by the Trustee which remains in effect at the date of the relevant conversion;
- (b) such conversion would not adversely affect the then current ratings of the Notes;
- (c) if, and to the extent that, Mortgages are converted into Mortgages which are Fixed Rate Mortgages, the Issuer having entered into Caps or other hedging arrangements on or before the date of the conversion (and (where appropriate) obtained related guarantees) in respect of the Converted Mortgages if not to do so would adversely affect the then current ratings of the Notes;
- (d) on the date of the relevant conversion, there having been no failure by the relevant Seller to purchase or procure the purchase of any Mortgage which it is required to repurchase under the terms of the Mortgage Sale Agreement in the event of there being a breach of warranty in respect of that Mortgage;
- (e) no conversion must extend the final maturity date of the relevant Mortgage beyond 30 September 2031; and
- (f) on the date of and immediately following the relevant conversion, the relevant Title Holder's lending criteria are satisfied, so far as applicable, subject to such waivers as might be within the discretion of a reasonably prudent lender.

Notwithstanding the above, conversion of a mortgage, or part thereof, may also occur as part of an arrears management programme.

The Trustee will not make any investigation as to the manner in which any Converted Mortgages differ from the Mortgages purchased by the Issuer on the Closing Date.

Insurance

Each Administrator will, on behalf of the Issuer, administer the arrangements for insurance in respect of, or in connection with, the Mortgages administered by it to which the Issuer is a party or in which the Issuer has an interest and will make claims on behalf of the Issuer under any such insurance policies when necessary. See "Insurance Coverage" above.

Reinvestment of Income

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

Sums held to the credit of the Transaction Account to which payments of interest and repayments of principal in respect of Mortgages are to be credited and into and out of which all other payments to and by the Issuer are to be made, must be invested (a) in sterling denominated securities, bank accounts or other obligations of or rights against entities either the long term unsecured and unguaranteed debt of which is rated AAA by Fitch and AAA by Standard & Poor's or whose short term unsecured and unguaranteed debt is rated at least F1+ by Fitch and at least A 1 by Standard & Poor's; or (b) in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes or, if no Class A Notes or Class B Notes are outstanding, the Class C Notes provided that moneys invested in entities rated A 1 by Standard & Poor's may not be invested for a period of more than 30 days and such investments may not exceed 20 per cent. of the then aggregate Principal Amount Outstanding of the Notes and provided further that any moneys invested in entities rated F1 by Fitch may not be invested for a period of more than 30 days. Such investments and deposits must always be immediately repayable on demand or mature on or before the next Interest Payment Date or, if the Issuer will have insufficient available cash funds in the Revenue Ledger to make payments which are due and payable on the next Interest Payment Date, on that next Interest Payment Date and will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes.

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

Delegation by the Administrators

Each Administrator may, in certain circumstances, with the consent of the Issuer and the Trustee, subcontract or delegate its obligations under the Administration Agreement. Neither Administrator may subcontract or delegate all or substantially all of its obligations under the Administration Agreement if the then current ratings of the Notes would be adversely affected.

Termination of the appointment of the Administrators

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

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

provided that if the relevant event has occurred in relation to only one of the Administrators, the event shall be deemed to be remedied and shall not entitle the appointment of the other Administrator to be terminated if that other Administrator (in its absolute discretion), by giving notice to the Trustee and the Issuer under and in accordance with the applicable terms of the Administration Agreement, takes over all the rights and obligations under the Relevant Documents of the relevant Administrator in relation to which the relevant event occurred.

In addition an Administrator's appointment will, unless that Administrator, the Trustee and the Issuer agree otherwise (or the other Administrator replaces that Administrator in the manner described above), be terminated with immediate effect if at any time that Administrator does not have any authorisation under the FSMA which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

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

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

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

Administration Fee

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

The Title Holders, the Administrators and the Sellers will be entitled to receive from the Issuer for their own account any commissions due to them from insurers out of premiums paid by borrowers as a result of their having placed buildings insurance in relation to the Mortgages with such insurers.

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

Redemption

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

UNITED KINGDOM TAXATION

The comments below are of a general nature and are based on the Issuer's understanding of current United Kingdom tax law and H.M. Revenue & Customs' generally published practice as at the date of this Offering Circular. They are not exhaustive. They relate only to the position of persons who are the absolute beneficial owners of their Notes and may not apply to certain classes of person such as dealers or certain professional advisers. Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction outside the United Kingdom should consult their professional advisers. Prospective Noteholders should also refer to the section of this Offering Circular entitled "Risk Factors" for example, "Matters relating to the European Union, EU Savings Tax Directive, Change of Law and Withholding under the Notes" for further tax related information.

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

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax where the Issuer reasonably believes that the person beneficially entitled to the interest is (i) a company resident in the United Kingdom, (ii) a company not resident in the United Kingdom which carries on a trade in the United Kingdom through a permanent establishment and which is required to bring the interest into account in computing its profits chargeable to United Kingdom corporation tax or (iii) a partnership each member of which is a company described in (i) or (ii). This is subject to the proviso that H.M. Revenue & Customs does not give a direction that it has reasonable grounds for believing that it is likely that none of (i), (ii) or (iii) above will be satisfied at the time the payment is made.

In cases falling outside the exemptions described above, interest on the Notes will, subject to some exceptions, be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty.

2. The interest on the Notes will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom tax by direct assessment. However, interest received without deduction or withholding is not chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless the Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch, agency or a permanent establishment (in the case of a Noteholder which is a company) in the United Kingdom in connection with which the interest is received or to which the Notes are attributable. There are certain exceptions for interest received by specified categories of agent (such as some brokers and investment managers).
3. If interest on the Notes were to be paid after deduction of United Kingdom income tax, the terms and conditions of the Notes do not provide for any additional payments to be made in this or any other circumstance. Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
4. A Noteholder within the charge to United Kingdom corporation tax in respect of a Note (including a Noteholder so chargeable in relation to a permanent establishment in the United Kingdom) will, generally, be charged to tax on their returns from the Notes as income, which is generally calculated on the basis of the relevant Noteholder's accounts (drawn up in accordance with generally accepted accounting practice). Relief may be available for related expenses on a similar basis. For such Noteholders, the provisions described in paragraphs 5, 6 and 7 below will not apply to such a Note.
5. A Noteholder (other than a Noteholder within the charge to corporation tax in respect of the relevant Note) who is subject to United Kingdom income tax will generally be subject to income tax on interest arising in respect of the Notes on a receipts basis.

On a disposal of Notes a Noteholder who is not within the charge to United Kingdom corporation tax may be chargeable to United Kingdom tax on income on an amount treated (by rules known as the accrued income scheme contained in Chapter II of Part XVII of the Income and Corporation Taxes Act 1988) as representing accrued interest.

In the case of a disposal of Notes the amount treated as accrued interest will be determined by H.M. Revenue & Customs on a just and reasonable basis. A purchaser of such Notes will not be entitled to any allowance under the accrued income scheme to set against any deemed or actual interest it receives in respect of those Notes.

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

Noteholders should note that, in December 2004, H.M. Revenue & Customs announced that the accrued income scheme is to be reformed following a further period of consultation. In December 2006, H.M. Revenue & Customs published draft legislation governing “accrued income profits” for further consultation. It is intended that such legislation will be added to the new Income Tax Bill, which was also published in December 2006.

Since the draft legislation is part of H.M. Revenue & Customs’ “Tax Law Rewrite” program, it is not expected that the new draft legislation will change the rules governing the accrued income scheme. However, H.M. Revenue & Customs have stated that the law will be extended so as to put some existing practices on a statutory footing. In particular, the amendments clarify when accrued income scheme profits on transfers of variable rate securities arise where the settlement day for the transfer occurs after the end of the securities’ last interest period and alter the way in which relief is given in respect of interest on securities where accrued income scheme losses have been sustained on the transfer of those securities. The draft legislation also changes the way that the accrued income scheme operates as respects transfers of variable rate securities by ceasing to treat them as transfers with accrued interest and applying existing special rules relating to them directly.

As the legislation was published in draft form for consultation, Noteholders should note that it may be subject to further amendment before it is finally enacted.

6. The Notes should constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, neither a chargeable gain nor an allowable loss will arise on a disposal or redemption of the Notes for the purposes of United Kingdom taxation of chargeable gains.
7. No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Notes or on the issue of a Note in definitive form.
8. Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State has been required, since 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State. However, Austria, Belgium and Luxembourg are required instead to apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period commenced on 1 July 2005 and terminates at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date. Therefore, payments of interest on the Notes which are made or collected through Belgium, Luxembourg, Austria or any other relevant country may be subject to withholding tax which would prevent holders of the Notes from receiving interest on their Notes in full. The terms and conditions of the Notes provide that, to the extent that it is possible to do so, a paying agent will be maintained by the Issuer in a Member State that is not required to withhold tax pursuant to the directive.
9. Noteholders should note that where any interest on Notes is paid to them, or to any person acting on their behalf, by the Issuer or any person in the United Kingdom acting on behalf of the Issuer

(called a **“Paying Agent”**), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder, other than solely by clearing or arranging the clearing of a cheque, (called a **“Collecting Agent”**), then the Issuer, the paying agent or the collecting agent, as the case may be, may in certain circumstances be required to supply to H.M. Revenue & Customs details of the payment and certain details relating to the Noteholder, including the Noteholder’s name and address. These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Noteholder is not so resident, the details provided to H.M. Revenue & Customs, in certain cases, may be passed by H.M. Revenue & Customs to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

SUBSCRIPTION AND SALE

Barclays Bank PLC (the “**Lead Manager**”), Deutsche Bank AG, London Branch, HSBC Bank plc, ABN AMRO Bank N.V., London branch, J.P. Morgan Securities Ltd., ING Belgium S.A./N.V. and The Royal Bank of Scotland plc (together with the Lead Manager, the “**Managers**”) have, pursuant to a subscription agreement dated on or about 23 January 2007 (to which PFPLC, MTS, MTL and each Seller are also party) (the “**Subscription Agreement**”) jointly and severally agreed, subject to certain conditions, to subscribe for each class of the Notes in each case at the issue price indicated in the following table (in each case being a percentage of the Initial Principal Amount of the relevant class of Notes):

<i>Class of Notes</i>	<i>Issue price</i>	<i>Commission rate</i>
Class A	100 per cent.	0.085 per cent.
Class B	100 per cent.	0.085 per cent.
Class C	100 per cent.	0.085 per cent.

The Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Notes. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes. The Issuer has agreed to pay the Managers a combined selling, management and underwriting commission in respect of each class of Notes at the rate indicated in the above table (in each case being a percentage of the Initial Principal Amount of the relevant class of Notes). The Issuer gives certain representations and warranties and undertakings to the Managers in the Subscription Agreement. The Subscription Agreement is subject to a number of conditions and may be terminated by the Managers in certain circumstances prior to payment for the Notes to the Issuer.

United States of America

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. person, and the Issuer has not been and will not be registered under the Investment Company Act. The Notes may only be offered, sold, resold, delivered or transferred outside the United States to non U.S. persons in reliance on Rule 903 or 904 of Regulation S.

- (a) In connection with sales outside the United States, each Manager has agreed under the Subscription Agreement in relation to the Notes that, except for sales in accordance with the preceding paragraph, it will not offer, sell or deliver the Notes to, or for the account or benefit of U.S. persons (1) as part of such Manager’s distribution of the Notes at any time or (2) otherwise during the Distribution Compliance Period, and, accordingly, that neither it, its affiliates nor any person acting on their behalf has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Notes and it and its affiliates and any person acting on its or their behalf has complied with and will comply with the offering restriction requirements of Regulation S under the Securities Act to the extent applicable.
- (b) Each Manager has agreed under the Subscription Agreement in relation to the Notes that, at or prior to confirmation of sales of the Notes, it will have sent to each distributor, dealer or other person to which it sells any of the Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.
- (c) Each Manager will represent and covenant in the Subscription Agreement that it has not sold Notes within the United States.

In addition, each Manager has represented and agreed with the Issuer that:

- (a) except to the extent permitted under United States Treasury Regulation Section 1.163-5(c)(2)(i)(D) (the “**D Rules**”), (i) it has not offered or sold, and during the restricted period that it will not offer or sell, any Notes to a person who is within the United States or its possessions or to a U.S. person, and (ii) it has not delivered and will not deliver in definitive form within the United States or its possessions any Notes that are sold during the restricted period;

- (b) it has, and throughout the restricted period it will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a U.S. person, except as permitted by the D Rules; and
- (c) with respect to each affiliate which acquires Notes from it for the purpose of offering or selling such Notes during the restricted period, it has either (i) repeated and confirmed the representations and agreements contained in paragraphs (a) and (b) above on its own behalf; or (ii) agreed that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in paragraphs (a) and (b) above.

Terms used herein have the meanings given to them by the Securities Act and Regulation S under the Securities Act and by the United States Internal Revenue Code 1986, as amended, and regulations thereunder, including the D Rules.

United Kingdom

Under the Subscription Agreement, each Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Ireland

Each of the Managers has represented to and agreed with the Issuer that to the extent applicable it has complied with and will comply with all applicable provisions of the Irish Companies Acts 1963-2005 (as amended) and the Investment Intermediaries Act, 1995 (as amended) including, without limitation, Sections 9 and 50 and will conduct themselves in accordance with any Codes of Conduct drawn up pursuant to Section 37 thereof or, in the case of a credit institution exercising its rights under the Banking Consolidation Directive (2000/12/EC of 20 March 2000), in conformity with the codes of conduct or practice made under Section 117(1) of the Central Bank Act 1989, of Ireland, as amended, with respect to anything done by it in relation to the Notes.

General

Other than admission of the Notes to the Official List and to trading no action is being taken to permit a public offering of the Notes, or possession or distribution of the Offering Circular or other material relating to the Notes, in any country or jurisdiction where action for that purpose is required. This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any country or jurisdiction where such an offer or solicitation is not authorised. Each Manager has agreed under the Subscription Agreement in relation to the Notes not to offer or sell, directly or indirectly, the Notes, or to distribute or publish this Offering Circular, any advertisement or any other material relating to the Notes, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

Each Manager may hold Notes issued by other subsidiaries of PGC in connection with other securitisation transactions.

JPMorgan Chase Bank, National Association which is acting as the Basis Hedge Provider, is an affiliate of J.P. Morgan Securities Ltd., a Manager.

GENERAL INFORMATION

It is expected that listing of the Notes to the Official List of the U.K. Listing Authority will occur, and that the Notes will be admitted to trading on the regulated market of the London Stock Exchange on or around 26 January 2007, subject only to the issue of the Global Notes. Prior to the official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules. The listing of the Notes will be cancelled if the Global Notes are not issued.

The Notes represented by the Global Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The table below lists the Common Codes and the International Securities Identification Numbers (“**ISIN**”) for the Notes.

	<i>Common Code</i>	<i>ISIN</i>
Global A Note.....	028247079	XS0282470797
Global B Note.....	028247109	XS0282471092
Global C Note	028247117	XS0282471175

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

Since the date of its incorporation the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business other than the Subscription Agreement.

The Mortgages backing the issue of Notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. However, investors are advised that this analysis is based on the information available at the date of this Offering Circular and the funds available to service any payments due and payable on the Notes may be affected by (i) the future performance of such Mortgages, (ii) rises in Reference Rates, (iii) the ranking of the Notes as set out in the Conditions, and (iv) performance by the transaction parties, including (but not limited to), the Administrators, the Subordinated Lenders, the Additional Subordinated Lenders, the Issue Services Provider, the Substitute Administrator, the Hedge Providers, the Sellers, the Title Holders and PFPLC, of their duties and functions under the transaction documents.

Additionally, investors are advised to review carefully the risk factors set out in the chapter entitled “Risk Factors” and in particular the following sections of that chapter:

- (a) “The Issuer’s ability to meet its obligations under the Notes - Funds available to the Issuer”; and
- (b) “Matters Relating to the Mortgages”.

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

Neither the Issuer, nor the group of companies of which the Issuer is a member, is or has been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the twelve months preceding the date of this Offering Circular, a significant effect on the financial position or profitability of the Issuer or the group of companies of which the Issuer is a member.

The registered office address of each Seller and MTL is St. Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE.

Copies of the following documents may be inspected during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the offices of Clifford Chance LLP at 10 Upper Bank Street, Canary Wharf, London E14 5JJ during the period of twelve months from the date of this Offering Circular:

- (a) the Memorandum and Articles of Association of the Issuer;
- (b) a copy of the Subscription Agreement and the Cross collateral Mortgage Rights Deed; and
- (c) drafts (subject to modification) of the Trust Deed to constitute the Notes (including the forms of the Global Notes and Definitive Notes), the Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, each Scottish Declaration of Trust, the Agency Agreement, each Collection Account Declaration of Trust, the Basis Hedge Agreement, the Subordinated Loan Agreement, the Fee Letter, the Flexible Drawing Facility Agreement, the Services Letter, the VAT Declaration of Trust and the Cross collateral Mortgage Rights Accession Deed.

The Issuer does not intend to provide post-issuance transaction information regarding the Notes and the Mortgages; however, transaction information compiled by the Administrators is available on <http://www.paragon-group.co.uk/>. This information does not form part of this Offering Circular and is not required for inclusion pursuant to Article 5 of EU Directive 2003/71/EC.

GLOSSARY

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