

WAIVER AND CONSENT LETTER

Paragon Mortgages (No. 10) PLC

Citicorp Trustee Company Limited
Citicorp Centre
Canada Square
Canary Wharf
London E14 5LB
(the "**Trustee**")

Paragon Mortgages (No. 10) PLC
St. Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE
(the "**Issuer**")

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
(**"Barclays"**)

Sheffield Receivables Corporation
745 7th Avenue
5th Floor
New York, New York
10019 USA
(**"Sheffield"**)

Paragon Finance PLC
St. Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE
(the "**Administrator**")

17 September 2012

Dear Sirs

Paragon Mortgages (No. 10) PLC

We refer to the \$1,100,000,000 Class A1 Notes due 2041, the £105,000,000 Class A2a Notes due 2041, the €222,000,000 Class A2b Notes due 2041, the £31,000,000 Class B1a Notes due 2041, the €19,500,000 Class B1b Notes due 2041, the £51,500,000 Class C1a Notes due 2041 and the €27,500,000 Class C1b Notes due 2041 (together the "**Notes**") issued pursuant to the trust deed dated 17 November 2005 between the Issuer

and Citicorp Trustee Company Limited as trustee (the "**Trustee**") (the "**Trust Deed**"). Capitalised terms used but not defined in this letter shall have the meaning given to them in the Trust Deed.

1. **Background**

- 1.1 Sheffield is the sole holder of the Class A1 Notes.
- 1.2 Reference is made to the Revolving Asset Purchase Agreement made between Barclays, as agent and as assignee and Sheffield on 17 November 2005 (in relation to the Class A1 Notes), as amended and restated (the "**RAPA**"). Reference is also made to the A1 Note Conditional Purchase Agreement entered into between the Issuer, Barclays as remarketing agent and Sheffield as A1 Note Conditional Purchaser (amongst others) on 17 November 2005 (in relation to the Class A1 Notes), as amended (the "**CPA**"). Reference is also made to the Remarketing Agreement entered into between the Issuer, Barclays as remarketing agent and Sheffield as A1 Note Conditional Purchaser (amongst others) on 17 November 2005, as amended (in relation to the Class A1 Notes) (the "**Remarketing Agreement**").
- 1.3 Following the downgrade of Barclays below the relevant threshold as specified in the definition of Downgrade Assignee in the RAPA by Standard and Poor's (the "**Downgrade**"), Barclays as Agent has an obligation to terminate Barclays' rights and obligations as Assignee under the RAPA (clause 9(l) of the RAPA). If Barclays is not replaced, then on the 30th day after downgrade, Barclays as Agent must request Barclays to make an advance equal to the unused Maximum Purchase Commitment (the "**Drawdown Requirement**") (clause 9(l) of the RAPA).
- 1.4 The A1 Note Conditional Purchaser has represented and warranted to the Issuer and the Trustee at clause 4.5(d) of the CPA that it will enforce the Drawdown Requirement.
- 1.5 Clause 4.7(g) of the CPA sets out the obligation of the A1 Note Conditional Purchaser to notify the Trustee, the Issuer and the Administrator of the potential breach of a representation and warranty (including clause 4.5(d)) under the agreement.
- 1.6 The purpose of this waiver and consent letter is to waive the Drawdown Requirement (in relation to the Downgrade and any subsequent downgrade of Barclays by any rating agency) and any related obligations as mentioned in clauses 1.4 and 1.5 above. A failure to comply with the Drawdown Requirement may, however, adversely affect the short-term rating of the Class A1 Notes.

2. **Confirmations by Barclays and Sheffield**

- 2.1 Sheffield (as the sole holder of the Class A1 Notes) hereby confirms to the Issuer and the Trustee that it does not regard the current or future short term ratings of the Class A1 Notes by any rating agency as material (but for the

- avoidance of doubt, does regard the long term ratings of the Class A1 Notes as material).
- 2.2 For the avoidance of doubt, Barclays and Sheffield each confirm that no Remarketing Termination Event (as defined in the Remarketing Agreement) has occurred or will occur as a result of entering into the arrangements set out in this letter.
 - 2.3 Barclays and Sheffield each confirm that they will continue to fulfil their respective obligations under each of the RAPA, the CPA and the Remarketing Agreement notwithstanding the waiver (save for any obligations waived hereunder).
 - 2.4 Sheffield acknowledges that a downgrade in the short term ratings of the Class A1 Notes may occur as a result of the waivers requested herein.
 - 2.5 Sheffield hereby confirms to the Trustee its consent to the Proposal (as defined below).
 - 2.6 Barclays, as managing agent of Sheffield, indemnifies the Trustee for any loss suffered in connection with actions it is instructed to take by Barclays and/or Sheffield in relation to the Proposal (as defined below).
 - 2.7 Barclays and Sheffield each release the Trustee from liability in relation to the actions it takes as a result of the confirmations provided by Barclays and/or Sheffield in relation to the Proposal (as defined below).
 - 2.8 Each of Barclays and Sheffield agrees to notify the Trustee and the Issuer in writing if the Class A1 Notes cease to be held in their entirety by Barclays, Sheffield, any affiliate of Barclays or Sheffield or a combination of the foregoing.
 - 2.9 The waiver requested herein is limited to the period during which Sheffield, Barclays, or any affiliate of the same, remains the sole investor in the Class A1 Notes (and includes any period during which Sheffield, Barclays, or any affiliate of the same is the sole investor in the Class A1 Notes following remarketing of the Class A1 Notes).
 - 2.10 Barclays agrees to pay, promptly following receipt of written request for such amounts from or on behalf of the Issuer or Trustee (as applicable), all fees, costs and expenses incurred by the Issuer and the Trustee in connection with the negotiation and execution of this letter.
3. **Request for Waivers and Consent**
- 3.1 It is proposed that, so long as Sheffield, Barclays, or any affiliate of the same, remains the sole investor in the Class A1 Notes:
 - (a) notwithstanding the Downgrade or any subsequent downgrade of Barclays by any rating agency, Barclays shall not be required to be

replaced as Assignee under the RAPA and the Drawdown Requirement under Clause 9(l) of the RAPA shall not be enforced;

- (b) Sheffield's obligations to the Issuer and the Trustee to: (i) enforce the Drawdown Requirement under Clause 4.5(d) of the CPA; and (ii) notify them and the Administrator of the matters set out in Clause 4.7(g) of the CPA (to the extent that such matters relate to a breach or potential breach of the Drawdown Requirement) shall be waived by the Issuer, the the Trustee and (in the case of (ii) only) the Administrator;
- (c) any resulting breach by Sheffield and/or Barclays of their obligations towards the Issuer under Clause 4.6(b), Clause 4.7(b) and/or Clause 4.7(g) of the CPA shall be waived by the Issuer; and
- (d) any breach by the Issuer of the Transaction Documents as a result of the waiver set out at (c) above shall be waived by the Trustee,

((a) to (d) above together, the "**Proposal**").

3.2 Accordingly:

- (a) Sheffield is writing to the Issuer, Trustee and the Administrator; and
 - (b) the Issuer is writing to the Trustee,
- to seek agreement to the Proposal.

3.3 Clause 19.1 of the Trust Deed provides that:

The Trustee may without prejudice to its rights in respect of any subsequent breach, condition, event or act from time to time and at any time but only if and in so far as in its opinion the interests of any of the Noteholders shall not be materially prejudiced thereby waive or authorise on such terms and subject to such conditions as to it shall seem fit and proper any breach or proposed breach by the Issuer of any of the covenants or provisions contained in these presents or in the Notes (including the Conditions) or any other Relevant Document or determine that any condition, event or act which constitutes, or which with the giving of notice and/or the lapse of time and/or the issue of a certificate would constitute, but for such determination, an Event of Default shall not, or shall not subject to specified conditions, be treated as such for the purposes of these presents provided that the Trustee shall not exercise any powers conferred on it by this Clause in contravention of any express direction given by Extraordinary Resolution or by a request under Condition 9 (being, in the case of a direction or request of the Class B Noteholders or the Class C Noteholders, a request or direction which is binding on the Trustee in accordance with Clause 7.1) but so that no such direction or request shall affect any waiver, authorisation or determination previously given or made. Any such waiver, authorisation or determination shall be binding on the

Noteholders and each Secured Party and if, but only if, the Trustee shall so require, shall be notified by the Issuer to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.
[emphasis added]

3.4 Accordingly, the Trustee may agree to the Proposal pursuant to Clause 19.1 of the Trust Deed where it is able to form the view that to do so will not materially prejudice the interests of any of the Noteholders. The Issuer hereby certifies to the Trustee that this is the case, for the following reasons:

- (a) Sheffield, as sole Class A1 Noteholder, has confirmed to the Issuer and the Trustee that the Proposal will not be materially prejudicial to its interests; and
- (b) the Class A1 Conditional Purchase Agreement relates solely to the Class A1 Notes and therefore the Proposal will not affect the interests of the holders of Notes other than the Class A1 Notes in any way.

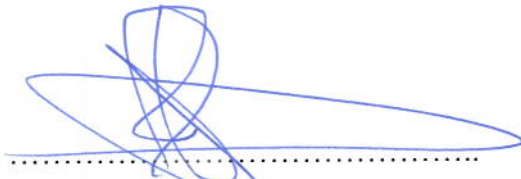
4. **Conclusion**

4.1 For the reasons set out above, the Trustee hereby grants the permissions and waivers requested of it in the Proposal.

4.2 As a result of receiving the consent set out in paragraph 4.1, the Issuer hereby grants the permissions and waivers requested of it in the Proposal.

4.3 The Administrator hereby grants the permissions and waivers requested of it in the Proposal.

Yours faithfully



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Paragon Mortgages (No. 10) PLC

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Barclays Bank PLC

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Sheffield Receivables Corporation

Noteholders and each Secured Party and if, but only if, the Trustee shall so require, shall be notified by the Issuer to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.
[emphasis added]

3.4 Accordingly, the Trustee may agree to the Proposal pursuant to Clause 19.1 of the Trust Deed where it is able to form the view that to do so will not materially prejudice the interests of any of the Noteholders. The Issuer hereby certifies to the Trustee that this is the case, for the following reasons:

- (a) Sheffield, as sole Class A1 Noteholder, has confirmed to the Issuer and the Trustee that the Proposal will not be materially prejudicial to its interests; and
- (b) the Class A1 Conditional Purchase Agreement relates solely to the Class A1 Notes and therefore the Proposal will not affect the interests of the holders of Notes other than the Class A1 Notes in any way.

4. **Conclusion**


- 4.1 For the reasons set out above, the Trustee hereby grants the permissions and waivers requested of it in the Proposal.
- 4.2 As a result of receiving the consent set out in paragraph 4.1, the Issuer hereby grants the permissions and waivers requested of it in the Proposal.
- 4.3 The Administrator hereby grants the permissions and waivers requested of it in the Proposal.

Yours faithfully

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Paragon Mortgages (No. 10) PLC


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Barclays Bank PLC

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Sheffield Receivables Corporation

 David Mares
Director

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Citicorp Trustee Company Limited

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Paragon Finance PLC

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Citicorp Trustee Company Limited



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Paragon Finance PLC