

DEED OF SUB-CHARGE AND ASSIGNMENT

made on

23 March 2006

between

PARAGON MORTGAGES (NO.11) PLC

as the Issuer

CITICORP TRUSTEE COMPANY LIMITED

as the Trustee

PARAGON FINANCE PLC

as an Administrator, Subordinated Lender and the Issue Services Provider

PARAGON MORTGAGES LIMITED

as an Originator and as a Seller

MORTGAGE TRUST SERVICES PLC

as an Administrator, a Seller and a Subordinated Lender

MORTGAGE TRUST LIMITED

as an Originator

HOMELoAN MANAGEMENT LIMITED

as the Substitute Administrator

BARCLAYS BANK PLC

as the Currency Swap Provider

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION AND

ABN AMRO BANK N.V., LONDON BRANCH

as Basis Hedge Providers

THE ROYAL BANK OF SCOTLAND PLC

as Remarketing Agent and an A1 Note Conditional Purchaser

DEUTSCHE BANK AG, LONDON BRANCH

as an A1 Note Conditional Purchaser

CITIBANK, N.A., LONDON BRANCH

as Principal Paying Agent, Reference Agent, Registrar and Tender Agent

and

CITIBANK, N.A., NEW YORK BRANCH

as U.S. Paying Agent

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THIS DEED OF SUB-CHARGE AND ASSIGNMENT is made on 23 March 2006

BETWEEN:

- (A) **PARAGON MORTGAGES (NO.11) PLC** (registered number 4513183) whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE (the "**Issuer**");
- (B) **CITICORP TRUSTEE COMPANY LIMITED** (registered number 235914) whose registered office is at Citigroup Centre, 14th Floor, Canada Square, Canary Wharf, London E14 5LB (the "**Trustee**", which expression shall, without limiting Clause 1.2, include such company and all other persons or companies for the time being acting as trustee or trustees under the Trust Deed referred to below);
- (C) **PARAGON FINANCE PLC** whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE together with MTS, a Subordinated Lender (the "**Subordinated Lenders**"), as a party to the Fee Letter and in such capacity under the Fee Letter and in any other capacity shall be referred to as "**PFPLC**", acting in its capacity as an Administrator under the Administration Agreement (as defined below) (severally with MTS) the "**Administrator**" and in its capacity as the "**Issue Services Provider**";
- (D) **PARAGON MORTGAGES LIMITED** whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE ("**PML**");
- (E) **MORTGAGE TRUST SERVICES PLC** (registered number 3940202) whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE ("**MTS**" in its capacity as a Seller, and together with PML, the "**Sellers**" and in its capacity as an Administrator severally with PFPLC, the "**Administrator**", and a "**Subordinated Lender**");
- (F) **MORTGAGE TRUST LIMITED** (registered number 2048895) whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE ("**MTL**" and together with PML, the "**Originators**");
- (G) **HOMELoAN MANAGEMENT LIMITED** a company incorporated under the laws of England and Wales (registered number 2214839) whose registered office is at 1 Providence Place, Skipton, North Yorkshire, BD23 2HL (the "**Substitute Administrator**");
- (H) **BARCLAYS BANK PLC**, a public company incorporated under the laws of England, registered number 1026167, acting through its office at 5 The North Colonnade, Canary Wharf, London E14 4BB (the "**Currency Swap Provider**" which expression shall include each replacement currency swap provider under any of the Currency Swap Agreements (as defined below));
- (I) **ABN AMRO BANK N.V., LONDON BRANCH** acting through its office at 250 Bishopsgate, London EC2M 4AA ("**ABN AMRO**" and, together with JP Morgan

Chase Bank, National Association, a "**Basis Hedge Provider Swap Provider**" which expression shall include each replacement basis hedge provider under any of the Basis Hedge Agreement (as defined below);

- (J) **JPMORGAN CHASE BANK, NATIONAL ASSOCIATION** acting through its office at 125 London Wall, London EC2Y 5AJ (a "**Basis Hedge Provider**" which expression shall include each replacement basis hedge provider under the Basis Hedge Agreement (as defined below) and together with ABN AMRO the "**Basis Hedge Providers**");
- (K) **CITIBANK, N.A., LONDON BRANCH** acting through its office at Citigroup Centre, 21st Floor, Canada Square, Canary Wharf, London E14 5LB as tender agent for the Notes (the "**Tender Agent**", the "**Principal Paying Agent**", the "**Reference Agent**" and the "**Registrar**" and together with the U.S. Paying Agent the "**Agents**");
- (L) **THE ROYAL BANK OF SCOTLAND PLC.**, acting through its branch at 135 Bishopsgate, London EC2M 3UR ("**RBS**", the "**Remarketing Agent**" and an "**A1 Note Conditional Purchaser**");
- (M) **DEUTSCHE BANK AG LONDON**, Winchester House, 1 Great Winchester Street, London EC2N 2DB ("**Deutsche**" and an "**A1 Note Conditional Purchaser**" and together with RBS the "**A1 Note Conditional Purchasers**"); and
- (N) **CITIBANK, N.A., NEW YORK BRANCH** acting through its office at 338 Greenwich Street, 14th Floor, Agency & Trust, New York, NY 10013, U.S.A. as US paying agent for the Notes (the "**US Paying Agent**" and together with the Principal Paying Agent the "**Paying Agents**").

WHEREAS:

This deed of sub-charge and assignment is supplemental to the Trust Deed of even date herewith and made between the Issuer and the Trustee constituting the Notes of the Issuer.

IT IS HEREBY AGREED AS FOLLOWS:

1. DEFINITIONS AND INTERPRETATION

- 1.1 The expressions defined in the Relevant Documents or the Conditions (each as defined below) shall, unless otherwise defined in this Clause 1.1, have the same meanings in this Deed, and, in this Deed, except so far as the context otherwise requires:

"**A1 Note Conditional Purchase Agreement**" means the agreement entered into on around the date hereof between, among others, the Issuer and the A1 Note Conditional Purchasers;

"**Act**" means the Law of Property Act 1925;

"**Additional Amounts**" means, if any of the Currency Swap Provider or the Basis Hedge Providers are required by law to make any deduction or withholding for or on

account of United Kingdom tax from any payments payable by it under the relevant Currency Swap Agreement or Basis Hedge Agreement, as the case may be, on any Interest Payment Date, such additional amount that the Issuer would require to receive to ensure that the Issuer receives (after any deduction or withholding) the full amount it would have otherwise received from that Hedge Provider had no deduction or withholding been made;

"Additional Subordinated Lender" means a person (other than either PFPLC or MTS (in its capacity as Subordinated Lender)) from whom the Issuer may borrow pursuant to the Subordinated Loan Agreement, as contemplated by the proviso to Clause 11.2 and which has undertaken in a manner and form satisfactory to the Trustee to be bound by this Deed as if it had originally been a party hereto;

"Additional Subordinated Lender Secured Amounts" means any monies and liabilities which from time to time may be owing or payable from or by the Issuer to an Additional Subordinated Lender under the Subordinated Loan Agreement and references to the **"Additional Subordinated Lender Secured Amounts"** include references to any of them;

"Administration Agreement" means the agreement of even date herewith between the Administrators, the Issuer, PML, MTL, MTS (in its capacity as Seller) and the Trustee as from time to time varied with the approval of the Trustee and any agreement to which the Trustee is a party under which a substitute administrator is appointed to render services of the nature referred to in such agreement other than the Substitute Administrator Agreement;

"Administrator Secured Amounts" means the monies and liabilities which the Issuer covenants and undertakes in this Deed to pay or discharge to the Administrators (in its capacity as Administrator); and references to the **"Administrator Secured Amounts"** include references to any of them;

"Administration Senior Fee" has the same meaning as in the Administration Agreement;

"Administration Subordinated Fee" has the same meaning as in the Administration Agreement;

"Agency Agreement" means the agency agreement of even date herewith between, among others, the Issuer and the Agents, as from time to time varied in accordance with the provisions thereof;

"Basis Hedge Agreement" has the same meaning as in the Trust Deed;

"Borrower" means:

- (a) in relation to each Individual Mortgage, the same as in the Mortgage Conditions; and

(b) in relation to each Corporate Mortgage, the company named as the "Borrower" in the Mortgage Conditions;

"**Business Day**" has the meaning given to it in Condition 4(a), whether or not there are any Notes outstanding;

"**Cap**" means a hedging arrangement entered into by the Issuer and a Cap Provider pursuant to a Cap Agreement whereby in the event that LIBOR (as determined in accordance with such agreement) exceeds the rate agreed with such Cap Provider (the "strike rate"), such Cap Provider will be required to make a payment to the Issuer equal to the difference between LIBOR (as so determined) and the strike rate calculated on the notional principal amount agreed for the relevant period, provided that such strike rate is set at such a level that the then ratings of the Class A Notes, the Class B Notes and the Class C Notes will not be adversely affected thereby;

"**Cap Agreement**" means any agreement in such form as is approved by the Trustee to be entered into on or before the Closing Date or (in relation to a Mortgage which is converted) at any time thereafter, or any agreement entered into in substitution or replacement of any such agreement, between the Issuer and a Cap Provider pursuant to which such Cap Provider has agreed or will agree, among other things, to provide to the Issuer a Cap or series of Caps, and any other agreements for similar purposes entered into from time to time with the approval of the Trustee;

"**Cap Guarantee**" means any unconditional and irrevocable guarantee in a form agreed by the Trustee and the Rating Agencies to be given by a Cap Guarantor guaranteeing the timely payment of the obligations of any Cap Provider under any Cap Agreements or any other provider in relation to any other hedging arrangements;

"**Cap Guarantor**" means such bank or financial institution as may from time to time hereafter provide a Cap Guarantee, provided that the rating of the long term unsecured and unsubordinated indebtedness of such Cap Guarantor is at least equal to that then applicable to the Class A Notes or, if lower, is such that the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes are not adversely affected as a result, as confirmed by the Rating Agencies;

"**Cap Provider**" means any bank or financial institution acting as a Cap Provider under any Cap Agreement which will, on the date on which it makes a Cap available to the Issuer, have a rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Notes unless the Cap is guaranteed under a Cap Guarantee or other arrangements are entered into at the time which are sufficient to maintain such ratings;

"**Charged Property**" means the assets, rights and undertaking of the Issuer for the time being held as security (whether fixed or floating) for the Secured Amounts under this Deed and references to the "**Charged Property**" include references to any part of it;

"**Class A Notes**" has the meaning given to it in the Trust Deed;

"**Class B Notes**" has the meaning given to it in the Trust Deed;

"**Class C Notes**" has the meaning given to it in the Trust Deed;

"**Collection Account Declarations of Trust**" means each of the declarations of trust over the Collection Accounts made by PML and MTS respectively as the same may be supplemented and amended from time to time (including by the respective Supplemental Deed of Declarations of Trust of even date herewith) and as may be further supplemented and amended from time to time;

"**Conditions**" has the meaning given to it in the Trust Deed;

"**Corporate Mortgages**" has the meaning given to it in the Mortgage Sale Agreement;

"**Cross-collateral Mortgage Rights Deed**" means the Principal Deed as defined in the Cross-Collateral Mortgage Rights Accession Deed;

"**Current Balance**" means at any time, in relation to a Mortgage, the then outstanding balance, including arrears of interest and all other sums due but unpaid under such Mortgage at such time but excluding, for the avoidance of doubt, any accrued interest thereon which has not yet fallen due for payment;

"**Currency Swap A1 Agreement**" means the ISDA master agreement entered into between the Issuer, the Currency Swap Provider and the Trustee on or about the Closing Date in relation to the Class A1 Notes together with the schedule, each confirmation and each credit support annex or other credit support documents relating thereto and shall include any additional and/or replacement agreements or documents entered into by the relevant parties from time to time in connection with those Notes;

"**Currency Swap A2b Agreement**" means the ISDA master agreement entered into between the Issuer, the Currency Swap Provider and the Trustee on or about the Closing Date in relation to the Class A2b Notes together with the schedule, each confirmation and each credit support annex or other credit support documents relating thereto and shall include any additional and/or replacement agreements or documents entered into by the relevant parties from time to time in connection with those Notes;

"**Currency Swap B1b Agreement**" means the ISDA master agreement entered into between the Issuer, the Currency Swap Provider and the Trustee on or about the Closing Date in relation to the Class B1b Notes together with the schedule, each confirmation and each credit support annex or other credit support documents relating thereto and shall include any additional and/or replacement agreements or documents entered into by the relevant parties from time to time in connection with those Notes;

"**Currency Swap C1b Agreement**" means the ISDA master agreement entered into between the Issuer, the Currency Swap Provider and the Trustee on or about the Closing Date in relation to the Class C1b Notes together with the schedule, each confirmation and each credit support annex or other credit support documents relating

thereto and shall include any additional and/or replacement agreements or documents entered into by the relevant parties from time to time in connection with those Notes;

"Currency Swap Agreements" means the Currency Swap A1 Agreement, the Currency Swap A2b Agreement, the Currency Swap B1b Agreement and Currency Swap C1b Agreement;

"Currency Swap Interest Amount" means an amount in GBP payable by the Issuer to a Currency Swap Provider under the terms of a Currency Swap Agreement on an Interest Payment Date intended to match the amount of interest which would have accrued on the relevant class of Notes during the Interest Period ending on (but excluding) that Interest Payment Date if those Notes comprised GBP Notes and the relevant Note Interest Rate Margin had been equal to the spread specified in the relevant Currency Swap Agreement and by reference to the GBP Equivalent Principal Liability Outstanding of that class of Notes as at the start of that Interest Period;

"Currency Swap Principal Amount" means an amount in GBP payable by the Issuer to a Currency Swap Provider under the terms of a Currency Swap Agreement on an Interest Payment Date equal to the amount available to be applied in repayment of principal on the relevant class of Notes on that Interest Payment Date;

"this Deed" means this present deed including the Schedules and any document executed hereunder or supplemental hereto, all as from time to time varied with the approval of the Trustee;

"Deferred Purchase Consideration" has the meaning given to it in the Mortgage Sale Agreement;

"Discretionary Further Advance" has the meaning given to it in the Administration Agreement;

"document" means any deed, instrument (including a negotiable instrument) or other document of any kind;

"Eligible Company" means a company which satisfies the requirements of paragraph 2 of Schedule A1 to the Insolvency Act 1986 on the date the documents required by paragraph 7 of Schedule A1 are filed with the court;

"Enforcement Notice" means a notice given by the Trustee under Condition 9 causing the Notes to become immediately due and repayable;

"English Mortgage" has the meaning given to it in the Mortgage Sale Agreement;

"Expected Exchange Time" means the date the GBP Equivalent is to be determined, unless it is clear from the context that the relevant reference to GBP Equivalent relates to and is being used to anticipate currency exchanges which will be made at a specific future date, in which case it means that future date;

"Fee Letter" means the agreement dated the same date as this Agreement between the Issuer, the Issue Services Provider and the Trustee relating to the reimbursement of certain expenses of the issues of the Notes incurred by PFPLC and on behalf of the Issuer and the payment by the Issuer of an arrangement fee to the Issue Services Provider;

"First Loss Liquidity Excess Amount" has the meaning given to it in Clause 6.1.7;

"Flexible Drawing Capitalised Advance" has the meaning given to it in the Administration Agreement;

"GBP Equivalent" in relation to an amount means:

- (a) where that amount is expressed in GBP, that amount at the Expected Exchange Time; and
- (b) where that amount is expressed in any currency other than GBP, the GBP equivalent of that amount ascertained using:
 - (1) if that amount relates to a Note other than a GBP Note and the Currency Swap Agreement relating to that Note has not or is not expected to have terminated early on or before the Expected Exchange Time, the exchange rate specified in that Currency Swap Agreement; or
 - (2) in any other case, the applicable spot rate of exchange at (or as expected to be at) the Expected Exchange Time as determined by the Administrators (prior to the Security becoming enforceable) or the Trustee (from or after the Security becoming enforceable);

"Global Note" means the Global Rule 144A Notes and the Global Reg S Notes;

"Global Reg S Note" means the Notes represented by one or more permanent global notes in fully registered form without interest coupons sold to non-U.S. persons outside the United States in reliance of Regulation S of the United States Securities Act 1933;

"Global Rule 144A Note" means the Notes represented by one or more permanent global notes in fully registered form without interest coupons sold to persons who are qualified institutional buyers in reliance on Rule 144A of the United States Securities Act 1933;

"Hedge Agreements" means each Currency Swap Agreement, each Basis Hedge Agreement, each Permitted Basis Hedge Agreement and each other hedging agreement entered into by the Issuer from time to time;

"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 Affected Party (and for these purposes Event of Default, Defaulting Party, Termination Event and Affected Party have the meanings indicated in that Hedge Agreement);

"**Hedge Providers**" means each Currency Swap Provider, the Basis Hedge Provider, each Permitted Basis Hedge Provider and each other provider of interest rate and/or currency hedging to the Issuer under any other hedging agreement entered into by the Issuer from time to time;

"**Individual Mortgages**" has the meaning given to it in the Mortgage Sale Agreement;

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

"**Insurance Contracts**" means the insurance contracts described in Schedule 1 or any other policies providing equivalent cover;

"**Interest Payment Date**" has the meaning given to it in Condition 4(a);

"**Interest Period**" has the meaning given to it in Condition 4(a);

"**Issuer Account**" has the meaning given to it in the Administration Agreement;

"**Issuer Cash Account**" has the meaning given to it in the Administration Agreement;

"**JPMorgan**" means J.P. Morgan Securities Ltd., in its capacity as a Lead Manager;

"**Land Registration Acts**" means the Land Registration Acts 1925-2002, or in relation to Northern Ireland, the Land Registration Act (Northern Ireland) 1970 and the Registration (Land and Deeds) (Northern Ireland) Order 1992;

"**Lead Managers**" means Deutsche, JPMorgan and RBS;

"**Liquidity Amount**" means after the occurrence of a Liquidity Amount Trigger while any Class A Note remains outstanding, on each relevant Interest Payment Date an amount equal to 1.6% of the then aggregate GBP Equivalent Principal Liability Outstanding of the Notes on the immediately preceding Principal Determination Date; at all other times, the Liquidity Amount will equal zero;

"**Liquidity Amount Trigger**" means, on any Interest Payment Date (and all following Interest Payment Dates until the redemption of the Class A Notes in full or the repayment in full of all the Mortgages) if on the immediately preceding Principal Determination Date the then aggregate 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 at least 7.5% 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 Cash Advance)) within the 12 months immediately preceding such time;

"Mandatory Further Advance" has the meaning given to it in the Administration Agreement;

"Mortgages" has the meaning given to it in the Mortgage Sale Agreement;

"Mortgage Sale Agreement" means the agreement of even date herewith between each Seller, each Originator, each Administrator, the Warehouse, the Issuer and the Trustee relating to the sale and purchase of the Mortgages as from time to time varied with the prior written approval of the Trustee;

"NatWest" means National Westminster Bank Plc;

"Noteholders" has the meaning given to it in the Trust Deed;

"Northern Irish Mortgage" has the meaning given to it in the Mortgage Sale Agreement;

"Notes" has the meaning given to it in the Trust Deed;

"Permitted Basis Hedge Agreement" means an ISDA master agreement thereto entered into between the Issuer, a Permitted Basis Hedge Provider and the Trustee, together with the schedule, each confirmation and each credit support annex or other credit support documents relating thereto, pursuant to which the Issuer enters into hedging arrangements pursuant to clause 4.10.2(c) of the Administration Agreement but only to the extent permitted by clause 12(X) of the Trust Deed, and shall include any additional and/or replacement basis hedging agreements or documents entered into by the relevant parties from time to time in connection with those Notes;

"Permitted Basis Hedge Provider" means a bank or financial institution which has entered into hedging arrangements with the Issuer and which on the date of entering into such arrangements:

- (A) has a rating for its long-term or short-term debt obligations sufficient to maintain the then ratings of the Class A Notes, the Class B Notes and the Class C 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 Class A Notes, the Class B Notes and the Class C Notes); and
- (B) has entered into a deed supplemental to this Deed in form and substance satisfactory to the Trustee agreeing to be bound by the terms of this Deed on the same terms as the Basis Hedge Provider;

"PFPLC Secured Amounts" means the monies and liabilities which the Issuer covenants and undertakes in this Deed to pay or discharge to PFPLC (excluding, for

the avoidance of doubt, any Administrator Secured Amounts); and references to "PFPLC Secured Amounts" include references to any of them;

"powers" in relation to the Trustee and any Receiver, means their respective powers, discretions, authorities and rights under this Deed or the general law;

"Principal Liability Outstanding" of a Note on any date means 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;

"Principal Payment" means the amount allocated to a Note in accordance with Condition 5(a);

"Protection Notice" means a notice given by the Trustee in accordance with Clause 7.1;

"Property" has the meaning given to it in the Mortgage Sale Agreement;

"purchaser" has (in relation to any part of the Charged Property situated in England and Wales or governed by the law of England and Wales) the meaning given to it by section 205 of the Act or (in relation to any part of the Charged Property situated in or governed by the law of Scotland) the meaning given to it under Scots law or (in relation to any part of the Charged Property situated in or governed by the law of Northern Ireland) the meaning given to it by Section 2 of the 1881 Act;

"receiver" includes a manager, and also a receiver and manager and an administrative receiver;

"Receiver" means a receiver, manager, receiver or manager or administrative receiver appointed under this Deed or pursuant to statutory powers, and includes more than one such receiver and any substituted receiver;

"Relevant Documents" means the Subscription Agreement dated on or about 17 March 2006 and other agreements relating to the issue of the Notes (or any of them), the Mortgage Sale Agreement, the Scottish Declarations of Trust, this Deed, the Fee Letter, the Services Letter, the Subordinated Loan Agreement, the Trust Deed, the Agency Agreement, the Notes, the VAT Declaration of Trust, the Administration Agreement, the Substitute Administrator Agreement, each Hedge Agreement, any Cap Agreement, any Cap Guarantees, the Cross-collateral Mortgage Rights Deed, the Remarketing Agreement, the A1 Note Conditional Purchase Agreement, the Mortgages, the Insurance Contracts and any other insurances in which the Issuer has an interest at any time, the Collection Account Declarations of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Notes;

"Remarketing Agreement" means the remarketing agreement entered into on or around the date hereof between the Issuer and the Remarketing Agent;

"Required Amount" means 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; **provided that**, if on any Principal Determination Date, the then Current Balance of Mortgages which are then more than two months in arrears in aggregate comprise more than 3% of the then aggregate Current Balances of all of the Mortgages (for these purposes, a Mortgage will be more than two months in arrears at any time if, at such time, amounts totalling in aggregate more than two 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 the Required Amount will be increased to equal 2.40% of the aggregate GBP Equivalent Initial Principal Amount of the Notes on the Closing Date and provided that if at any time, as a result of the rate at which amounts are received in respect of Purchased 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. If a Liquidity Amount Trigger has occurred, the Required Amount will be equal to an amount which is the greater of:

- (a) the Liquidity Amount plus 1% of the GBP Equivalent Initial Principal Amount of the Notes; and
- (b) the Required Amount or the Increased Required Amount, as the case may be, had a Liquidity Amount Trigger not occurred;

"Revenue Ledger" has the meaning given to it in the Administration Agreement;

"Retained Pre-Closing Accruals and Arrears" has the meaning given to it in the Mortgage Sale Agreement;

"Scottish Declarations of Trust" means the declarations of trust in respect of the Scottish Mortgages made by each Originator in favour of the Issuer on the Closing Date in relation to the Scottish Mortgages pursuant to clause 3.3(C) of the Mortgage Sale Agreement;

"Scottish Mortgage" has the meaning given to it in the Mortgage Sale Agreement;

"**Scottish Sub-Securities**" means any Standard Securities executed and delivered pursuant to Clause 3.2;

"**Secured Amounts**" means the monies and liabilities which the Issuer covenants and undertakes in this Deed to pay or discharge; and (except in Clause 4 and Clause 10) references to the "**Secured Amounts**" include references to any of them;

"**Secured Parties**" means the Trustee, the Noteholders, any Receiver, the Administrators, each Subordinated Lender, each Additional Subordinated Lender, the Remarketing Agent, the Tender Agent, the A1 Note Conditional Purchasers, the Issue Services Provider, each Agent, the Substitute Administrator, each Hedge Provider, each Seller, each Originator and PFPLC;

"**Security Interest**" means any mortgage, sub-mortgage, Standard Security, assignment, charge, sub-charge, pledge, lien, or other security interest, howsoever created or arising other than any of the foregoing which arise by operation of law;

"**Seller Secured Amounts**" means the monies and liabilities which the Issuer covenants and undertakes in this Deed to pay or discharge to PML, MTL or MTS (in its capacity as Seller); and references to "**Seller Secured Amounts**" include references to any of them;

"**Standard Security**" has the meaning given to it in the Mortgage Sale Agreement;

"**Subordinated Lender Secured Amounts**" means the monies and liabilities which the Issuer covenants and undertakes in this Deed to pay or discharge to each Subordinated Lender and references to "**Subordinated Lender Secured Amounts**" include references to any of them;

"**Subordinated Loan Agreement**" means the agreement dated of even date herewith between the Subordinated Lenders, the Issuer and the Trustee relating to the provision of a loan facility by the Subordinated Lenders to the Issuer;

"**Substitute Administrator Agreement**" means the agreement of even date herewith between, among others, the Issuer, the Trustee and the Substitute Administrator;

"**Taxes Act 1988**" means the Income and Corporation Taxes Act 1988;

"**Transaction Account**" has the meaning given to it in the Administration Agreement;

"**Trust Deed**" means the Trust Deed of even date herewith and made between the Issuer and the Trustee constituting the Notes, together with the Schedules thereto, and any document supplemental thereto and the schedules (if any) thereto, all as may from time to time be varied in accordance with the provisions contained therein;

"**Trustee Secured Amounts**" means the monies and liabilities which the Issuer covenants and undertakes in this Deed to pay or discharge to the Trustee; and references to the "**Trustee Secured Amounts**" include references to any of them;

"UCD Amount" means any amount advanced to the Issuer by either of the Subordinated Lenders under the Subordinated Loan Agreement to enable the Issuer to pay that part of the consideration for any Mortgages which constitutes unamortised cashbacks and/or discounts;

"VAT" has the meaning given to it in the Administration Agreement;

"Withheld Amounts" means if the Issuer is required by law to make any deduction or withholding for or on account of United Kingdom tax from any payments payable by it under a Hedge Agreement on any Interest Payment Date, the amount of such withholding or deduction;

"Withholding Compensation Amounts" means on any Interest Payment Date in relation to a Currency Swap Agreement or Basis Hedge Agreement (as applicable) an amount or amounts equal to (i) any Additional Amounts paid by the Currency Swap Provider or such Basis Hedge Provider (as applicable) to the Issuer on such Interest Payment Date together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the Currency Swap Provider or that Basis Hedge Provider (as applicable) under that Currency Swap Agreement or Basis Hedge Agreement (as applicable) 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 being together the amount payable by the Issuer to Currency Swap Provider or such Basis Hedge Provider (as applicable) pursuant to the paragraph indicated as being the "Withholding Compensation Amounts Provision" in Part 5 of the Schedule to the relevant Currency Swap Agreement or Basis Hedge Agreement (as applicable); and

"1881 Act" means the Conveyancing and Law of Property Act 1881 (Northern Ireland).

- 1.2 References to the Issuer, to the Trustee, to the Administrators, to the Substitute Administrator, to NatWest, to any Hedge Provider, to each Subordinated Lender, to any Additional Subordinated Lender, to PML, to MTL, to MTS (in its capacity as both Seller and Administrator), to the Issue Services Provider, to each Agent, to each A1 Note Conditional Purchaser, to the Remarketing Agent, to the Tender Agent, to PFPLC include references to their successors, transferees and assigns and persons deriving title under or through them respectively (to the extent permitted by the relevant documents); and any reference to any statute or statutory provision shall be deemed also to refer to any statutory modification or re-enactment thereof and to any statutory instruments, orders or regulations made thereunder or under any such re-enactment.
- 1.3 References herein to the Notes include the Conditions and any references to an amount of money due or payable by reference to any of the Notes shall include any sum covenanted to be paid by the Issuer under the Trust Deed in respect of such Notes.

- 1.4 Where reference is made in this Deed to the Administration Agreement the provisions to which reference is made shall be deemed to be included in this Deed to the extent necessary to give effect thereto.
- 1.5 References herein to a particular numbered clause of the Administration Agreement shall, in relation to any agreement under which a substitute administrator (other than the Substitute Administrator as the administrator of last resort) is appointed Administrator, be construed as a reference to the provisions (if any) in such agreement which correspond to the provisions of such particular numbered clause of the Administration Agreement in effect at the date hereof.
- 1.6 The Clause headings in this Deed shall not affect its interpretation.
- 1.7 Words denoting the singular number only shall include the plural number also and vice versa; words denoting one gender only shall include the other genders and words denoting persons only shall include firms and corporations and vice versa. References in this Deed to Clauses and Schedules shall, unless the context otherwise requires, be references to Clauses of, and the Schedules to, this Deed.
- 1.8 For the avoidance of doubt but subject to Clause 10.2, references to the Trustee in this Deed are to it acting in its capacity as trustee for the Noteholders, any Receiver, the Administrators, the Subordinated Lender, any Additional Subordinated Lender, each Hedge Provider, each Seller, each Originator, the Issue Services Provider, each Agent, each A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent, PFPLC and the Substitute Administrator.
- 1.9 References herein to any agreement or other document shall be deemed also to refer to such agreement or document as modified, novated, supplemented or replaced from time to time.
- 1.10 The terms of the Relevant Documents are incorporated herein to the extent required for any contract for the disposition of an interest in land (as defined in section 2(6) of the Law of Property (Miscellaneous Provisions) Act 1989) contained herein to be a valid agreement in accordance with section 2(1) of that Act.

2. COVENANTS TO PAY

- 2.1 The Issuer covenants with and undertakes to the Trustee that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing or payable by the Issuer:
- (a) to or to the order of the Trustee and/or any Receiver under this Deed, the Trust Deed and the Conditions at the times and in the manner provided herein or therein;
 - (b) under or in respect of the Notes; and
 - (c) to the Trustee on any account whatsoever, whether as principal or surety and whether or not jointly with another.

- 2.2 The Issuer covenants with and undertakes to each Administrator that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing or payable by the Issuer to each Administrator (in its capacity as such) under the Administration Agreement or any other similar agreement or the Substitute Administrator Agreement or this Deed or any agreement with the Administrator referred to in Clause 6.1.2(q) on any account whatsoever, whether as principal or surety and whether or not jointly with another. Monies due, owing or payable by the Issuer to each Administrator or any other person in its capacity as the Administrator which have accrued in respect of the period prior to the termination of the relevant Administrator's or such other person's appointment as Administrator under the Administration Agreement or any other similar agreement or the Substitute Administrator Agreement shall continue to be due, owing or payable to it in that capacity notwithstanding such termination.
- 2.3 The Issuer covenants with and undertakes to PFPLC that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing or payable by the Issuer to PFPLC (other than any such monies or liabilities from time to time due, owing or payable to it in its capacity as Administrator or in its capacity as a Noteholder), under any agreement with PFPLC referred to in Clause 6.1.2(q) or this Deed on any account whatsoever, whether as principal or surety and whether or not jointly with another.
- 2.4 The Issuer covenants with and undertakes to each Seller that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing and payable by the Issuer to each Seller (other than any such monies or liabilities from time to time due, owing or payable to it in its capacity as a Noteholder) under the Mortgage Sale Agreement, the Administration Agreement or this Deed.
- 2.5 The Issuer covenants with and undertakes to the Basis Hedge Provider that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing and payable by the Issuer to the Basis Hedge Provider (in its capacity as Basis Hedge Provider only) under the Basis Hedge Agreement or this Deed.
- 2.6 The Issuer covenants with and undertakes to the Substitute Administrator that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing and payable by the Issuer to the Substitute Administrator (in its capacity as administrator of last resort only and not, for the avoidance of doubt, in its capacity as Administrator) under the Substitute Administrator Agreement or this Deed.
- 2.7 The Issuer covenants with and undertakes to each Subordinated Lender and any Additional Subordinated Lender that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing or payable by the Issuer to such Subordinated Lender or Additional Subordinated Lender under the Subordinated Loan Agreement or this Deed.

- 2.8 The Issuer covenants with and undertakes to the Issue Services Provider that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing and payable by the Issuer to the Issue Services Provider under the Fee Letter or this Deed.
- 2.9 The Issuer covenants with and undertakes to the Currency Swap Provider that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing and payable by the Issuer to the Currency Swap Provider under any Currency Swap Agreement or this Deed.
- 2.10 The Issuer covenants with and undertakes to each Agent that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing and payable by the Issuer to the Agents under the Agency Agreement or this Deed.
- 2.11 The Issuer covenants with and undertakes to each A1 Note Conditional Purchaser that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing and payable by the Issuer to the A1 Note Conditional Purchasers under the A1 Note Conditional Purchase Agreement or this Deed.
- 2.12 The Issuer covenants with and undertakes to the Remarketing Agent that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing and payable by the Issuer to the Remarketing Agent under the Remarketing Agreement or this Deed.
- 2.13 The Issuer covenants with and undertakes to the Tender Agent that it will duly and punctually pay or discharge all monies and liabilities whatsoever which from time to time become due, owing and payable by the Issuer to the Tender Agent under the Remarketing Agreement or this Deed.

3. SECURITY

3.1 The English Mortgages, Northern Irish Mortgages and the Insurance Contracts

The Issuer with full title guarantee (or in relation to assets or rights situated in, or governed by the laws of, Northern Ireland, as beneficial owner) hereby sub-charges, conveys, transfers and assigns to the Trustee by way of first fixed security for the discharge and payment of the Secured Amounts:

- (a) subject to the subsisting rights of redemption of Borrowers, all right, title, interest and benefit of the Issuer existing now or in the future in and under the English Mortgages and Northern Irish Mortgages to which the Issuer is at present beneficially entitled or to which it becomes beneficially entitled in the future including for the avoidance of doubt:
- (i) all sums of principal, interest or any other sum payable under and the right to demand, sue for, recover, receive and give receipts for all

principal monies payable or to become payable under the English Mortgages and Northern Irish Mortgages or the unpaid part thereof and the interest due or to become due thereon and the other sums due under the English Mortgages and Northern Irish Mortgages, but excluding any Retained Pre Closing Accruals and Arrears in respect of any Mortgage (provided that the principal moneys payable under any such Mortgage shall not be deemed to be due for the purpose of this paragraph merely because the legal date for the redemption of the relevant Mortgage has passed); and

- (ii) the benefit of all security interests for such principal monies and interest and other sums, the benefit of all consents to mortgage signed by occupiers of the Properties relating to the English Mortgages and Northern Irish Mortgages and the benefit of and the right to sue on all obligations and covenants with, or vested in, the mortgagee in respect of each English Mortgage and Northern Irish Mortgage and the right to exercise all powers of the mortgagee in relation to each such English Mortgage and Northern Irish Mortgage; and
 - (iii) all the estate and interest in the Properties relative to the English Mortgages and Northern Irish Mortgages vested in the mortgagee subject to redemption or cesser; and
 - (iv) all causes and rights of action against any person in connection with any report, valuation, opinion, certificate, consent or other statement of fact or opinion given in connection with any English Mortgage and Northern Irish Mortgage or affecting the decision to make any relevant advance; and
 - (v) the benefit of any guarantee or surety vested in the mortgagee relating to any of the English Mortgages and Northern Irish Mortgages, and any other collateral security relating to such Mortgages;
 - (vi) the benefit of any rights to receive compensation in respect of criminal damage pursuant to the Criminal Damage (Compensation) (Northern Ireland) Order 1977 in respect of Properties relating to Northern Irish Mortgages; and
- (b) all right, title, interest and benefit of the Issuer (whether present or future) in relation to the Insurance Contracts including the rights to receive the proceeds of any claim insofar only as they relate to the Mortgages (including for the avoidance of doubt the Scottish Mortgages and Northern Irish Mortgages) but not insofar as they relate to any amount or sum the benefit of which is excluded from the charges herein provided pursuant to Clause 3.1(a)(i);
- (c) subject to the subsisting rights of redemption, all right, title, interest and benefit of the Issuer (whether present or future) in any other charges and

insurances (in each case including as aforesaid) of which the Issuer may have the benefit at the date hereof or may acquire in the future,

TO HOLD the same unto the Trustee absolutely as trustee for the Secured Parties, subject to Clause 4.

3.2 The Scottish Mortgages

The Issuer, subject to Clause 4, hereby undertakes to the Trustee and binds and obliges itself:

- (a) in the event of any Scottish Transfers being executed and delivered in accordance with the provisions of the Mortgage Sale Agreement and the Administration Agreement, or legal title to any Scottish Mortgage being otherwise transferred to the Issuer, forthwith to execute and deliver to the Trustee in security for the discharge and payment of the Secured Amounts:
 - (i) a Standard Security substantially in the form set out in Schedule 2 in respect of the Issuer's whole right, title and interest in and to all of the Scottish Mortgages to which the Issuer is thereby entitled, title to which is registered or is in the course of registration in the Land Register of Scotland; and
 - (ii) a Standard Security substantially in the form set out in Schedule 3 in respect of the Issuer's whole right, title and interest in and to all of the Scottish Mortgages to which the Issuer is thereby entitled, title to which is recorded or is in the course of being recorded in the General Register of Sasines,

but excluding any Retained Pre-Closing Accruals and Arrears in respect of any Scottish Mortgages;

- (b) if and when called upon to do so by the Trustee (but subject to the provisions of the Administration Agreement) to execute and deliver to the Trustee in security for the discharge and payment of the Secured Amounts such security, charge or other document as may be required so as to create security over the Issuer's whole right, title and interest in and to all or any collateral security in respect of the Scottish Mortgages;
- (c) at the time of delivery of any Scottish Sub-Securities in accordance with the preceding provisions of this Clause 3.2 simultaneously to deliver to the Trustee the Scottish Transfers granted in favour of the Issuer in terms of the Mortgage Sale Agreement pertaining to the Scottish Mortgages specified in such Scottish Sub-Securities;
- (d) if and when called upon to do so by the Trustee (but subject to the provisions of the Administration Agreement) to take all such steps as are necessary to perfect legal title to the Scottish Mortgages, including without limitation,

registration or recording of the Issuer as heritable creditor under such Scottish Mortgages in the Registers of Scotland; and

- (e) to execute and deliver such other documents, and in such form, and to take such other steps as the Trustee shall reasonably consider necessary to enable the Trustee to perfect a first ranking heritable security over the Scottish Mortgages and all sums secured thereby.

3.3 Scottish Trust Security

3.3.1 The Issuer as holder of the beneficial interest therein, and subject to Clause 4, hereby assigns to and in favour of the Trustee in security for the discharge and payment of the Secured Amounts the Issuer's whole right, title and interest in and to the whole of the Scottish Trust Property (as defined in each of the Scottish Declarations of Trust) and in and to each of the Scottish Declarations of Trust, surrogating and substituting the Trustee in its full right and place therein and thereto.

3.3.2 The Issuer hereby intimates to each Originator as respective trustee under the Scottish Declarations of Trust the assignation in security made in terms of this Clause 3.3 and each Originator by its execution hereof immediately subsequent to the execution of this Deed by the Issuer consents to such assignation and acknowledges such intimation thereof and confirm that as at the date hereof it has received no intimation of any other dealing with the Scottish Trust Property or any part thereof.

3.4 Rights against other Companies in the Paragon Group of Companies

3.4.1 The Issuer with full title guarantee hereby conveys, transfers and assigns to the Trustee by way of first fixed security for the discharge and payment of the Secured Amounts all its right, title, interest and benefit present and future in:

- (i) the Mortgage Sale Agreement;
- (ii) the Administration Agreement;
- (iii) the Agency Agreement
- (iv) the Subordinated Loan Agreement;
- (v) the VAT Declaration of Trust;
- (vi) the Fee Letter;
- (vii) the Services Letter;
- (viii) the Collection Account Declarations of Trust;
- (ix) the Cross-collateral Mortgage Rights Deed;
- (x) the Subscription Agreement;

- (xi) the Substitute Administrator Agreement;
- (xii) the A1 Note Conditional Purchase Agreement; and
- (xiii) the Remarketing Agreement,

including all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof TO HOLD the same unto the Trustee absolutely as trustee for the Secured Parties, subject to Clause 4.

- 3.4.2 Notwithstanding such assignment each of the parties hereto agrees that each Seller, each Originator, PFPLC, each Subordinated Lender, each Additional Subordinated Lender, the Issue Services Provider, each Agent and each Administrator may continue to make all payments becoming due to the Issuer under any of the Mortgage Sale Agreement, the Administration Agreement, the Subordinated Loan Agreement, the VAT Declaration of Trust, the Fee Letter, the Agency Agreement and the Collection Account Declarations of Trust in the manner envisaged by such agreements (which payment shall constitute a good discharge to each Seller, each Originator, each Subordinated Lender, each Additional Subordinated Lender, the Issue Services Provider, each Agent, PFPLC or each Administrator, as the case may be) until receipt of express written notice from the Trustee or the Receiver requiring such payments to be made elsewhere, which notice shall not be given at any time prior to the service of an Enforcement Notice or a Protection Notice.

3.5 Rights in respect of Hedging Arrangements

- 3.5.1 The Issuer with full title guarantee hereby conveys, transfers and assigns to the Trustee by way of first fixed security for the discharge and payment of the Secured Amounts all its right, title, interest and benefit present and future in any Cap Agreement, any Cap Guarantee, each Hedge Agreement and each Hedge Collateral Ancillary Document (subject in each case to any right of set-off or netting contained therein) including all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof TO HOLD the same unto the Trustee absolutely as trustee for the Secured Parties, subject to Clause 4.

3.5.2 Notwithstanding such assignment each of the parties hereto agrees that each of the Cap Providers, any Cap Guarantor and each Hedge Provider may continue to make all payments becoming due to the Issuer under any Cap Agreement, any Cap Guarantee, any Hedge Agreement and any Hedge Collateral Ancillary Document respectively in the manner envisaged by such agreements (which payment shall constitute a good discharge to any Cap Providers, any Cap Guarantor and each Hedge Provider as appropriate) until receipt of express notice from the Trustee or the Receiver requiring such payments to be made elsewhere, which notice shall not be given at any time prior to the service of an Enforcement Notice or a Protection Notice.

3.6 Issuer Cash Accounts

3.6.1 The Issuer with full title guarantee hereby assigns by way of first fixed security for the discharge and payment of the Secured Amounts absolutely to the Trustee, as trustee for the Secured Parties, all its right, title, interest and benefit present and future in and to all sums of money which may now be or hereafter are from time to time standing to the credit of each Issuer Cash Account and any other bank or other account in which the Issuer may at any time acquire any right, title, interest or benefit together with all interest accruing from time to time thereon and the debt represented by each such account, subject to Clause 4.

3.6.2 During the continuance of the security the Issuer shall not, except as expressly permitted by this Deed or the Administration Agreement or with the prior written consent of the Trustee, withdraw from any Issuer Cash Account the whole or any part of the amount standing to the credit of that Issuer Cash Account.

3.7 Investments

3.7.1 The Issuer shall procure that, in each case where an Authorised Investment comprises the deposit of Transaction Cash (as defined in the Administration Agreement) in a deposit account with a third party, the Transaction Cash shall be deposited under instruction that it may not be paid out of such deposit account otherwise than by transferring such Transaction Cash, together with interest accrued thereon, direct to the Transaction Account, which instructions may not be altered without the consent of the Trustee and, prior to the service of a Protection Notice or an Enforcement Notice, the Issuer (such consent not to be unreasonably withheld or delayed).

3.7.2 The Issuer with full title guarantee hereby charges to the Trustee, as trustee for the Secured Parties by way of first fixed charge for the discharge and payment of the Secured Amounts, all its right, title, interest and benefit present and future in the Authorised Investments and each of them made by the Issuer in accordance with clause 4.9.1 of the Administration Agreement, all Hedge Collateral Securities, each Hedge Collateral Securities Account, all

Hedge Collateral Authorised Investments and all other investments in which the Issuer may at any time acquire any right, title, interest or benefit, in each case together with all monies, income and proceeds to become payable thereunder or thereon and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same, subject to Clause 4.

3.7.3 The Issuer shall procure that, in each case where a Hedge Collateral Authorised Investment comprises the deposit of Hedge Collateral Cash in a deposit account with a third party, the Hedge Collateral Cash shall be deposited under instruction that it may not be paid out of such deposit account otherwise than by transferring such Hedge Collateral Cash, together with interest accrued thereon, direct to the Hedge Collateral Cash Account, which instructions may not be altered without the consent of the Trustee and, prior to the service of a Protection Notice or an Enforcement Notice, the Issuer (such consent not to be unreasonably withheld or delayed).

3.8 Rights against the Substitute Administrator and certain other parties

3.8.1 The Issuer with full title guarantee hereby conveys, transfers and assigns to the Trustee by way of first fixed security for the discharge and payment of the Secured Amounts all its rights, title, interest and benefit present and future in, under and pursuant to the Substitute Administrator Agreement including all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof TO HOLD the same unto the Trustee absolutely as trustee for the Secured Parties, subject to Clause 4.

3.8.2 Notwithstanding such assignment each of the parties hereto agrees that the Substitute Administrator may continue to make all payments becoming due from it to the Issuer under the Substitute Administrator Agreement in the manner envisaged thereby (which payment shall constitute a good discharge to the Substitute Administrator) until receipt of express written notice from the Trustee or the Receiver requiring such payments to be made elsewhere, which notice shall not be given at any time prior to the service of an Enforcement Notice or a Protection Notice.

3.8.3 The Issuer with full title guarantee hereby conveys, transfers and assigns to the Trustee by way of first fixed security for the discharge and payment of the Secured Amounts all its rights, title, interest and benefit present and future in, under and pursuant to the Subscription Agreement including all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make demands thereunder

and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof TO HOLD the same unto the Trustee absolutely as trustee for the Secured Parties, subject to Clause 4.

- 3.8.4 Notwithstanding such assignment each of the parties hereto agrees that the Managers may continue to make all payments becoming due from it to the Issuer under the Subscription Agreement as appropriate in the manner envisaged thereby (which payment shall constitute a good discharge to the Managers) until receipt of express written notice from the Trustee or the Receiver requiring such payments to be made elsewhere, which notice shall not be given at any time prior to the service of an Enforcement Notice or a Protection Notice.

3.9 Floating charge

The Issuer with full title guarantee (or, in relation to assets or rights situated in, or governed by the laws of, Scotland with absolute warrandice, or in relation to assets or rights situated in, or governed by the laws of, Northern Ireland as beneficial owner) hereby charges with the discharge and payment of the Secured Amounts by way of first floating charge to the Trustee, as trustee for the Secured Parties, the whole of its undertaking and all its property and assets whatsoever and wheresoever situate, present and future, other than any property or assets from time to time or for the time being charged by way of fixed charge, or otherwise assigned as security, by this Clause 3 (but excepting from the foregoing exclusion all property, assets, rights and interests situated in, or governed by the laws of, Scotland, all of which are charged by the floating charge hereby created), subject to Clause 4.

Paragraph 14 of Schedule B1 to the Insolvency Act 1986 applies to the floating charge created pursuant to this Clause 3.9.

3.10 Trustee

Notwithstanding anything else in this Deed, it is hereby agreed that the Trustee does not assume, nor shall the Trustee be obliged to perform, any obligations of any other party to this Deed (including, for the avoidance of doubt, the making of further advances to Borrowers) and nothing herein shall be construed so as to transfer any of such obligations to the Trustee.

3.11 Notices and acknowledgement

- 3.11.1 The execution by the Issuer of this Deed shall constitute notice to PFPLC, PML, MTL, MTS, each Subordinated Lender, the Issue Services Provider, the Currency Swap Provider, the Basis Hedge Provider, each Agent, each Administrator and/or the Substitute Administrator, the Remarketing Agent, the Tender Agent and each A1 Note Conditional Purchaser, as appropriate, of the conveyance, transfer and assignment of all the Issuer's right, title, interest and

benefit present and future in the Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Subordinated Loan Agreement, the VAT Declaration of Trust, the Fee Letter, the Services Letter, the Collection Account Declarations of Trust, the Cross-collateral Mortgage Rights Deed, each Currency Swap Agreement, the Agency Agreement, the Basis Hedge Agreement, the Remarketing Agreement and the A1 Note Conditional Purchase Agreement referred to in Clauses 3.4, 3.5 and 3.8 and the execution of this Deed by PFPLC, PML, MTL, MTS, each Subordinated Lender, the Issue Services Provider, the Currency Swap Provider, the Basis Hedge Provider, each Agent, each Administrator, the Substitute Administrator, the Remarketing Agent, the Tender Agent and each A1 Note Conditional Purchaser shall constitute acknowledgement by them respectively of such conveyance, transfer and assignment.

- 3.11.2 In the case of the Subscription Agreement, the Issuer shall promptly deliver to each of the Lead Managers a Notice of Assignment in the form contained in Schedule 4 of this Agreement duly executed by or on behalf of the Issuer and shall use all reasonable endeavours to procure that the Notice of Assignment is acknowledged by the relevant entity.

4. REDEMPTION

On the payment or discharge in full by the Issuer of the Secured Amounts, the Trustee at the request and cost of the Issuer shall release, retrocess or reassign the Charged Property to the Issuer or any other person entitled thereto.

If a Seller repurchases any Mortgage pursuant to and in accordance with clause 8.6 of the Mortgage Sale Agreement such Mortgage and all other rights in relation thereto shall be released from the Charged Property without any further action being required.

5. RESTRICTIONS ON EXERCISE OF CERTAIN RIGHTS

Each of the Administrators, the Currency Swap Provider, the Basis Hedge Provider, the Substitute Administrator, PML, MTL, MTS, PFPLC, the Agents, the A1 Note Conditional Purchasers, the Remarketing Agent, the Tender Agent, each Subordinated Lender and the Issue Services Provider hereby agrees with the Trustee that unless an Enforcement Notice shall have been served or unless the Trustee, having become bound to do so, fails to serve an Enforcement Notice and/or to take any steps or proceedings pursuant to Clause 8 to enforce the security hereby created:

- (A) it shall not take any steps whatsoever to direct the Trustee to enforce the security created by or pursuant to Clause 3; and
- (B) it shall not take any steps for the winding up, dissolution or reorganisation, or for the appointment of a receiver, administrator, administrative receiver, trustee, liquidator, sequestrator or similar officer of the Issuer or of any or all of its revenues and assets nor participate in any *ex parte* proceedings nor seek

to enforce any judgment against the Issuer, subject to the provisions of this Deed.

6. PAYMENTS OUT OF THE TRANSACTION ACCOUNT PRIOR TO ENFORCEMENT

6.1 The following provisions of this Clause 6 shall apply subject to the provisions of Clause 6.7, and no payment or transfer may be made under this Clause 6 at any time after an Enforcement Notice has been served.

6.1.1 Notwithstanding the security created by or pursuant to Clause 3, appropriate payments from the Transaction Account may and shall (unless the intended recipient of the relevant payment agrees otherwise) be made at any time during an Interest Period for the following purposes:

- (a) to pay when due (debiting the Revenue Ledger, the First Loss Ledger, the Shortfall Ledger and/or the Principal Ledger as appropriate) (but subject to any right to refuse or withhold payment or offset that has arisen by reason of the Borrower's breach of the terms of the Mortgage concerned) any amount payable by the Issuer to a Borrower (other than Mandatory Further Advances or Discretionary Further Advances) under the terms of the Mortgage to which that Borrower is a party or by operation of law, and to pay when due any amount payable by the Issuer to the relevant Seller pursuant to clause 9 (Re-assignment of rights of the Issuer) of the Mortgage Sale Agreement;
- (b) if any amount has been received from a Borrower for the express purpose of payment being made by the Issuer to a third party for the provision of a service (including giving insurance cover) to either that Borrower or the Issuer, to pay such amount (debiting the Revenue Ledger) when due to such third party;
- (c) to make Authorised Investments in accordance with clause 4.9 of the Administration Agreement;
- (d) to pay to the person entitled thereto any amounts (debiting the Revenue Ledger or the Principal Ledger, as appropriate) held by the Issuer on trust or to be accounted for by the Issuer pursuant to clause 3.4 of the Mortgage Sale Agreement and to pay any amounts (debiting the Revenue Ledger) required to be paid to any Cap Guarantor pursuant to a Cap Guarantee (other than amounts referred to in Clause 6.1.1(g) in respect of the costs of obtaining a Cap Guarantee);
- (e) to pay (debiting the Revenue Ledger to the extent not previously debited thereto in respect of the payment of or provision for such amounts under Clause 6.1.2(h)) any amounts due and payable by the Issuer in the course of its business to third parties (other than PFPLC, each Seller, each Originator, each Subordinated Lender, any Additional Subordinated Lender, the Issue Services Provider, any Hedge Provider, each

Administrator or the Substitute Administrator), including, for the avoidance of doubt, the balance (if any) of amounts due and payable to H.M. Revenue & Customs in respect of the VAT liability of the Paragon VAT Group following a demand being made by H.M. Revenue & Customs on the Issuer for such payment where such VAT liability is not satisfied in accordance with the Administration Agreement and the VAT Declaration of Trust and, to the extent that such payment would otherwise cause the Revenue Ledger to have a debit balance, to pay such amounts from the First Loss Fund (debiting the First Loss Ledger);

- (f) to pay (debiting the Revenue Ledger) all arrears of interest (together with interest thereon) remaining unpaid to Class A Noteholders as determined in accordance with the Conditions;
- (g) to pay the costs of obtaining Caps and/or Cap Guarantees and/or other hedging arrangements whether or not under any Hedge Agreement (debiting the Revenue Ledger with the amount by which the costs so paid in any Interest Period exceed the fund provided for this purpose on the previous Interest Payment Date pursuant to Clause 6.1.2 (l) and, if in any Interest Period the costs so paid fall short of the fund provided as aforesaid, the amount of the shortfall shall be credited to the Revenue Ledger on the last day of such Interest Period);
- (h) to pay when due from cash standing to the credit of the Transaction Account (debiting the Principal Ledger) any Mandatory Further Advances due to Borrowers;
- (i) to pay when required from cash standing to the credit of the Transaction Account (and without liquidating any Authorised Investments prior to their maturity) any Discretionary Further Advances to be made by the Issuer to any Borrowers (debiting the Principal Ledger) but only to the extent permitted by the Administration Agreement; and
- (j) up to (and including) the first Principal Determination Date, to make when due (debiting the Principal Ledger) (i) any Non-Verified Payment (excluding any UCD Amount) (the amount of such payment not to exceed the amount by which the Pre-Funding Reserve Ledger has been or is to be debited before such payment is made pursuant to paragraph (xiii) of clause 6.5.2 of the Administration Agreement for the purposes of such payment) and (ii) payment of any UCD Amount (the amount of such payment not to exceed the amount which has been advanced under the Subordinated Loan Agreement and credited to the Principal Ledger for the purposes of such payment).

The appropriate payments for any of the above purposes except:

- (l) the payment referred to in Clause 6.1.1(e);

- (II) the payment referred to in Clause 6.1.1(c) to the extent such payment if made would result in a payment provided for in Clause 6.1.2 not being made; and
- (III) the payment referred to in Clause 6.1.1(f) to the extent such payment if made would result in a payment provided for in Clause 6.1.2 (a), (b) and (c) not being made.

may, if paid on an Interest Payment Date, be paid in priority to any of the payments referred to in Clause 6.1.2.

6.1.2 Notwithstanding the security created by or pursuant to Clause 3, amounts may and shall (unless the intended recipient of the relevant payment agrees otherwise) be withdrawn from or, in the case of the making of a provision, retained within the Transaction Account (in either case, debiting the Revenue Ledger) on each Interest Payment Date (including all amounts received from each Hedge Provider on that Interest Payment Date (except for amounts received in exchange for Currency Swap Principal Amounts or Currency Swap Interest Amounts) and any Hedge Collateral or proceeds thereof until such time and to the extent as permitted by the relevant Hedge Agreement such Hedge Collateral is applied (or is realised and applied) towards satisfaction of obligations of that Hedge Provider) and including the First Loss Fund where required and permitted under the Relevant Documents, after the making of the payments from the Transaction Account described in Clause 6.1.1, other than those referred to in Clause 6.1.1(e) or, if Clause 6.1.1(II) applies, Clause 6.1.1(c) or, if Clause 6.1.1(III) applies, Clause 6.1.1(f) thereof (or such other payments from the Transaction Account as may be agreed in writing by each of the Trustee, PFPLC, PML, MTL, MTS, each Subordinated Lender, the Issue Services Provider, the Currency Swap Provider, the Basis Hedge Provider, the Agents, the A1 Note Conditional Purchasers, the Remarketing Agent, the Tender Agent, and each Administrator), in the amounts required and to the extent that such withdrawal or retention does not (if all amounts so retained were withdrawn) either cause the Transaction Account to become overdrawn or the Revenue Ledger to have a debit balance as a consequence, for application 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):

- (a) *first*, to pay, *pro rata* according to the respective amounts thereof, payment of any amounts due and payable by the Issuer to the Trustee and the Tender Agent, payment of any costs or expenses properly claimed by the Agents, the A1 Note Conditional Purchasers or the Remarketing Agent under the Agency Agreement, the A1 Note Conditional Purchase Agreement or the Remarketing Agreement, respectively, 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 payable to the Substitute Administrator pursuant to clause 3 of the Substitute Administrator Agreement);

- (b) *second*, to pay, *pro rata* according to the respective amounts thereof, all fees (other than the Administration Subordinated Fee), costs, expenses and commissions due and payable to the Administrators and/or the Originators and/or the Sellers and/or any substitute administrator under the Administration Agreement and the commitment fee due and payable to the Substitute Administrator pursuant to clause 3 of the Substitute Administrator Agreement (each including any value added tax chargeable thereon, as applicable);
- (c) *third*, to pay, *pro rata* according to the respective amounts thereof, (a) any amounts due and payable to the Basis Hedge Providers under each 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; (b) all interest due and payable and all arrears of interest remaining unpaid on the Class A2a Notes and Class A1 Notes (in the event that the Class A1 Notes have been purchased by the A1 Note Conditional Purchasers in accordance with the A1 Note Mandatory Transfer Arrangements) together with (if applicable) interest thereon; and (c) each amount due and payable to the Currency Swap Provider under the Currency Swap A1 Agreement (unless the Class A1 Notes have been purchased by the A1 Note Conditional Purchasers in accordance with the A1 Note Mandatory Transfer Arrangements) and the Currency Swap A2b Agreement other than (A) any Hedge Provider Subordinated Amounts, (B) any Withholding Compensation Amounts, and (C) any Currency Swap Principal Amounts, in each case payable under those Currency Swap Agreements;
- (d) *fourth*, if on that Interest Payment Date, any Class A Note (irrespective of class) remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate GBP Equivalent 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;

- (e) *fifth, pro rata* according to the respective amounts thereof, (a) 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 B1a Notes together with (if applicable) interest thereon; and (b) payment of each amount due and payable to the Currency Swap Provider under the Currency Swap B1b Agreement other than (A) any Hedge Provider Subordinated Amounts, (B) any Withholding Compensation Amounts, and (C) any Currency Swap Principal Amounts, in each case payable under the Currency Swap B1b Agreement;
- (f) *sixth*, if on that Interest Payment Date, any Class B Note (irrespective of class) remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate GBP Equivalent 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;
- (g) *seventh*, payment of each amount due and payable to the Currency Swap Provider under the Currency Swap C1b Agreement other than (i) any Hedge Provider Subordinated Amounts, (ii) any Withholding Compensation Amounts, and (iii) any Currency Swap Principal Amounts, in each case payable under the Currency Swap C1b Agreement;
- (h) *eighth, pro rata* according to the respective amounts thereof, payment of sums due and payable to third parties (each including any value added tax chargeable thereon) under obligations incurred by the Issuer in the course of its 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 this Deed, the Administration Agreement and the VAT Declaration of Trust;
- (i) *ninth*, (taking into account any reduction of any debit balance on the Principal Deficiency Ledger under items *fourth* and *sixth* 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;

- (j) *tenth*, provision for an amount necessary to replenish the First Loss Fund to the Required Amount;
- (k) *eleventh, pro rata* according to the respective amounts thereof, payment of any Withholding Compensation Amounts and any Hedge Provider Subordinated Amounts, if any, due and payable to each Hedge Provider in respect of any Hedge Agreement;
- (l) *twelfth*, 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;
- (m) *thirteenth*, 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);
- (n) *fourteenth*, 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);
- (o) *fifteenth*, provision for interest due under the Subordinated Loan Agreement;
- (p) *sixteenth*, provision for the repayment of the aggregate outstanding amount of all advances drawn down by the Issuer 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 items *first* to *fifteenth* inclusive above;
- (q) *seventeenth*, provision for payment to the Administrators or PFPLC of such fees as the Issuer and the Administrators 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 Administrators or PFPLC, as the case may be, the payment of which amounts is not provided for elsewhere in this Clause 6.1.2 (each including any value added tax chargeable thereon, as applicable);
- (r) *eighteenth*, provision for payment to MTS (as Seller) in respect of Deferred Purchase Consideration;

- (s) *nineteenth*, provision for payment to PML (as Seller) in respect of Deferred Purchase Consideration;
- (t) *twentieth*, 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.

and to the extent that the provisions specified in Clauses 6.1.2(n), (o), (p), (q), (r) and (s) are made on such Interest Payment Date, the relevant amounts to which such provisions relate 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 unless prior to such Business Day it becomes apparent that the Issuer's available income falls short of the amount required to make such payments in full, in which event the amount of such shortfall shall be credited to the Revenue Ledger and such payments will be made in the order of priority specified above but only to the extent of the Issuer's available income as aforesaid, provided that if, at the time a payment is proposed to be made to any Administrator, any Hedge Provider, the Substitute Administrator, PFPLC, the Issue Services Provider, that Subordinated Lender, any Additional Subordinated Lender, any Seller, any Agent or any Originator pursuant to this Clause 6.1.2, that Administrator, the Hedge Provider, the Substitute Administrator, PFPLC, the Issue Services Provider, each Subordinated Lender, the Additional Subordinated Lender, that Seller, the Agent or that Originator (as the case may be) is in default under any of its obligations to make a payment under the Administration Agreement, any Hedge Agreement, the Substitute Administrator Agreement, the Mortgage Sale Agreement, the Subordinated Loan Agreement, the Fee Letter, the Agency Agreement or the Collection Account Declarations of Trust (the "**defaulted payment**") there shall be set off against the amount of the payment which would otherwise be due to that Administrator, the Hedge Provider, the Substitute Administrator, PFPLC, the Issue Services Provider, that Subordinated Lender, the Additional Subordinated Lender, that Seller, the Agent or that Originator (as the case may be) pursuant to this Clause 6.1.2 the amount of such defaulted payment.

- 6.1.3 All payments permitted to be made under Clause 6.1.2 may only be made out of amounts standing to the credit of the Transaction Account. On any Interest Payment Date, the amount of any reduction on the Principal Deficiency Ledger will be deemed to be principal received for application on such Interest Payment Date as Available Redemption Funds.
- 6.1.4 For the avoidance of doubt the payments referred to in Clause 6.1.2 shall only be made in accordance with this Deed, the Conditions and the Administration Agreement.
- 6.1.5 It is understood and agreed that borrowings may be made by the Issuer under and in accordance with the Subordinated Loan Agreement (which borrowings

shall be credited to the Transaction Account) and payment may be made by the Issuer for purposes contemplated in the Subordinated Loan Agreement in accordance with the provisions of this Deed.

6.1.6 On each Interest Payment Date the amounts available to be applied under Clause 6.1.2 shall include all amounts received from each Hedge Provider on that Interest Payment Date except for:

- (a) amounts received in exchange for Currency Swap Principal Amounts; and
- (b) Hedge Collateral Excluded Amounts.

6.1.7 It is understood that, on any Interest Payment Date, the amount by which the First Loss Fund exceeds the Liquidity Amount (the "First Loss Liquidity Excess Amount") will be applied by the Issuer towards the payment of the amounts referred to in items (a) to (i) inclusive of Clause 6.1.2 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. Following the application of the First Loss Liquidity Excess Amount, amounts remaining in the First Loss Fund (the "Actual Liquidity Amount") will be applied by the Issuer on any Interest Payment Date towards the payment in order of priority of:

- (a) the amounts referred to in item (c) of Clause 6.1.2;
- (b) the amounts referred to in item (e) of Clause 6.1.2 only if and to the extent the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, and such payments in this sub-paragraph (b) and sub-paragraph (a) above do not together exceed the sum of the aggregate GBP Equivalent Principal Liability Outstanding of the Class B Notes and the Class C Notes after the application of any amounts standing to the credit of the Revenue Ledger and the application of the First Loss Liquidity Excess Amount; and
- (c) the amounts referred to in item (g) of Clause 6.1.2 only if and to the extent the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, and such payments in sub-paragraphs (a) and (b) above and this sub-paragraph (c) do not together exceed the sum of the aggregate GBP Equivalent Principal Liability Outstanding of the Class C Notes after the application of any amounts standing to the credit of the Revenue Ledger and the application of the First Loss Liquidity Excess Amount.

only, where the income of the Issuer, the amount available to the Issuer on such Interest Payment Date in the Shortfall Fund and the First Loss Liquidity Excess Amount is insufficient to pay such amounts. If, after application of any funds required to be applied from the First Loss Fund as set out in this Clause

6.1.7, 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.

6.2 Notwithstanding the security rights created by or pursuant to Clause 3, amounts may and shall (unless the intended recipient of the relevant payment agrees otherwise) be withdrawn from the Transaction Account (debiting the Principal Ledger) (or, as appropriate, shall be transferred from the Principal Ledger and thus debiting the Principal Ledger) in the amounts required and to the extent that such withdrawal or transfer does not either cause the Transaction Account to become overdrawn or the Principal Ledger to have a debit balance, for application for the following purposes, and insofar as amounts fall to be withdrawn or transferred on the same day, in the following order of priority (except to the extent that any of items (b)(i), (c), (d) or (e) is identified as being due and payable prior to the determination of amounts due in priority thereto in which case amounts shall be allocated to payment of such items upon identification):

- (a) *first*, 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;
- (b) *second*, up to (and including) the first Principal Determination Date, in or towards making when due (debiting the Principal Ledger) (i) any Non-Verified Payment (excluding any UCD Amount) (the amount of such payment not to exceed the amount by which the Pre-Funding Reserve Ledger has been or is to be debited before such payment is made pursuant to paragraph (xiii) of clause 6.5.2 of the Administration Agreement for the purposes of such payment) and (ii) the amount estimated by the Issuer to be, on the immediately succeeding Interest Payment Date, the extent to which the First Loss Fund will be less than the Liquidity Amount following the application of the priority of payments as set out in Clause 6.1.2 (such principal amounts being used to increase the First Loss Fund up to the Liquidity Amount and a corresponding debit being made to the Principal Deficiency Ledger);
- (c) *third*, the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;
- (d) *fourth*, 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 on the Principal Ledger:

- (e) *fifth*, the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages;
- (f) *sixth*, in or towards repaying principal due on the Class A Notes, the Class B Notes and the Class C Notes in accordance with the conditions and the provisions of the Trust Deed;
- (g) *seventh*, in or towards reimbursement of any amount payable to the Operating Bank and debited to the Principal Ledger pursuant to Clause 6.3; and
- (h) *eighth*, provided the Notes have been repaid in full (but without prejudice to any provision of the Subordinated Loan Agreement providing for the earlier repayment of principal), in or towards repaying any remaining principal outstanding to each Subordinated Lender or any Additional Subordinated Lender under the terms of the Subordinated Loan Agreement.

6.3 Payments may be made out of the Transaction Account at any time for the purpose of reimbursing the relevant Collection Account Provider in accordance with the Direct Debiting Scheme in respect of any amount which the relevant Collection Account Provider is unable to recover from the account of a Borrower pursuant to the Direct Debiting Scheme (being an amount which had been credited to the Transaction Account having been first credited to the relevant Collection Account by the relevant Collection Account Provider in accordance with the Direct Debiting Scheme). Any amount so paid out to the relevant Collection Account Provider shall be debited to the following ledgers in the following order:

- (a) *first*, to the Revenue Ledger to the extent that such debit does not cause the Revenue Ledger to have a debit balance;
- (b) *second*, to the Principal Ledger (debiting that Ledger and the Principal Deficiency Ledger) to the extent that such debit does not cause the Principal Ledger after all other debits and credits to be made on such date to have a debit balance; and
- (c) *third*, to the First Loss Ledger to the extent that such debit does not cause such Ledger to have a debit balance.

6.4 Notwithstanding the security rights created by or pursuant to Clause 3 and without prejudice to the provisions of Clause 6.1.2(q), on any Interest Payment Date, an amount may and shall (unless the intended recipient of the relevant payment agrees otherwise) be withdrawn from the Transaction Account (debiting the First Loss Ledger) in the amount by which the amount of the First Loss Fund (after any transfer to be made from the First Loss Fund on such Interest Payment Date pursuant to clause 6.12 of the Administration Agreement has been made in full) exceeds the Required

Amount on that Interest Payment Date and shall be applied towards repayment by the Issuer of the principal amount outstanding on that Interest Payment Date under the Subordinated Loan Agreement.

- 6.5 In the event that, at any time, a demand is made upon the Issuer by H.M. Revenue & Customs in respect of the VAT liability of the Paragon VAT Group, the Issuer shall before drawing any monies from the Transaction Account to meet such demand, and in accordance with the terms of the VAT Declaration of Trust and the Administration Agreement, inform PFPLC, as party to the VAT Declaration of Trust, and Citicorp Trustee Company Limited (as successor to Morgan Guaranty Trust Company of New York) as trustee under the VAT Declaration of Trust, in writing of the amount demanded and shall at the same time provide evidence reasonably satisfactory to Citicorp Trustee Company Limited as trustee under the VAT Declaration of Trust, that such demand has been made, whereupon and in accordance with and in the circumstances set out in clause 6(A)(ii)(d) of the VAT Declaration of Trust, an amount may be released from the VAT Account and applied in or toward satisfying such VAT liability.
- 6.6 Notwithstanding anything to the contrary in this Deed, each of the parties to this Deed acknowledges and agrees that amounts drawn down by the Issuer under clause 2.4 of the Subordinated Loan Agreement on any Interest Payment Date for the purpose of enabling the Issuer to pay in full any Hedge Provider Subordinated Amounts payable on such Interest Payment Date to any Hedge Provider shall not be credited to the Transaction Account but shall be advanced directly by the Subordinated Lenders to that Hedge Provider and the Administrators shall make all necessary arrangements to ensure that the amounts so drawn down are so applied.
- 6.7 Notwithstanding anything to the contrary in this Deed, each of the parties to this Deed acknowledges and agrees that amounts to be paid by any Currency Swap Provider to the Issuer under any Currency Swap Agreement on any Interest Payment Date may not be credited to the Transaction Account but may be paid directly by the Currency Swap Provider to the Paying Agent for the purpose of making the corresponding payments to be made on that Interest Payment Date by the Issuer to the relevant Noteholders.
- 6.8 Notwithstanding the security created by or pursuant to Clause 3, appropriate payments and transfers from the Hedge Collateral Accounts may and shall be made at any time during an Interest Period to carry out dealings in connection with the transfer, receipt, administration, investment and/or holding of Hedge Collateral in each case as contemplated by and permitted by the relevant Hedge Agreement (including, without limitation, the application of such Hedge Collateral, or the proceeds thereof, in or towards satisfaction of the liabilities of the relevant Hedge Provider under that Hedge Agreement).
- 6.9 In the event that, in accordance with the terms of a Hedge Agreement, all or part of Hedge Collateral held by or on behalf of the Issuer is to be applied in or towards satisfaction of the liabilities of the relevant Hedge Provider under that Hedge Agreement, then the relevant Hedge Collateral (or, as appropriate, the proceeds

thereof) shall be applied in that manner prior to making any other payments or provisions that fall due to be made on the relevant day under Clauses 6 or 8 (as applicable) and the amount so applied shall be credited to the Revenue Ledger (and an appropriate debit made to the relevant Hedge Collateral Ledger) and such amount shall then form part of the Revenue Ledger funds to be applied under Clauses 6 or 8 (as applicable).

- 6.10 In the event that any payment is to be made under Clauses 6 or 8 (as applicable) and the relevant funds of the Issuer do not comprise a sufficient amount in the relevant currency in which such payment is to be made, the Administrators shall, if the relevant Currency Swap has terminated, arrange for any remaining amounts comprised the relevant available funds, as applicable, to be converted (by such person as the Administrators may reasonably select) into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

7. PROTECTION NOTICE

- 7.1 Subject to the provisions of Clause 8, if at any time while any of the Notes is outstanding (as defined in the Trust Deed):

- (a) any Event of Default (as defined in the Trust Deed) or Termination Event (as defined in the Administration Agreement) occurs; or
- (b) any event occurs which with the giving of notice and/or lapse of time and/or certification would constitute an Event of Default or Termination Event; or
- (c) the Trustee believes that any such Event of Default or Termination Event has occurred or is about to occur or that the Charged Property or any part thereof is in danger of being seized or sold under any form of distress, execution or diligence levied or threatened or is otherwise in jeopardy.

the Trustee may by notice in writing to the Issuer invoke the provisions of this Clause 7 and thereupon any charge created by Clause 3 which is a floating charge shall, to the extent permitted by applicable law, crystallise.

- 7.2 From the date on which the Trustee gives a notice under Clause 7.1 and unless and until it is withdrawn or a notice is given by the Trustee under Clause 8.1:

- (a) this Clause 7 shall apply to all payments out of the Transaction Account other than payments of principal or interest to Class A Noteholders, Class B Noteholders or Class C Noteholders, which shall continue to be made in accordance with the Conditions, the Trust Deed and Clause 6, payments required to be made to any Cap Provider or Cap Guarantor by the Issuer or the Trustee pursuant to the terms of any Cap Agreement or Cap Guarantee, which shall continue to be made in accordance therewith and with Clause 6, payments of Mandatory Further Advances, which shall in each case continue to be made in accordance with the Administration Agreement and Clause 6, payments required to be made to any Hedge Provider by the Issuer pursuant to

the terms of a Hedge Agreement, which shall continue to be made in accordance with that Hedge Agreement and Clause 6 and payments to the Operating Bank under Clause 6.3, which shall continue to be made in accordance with Clause 6.3; and

- (b) no payments to which this Clause applies shall be made from the Transaction Account, and no disposal of any Authorised Investments shall be made, without the prior written consent of the Trustee provided that the Trustee shall not act under this Clause in such a way as to alter the order of priority for payments set out in Clause 6.1.2, Clause 6.1.5 and Clause 6.2.

7.3 The Trustee may at any time, unless an Enforcement Notice has been given by the Trustee, by notice in writing to the Issuer, each Administrator, the Substitute Administrator, each Hedge Provider, each Subordinated Lender, each Additional Subordinated Lender, the Issue Services Provider, each Agent, each A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent, each Seller, each Originator and PFPLC, withdraw a Protection Notice.

8. UPON ENFORCEMENT

8.1 From the date upon which the Trustee serves an Enforcement Notice on the Issuer:

- (a) no amount may be drawn from the Transaction Account except to the extent that it is applied in accordance with the order of priorities set out in Clause 8.2, or is used to make Mandatory Further Advances, or is paid to any Cap Provider or Cap Guarantor pursuant to the Trustee's or the Issuer's obligation under any Cap Agreement or Cap Guarantee, or is paid to any Hedge Provider pursuant to the Issuer's obligation under any Hedge Agreement or as otherwise permitted by this Deed; and
- (b) if not already so crystallised, any charge created by Clause 3 which is a floating charge shall crystallise, subject always to the provisions to Clause 7.1.

8.2 All monies received or recovered by or on behalf of the Trustee in respect of the Secured Amounts after the security created by or pursuant to this Deed becomes enforceable shall be held by it, and all monies received by each Administrator, each Hedge Provider, the Substitute Administrator, PFPLC, each Subordinated Lender, each Additional Subordinated Lender, each Agent, the Issue Services Provider, each Seller or each Originator in respect of the Secured Amounts (other than monies received pursuant to this Clause 8.2) after the security created by or pursuant to this Deed becomes enforceable shall forthwith be paid to (and, pending such payment, each Administrator, each Hedge Provider, the Substitute Administrator, PFPLC, each Subordinated Lender, the Additional Subordinated Lender, each Agent, the Issue Services Provider, each Seller or each Originator, as the case may be, shall hold such monies on trust for) the Trustee to be held by it, in each case on trust (but without prejudice to the right of the Trustee to apply monies standing to the credit of the

Transaction Account in making Mandatory Further Advances or in making payments required to be made by the Trustee or the Issuer pursuant to the terms of any Cap Agreement or Cap Guarantee or any Hedge Agreement in priority to such application) to be applied from time to time as the Trustee may decide, subject to Clause 8.3 as follows:

- (a) *first*, in or towards satisfaction, *pro rata*, according to the amounts then payable to each of them, of (i) the remuneration then payable to any Receiver and any costs, charges, liabilities and expenses incurred by such Receiver together with interest as provided in this Deed, (ii) amounts due from the Issuer to the Trustee and the Tender Agent together with interest thereon as provided herein, (iii) any costs or expenses properly claimed by the Agents, the A1 Note Conditional Purchasers or the Remarketing Agent under the Agency Agreement, the A1 Note Conditional Purchase Agreement or the Remarketing Agreement, respectively, and (iv) amounts due to Borrowers in respect of Mandatory Further Advances (each including any value added tax chargeable thereon, as applicable);
- (b) *second*, in or towards satisfaction, *pro rata* according to the respective amounts thereof, of the fees and out of pocket expenses of the Administrators (other than the Administration Subordinated Fee) then due under clauses 11.1, 12.1 and 12.2 of the Administration Agreement and all commissions referred to in clause 11.2 of the Administration Agreement previously received by the Issuer which have not previously been paid to the Sellers or the Originators, 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);
- (c) *third*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of (a) any amounts due and payable by the Issuer to the Basis Hedge Providers or to any Permitted Basis Hedge Provider in each case other than (i) any Hedge Provider Subordinated Amounts and (ii) any Withholding Compensation Amounts; (b) all interest unpaid in respect of the Class A2a Notes and the Class A1 Notes (in the event that the Class A1 Notes have been purchased by the A1 Note Conditional Purchasers in accordance with the A1 Note Mandatory Transfer Arrangements) (together with any unpaid interest thereon); (c) all principal moneys due in respect of the Class A2a Notes and the Class A1 Notes (in the event that the Class A1 Notes have been purchased by the A1 Note Conditional Purchasers in accordance with the A1 Note Mandatory Transfer Arrangements); (d) any other amounts due in respect of the Class A Notes (irrespective of class); and (e) payment of each amount due and payable in each case by it to the Currency Swap Provider under the Currency Swap A1 Agreement (unless the Class A1

Notes have been purchased by the A1 Note Conditional Purchasers in accordance with the A1 Note Mandatory Transfer Arrangements) and the Currency Swap A2b Agreement in each case other than (A) any Hedge Provider Subordinated Amounts, and (B) any Withholding Compensation Amounts; and, in each case payable under those Currency Swap Agreements;

- (d) *fourth*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, of (a) all interest unpaid in respect of the Class B1a 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 B1a Notes; (c) any other amounts due in respect of the Class B Notes; and (d) payment of each amount due and payable to the Currency Swap Provider under the Currency Swap B1b Agreement other than (i) any Hedge Provider Subordinated Amounts, and (ii) any Withholding Compensation Amounts, in each case, payable under the Currency Swap B1b Agreement;
- (e) *fifth*, (a) payment of each amount due and payable to the Currency Swap Provider under the Currency Swap C1b Agreement other than (i) any Hedge Provider Subordinated Amounts, and (ii) any Withholding Compensation Amounts, in each case payable under the Currency Swap C1b Agreement; and (b) any other amounts due in respect of the Class C Notes;
- (f) *sixth, pro rata* according to the respective amounts thereof, payment of any Withholding Compensation Amounts and any Hedge Provider Subordinated Amounts, if any, due and payable to each Hedge Provider in respect of any Hedge Agreement;
- (g) *seventh, pro rata* according to the respective amounts thereof, in or towards satisfaction of the Administrator 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);
- (h) *eighth*, in or towards satisfaction, *pro rata*, according to the respective amounts thereof, 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); and

- (i) *ninth*, in or towards satisfaction of any payment due to MTS (as Seller) in respect of Deferred Purchase Consideration;
- (j) *tenth*, in or towards satisfaction of any payment due to PML (as Seller) in respect of Deferred Purchase Consideration; and
- (k) *eleventh*, the surplus (if any) to the Issuer.

provided that if at the time a payment is proposed to be made to any Administrator, any Hedge Provider, the Substitute Administrator, any Seller, any Originator, the Issue Services Provider, each Subordinated Lender, any Additional Subordinated Lender, any Agent or PFPLC pursuant to this Clause 8.2, that Administrator, any Hedge Provider, the Substitute Administrator, that Seller, that Originator, the Issue Services Provider, that Subordinated Lender, any Additional Subordinated Lender, that Agent or PFPLC (as the case may be) is in default under any of its obligations to make a payment under the Administration Agreement, any Hedge Agreement, the Substitute Administrator Agreement, the Mortgage Sale Agreement, the Fee Letter, the Subordinated Loan Agreement, the Cross-collateral Mortgage Rights Deed, the Agency Agreement or the Collection Account Declarations of Trust (the "defaulted payment"), there shall be set off against the amount of the payment which would otherwise be due to that Administrator, the Hedge Provider, the Substitute Administrator, the Issue Services Provider, that Subordinated Lender, the Additional Subordinated Lender, that Seller, that Originator, the Agent or PFPLC (as the case may be) pursuant to this Clause 8.2 the amount of such defaulted payment and provided that the Trustee shall be entitled, and is hereby authorised, to call for and to accept as conclusive evidence thereof a certificate from the auditors of the Issuer (approved from time to time pursuant to clause 13.7.1 of the Administration Agreement) as to the amounts of the claims of that Administrator, the Hedge Provider, the Substitute Administrator, the Issue Services Provider, each Subordinated Lender, any Additional Subordinated Lender, that Seller, that Originator, that Agent and PFPLC under Clauses 8.2(b), (c), (d), (e), (f), (g), (h), (i) and (j).

- 8.3 The amounts available to be applied under Clause 8.2 shall exclude Hedge Collateral Excluded Amounts and, notwithstanding the service of an Enforcement Notice or the Security having become enforceable, Hedge Collateral shall continue to be held and dealt with in accordance with clause 6.22 of the Administration Agreement and the relevant Hedge Agreement.
- 8.4 In relation to the Hedge Collateral all provisions of this Deed (including this Clause 8) are subject to clause 6.23 of the Administration Agreement.

9. TERMINATION OF ADMINISTRATION AGREEMENT

- 9.1 Subject to Clause 9.4 below, if notice to terminate the Administration Agreement is given pursuant to clause 20.1 of that agreement, the Issuer and each Administrator acknowledge to the Trustee that it will be entitled to appoint any substitute administrator on terms which entitle such substitute administrator (if other than the

Substitute Administrator) to receive a fee which will be paid and calculated in the same manner as the fee payable to each Administrator pursuant to clause 11.1(B) of the Administration Agreement but for this purpose deleting in that clause the words ", for so long as the relevant Administrator is the Administrator," and substituting for the words "not more than 0.15 per cent" and "not more than 0.15 per cent" in that clause a rate (as agreed between the Trustee and the substitute administrator) which does not exceed the rate then commonly charged for the provision of mortgage administration services.

- 9.2 If no substitute administrator can be found and, pursuant to clause 20.12 of the Administration Agreement, the Substitute Administrator is appointed as substitute administrator then the provisions of the Substitute Administrator Agreement shall apply.
- 9.3 The fee payable to any substitute administrator (other than the Substitute Administrator) as referred to in Clause 9.1 shall have deducted therefrom an amount equal to any commissions of the kind referred to in clause 11.2 of the Administration Agreement received by it during the preceding Interest Period (and which it is entitled to retain for its own account) and shall be paid exclusive of any amounts in respect of VAT properly chargeable thereon.
- 9.4 If during the period in which PFPLC and MTS are Administrators a Termination Event has occurred or is about to occur under the Administration Agreement in relation to only one of them (the "Defaulting Administrator"), the other Administrator may by giving written notice to the Issuer, the Trustee and the Defaulting Administrator ipso facto assume and become subject to all of the rights and obligations of the Defaulting Administrator under all of the Relevant Documents (and the Defaulting Administrator shall ipso facto thereby cease to have each of those rights and shall be released from each of those obligations) as if such other Administrator had been party thereto as the sole Administrator instead of the Defaulting Administrator and each of the parties to such Relevant Documents agree to such assumption, cessation and release without the need for any further action.

10. CONTINUANCE OF SECURITY AND CONFLICT

- 10.1 Without prejudice to the generality of Clause 4, the charges, securities, covenants, undertakings and provisions contained in or granted pursuant to this Deed shall remain in force as a continuing security to the Trustee notwithstanding any settlement of account or any other act, event or matter whatsoever, except only the execution by the Trustee under seal of an absolute and unconditional release or the execution by or on behalf of the Trustee of a receipt for all (and not part only) of the Secured Amounts.
- 10.2 In relation to the Trustee's duties, obligations and responsibilities as trustee to each Administrator, each Substitute Administrator, each Seller, each Originator, the Currency Swap Provider, the Basis Hedge Provider, any Permitted Basis Hedge Provider, the Issue Services Provider, the Subordinated Lender, each Agent, each A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent and PFPLC in

relation to the Charged Property and under or in connection with this Deed, the Trustee, each Administrator, the Substitute Administrator, each Seller, each Originator, the Currency Swap Provider, the Basis Hedge Provider, any Permitted Basis Hedge Provider, the Issue Services Provider, each Subordinated Lender, each Agent, each A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent and PFPLC hereby agree, and the Issuer concurs, that the Trustee shall discharge these by performing and observing its duties, obligations and responsibilities as trustee to the Noteholders in accordance with the provisions of the Trust Deed and each Administrator, the Substitute Administrator, each Seller, each Originator, the Currency Swap Provider, the Basis Hedge Provider, any Permitted Basis Hedge Provider, the Issue Services Provider, each Subordinated Lender, each Agent, each A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent and PFPLC shall accordingly be bound by, and deemed to have notice of, all of the provisions of the Trust Deed as if they were Noteholders. Without prejudice to the generality of the foregoing or to the obligations of the Administrators under the Administration Agreement, and, subject to the provisions of the Trust Deed, Condition 10, the Trustee shall be under no obligation to take any steps to call in or call up or to enforce the Mortgages or any collateral security therefor and shall not be liable for any loss arising from any omission on its part to take any such steps.

- 10.3 All the provisions of the Trust Deed relating to the exercise by the Trustee of its powers, trusts, authorities, duties, rights and discretions shall apply, *mutatis mutandis*, to the discharge by the Trustee of its powers, trusts, authorities, duties, rights and discretions under this Deed.
- 10.4 Each of the Administrators, the Substitute Administrator, the Sellers, the Originators, the Currency Swap Provider, the Basis Hedge Provider, each Permitted Basis Hedge Provider, the Issue Services Provider, each Subordinated Lender, each Agent, each A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent and PFPLC acknowledges that the Trustee shall not be bound to take any steps or institute any proceedings after the service of an Enforcement Notice or to take any other action to enforce the security constituted by or pursuant to this Deed unless the Trustee shall have been indemnified to its satisfaction against all actions, proceedings, claims and demands to which it may thereby render itself liable and all costs, charges, damages and expenses which it may incur by so doing.

11. WARRANTY AND COVENANTS BY THE ISSUER

- 11.1 The Issuer warrants to the Trustee that it has taken all necessary steps to enable it to charge or assign as security the Charged Property in accordance with Clause 3, and that it has taken no action or steps to prejudice its right, title and interest in and to the Charged Property.
- 11.2 The Issuer covenants with and undertakes to the Trustee that so long as any of the Notes remains outstanding (as defined in the Trust Deed) it shall not, save to the extent permitted by the Relevant Documents or with the prior written consent of the Trustee:

- (a) carry on any business other than as described in the Offering Circular (as defined in the Administration Agreement) 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:
- (i) own and exercise its rights in respect of the Charged Property and its interests therein and perform its obligations in respect of the Charged Property including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;
 - (ii) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Relevant Documents and the Notes;
 - (iii) to the extent permitted by the terms of this Deed 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;
 - (iv) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of the Charged Property or any estate, right or title therein or grant any option or right to acquire the same presently or in the future:
 - (1) in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class A Notes (of any class) or the Class B Notes or the Class C Notes in accordance with the Conditions;
 - (2) in connection with any agreement therefor which is conditional on the repayment or discharge in full of the Secured Amounts; and
 - (3) in connection with a disposal or termination of any Cap Agreement or any Hedge Agreement in return for a contemporaneous payment of cash to the Transaction Account of an amount equal to the fair market value thereof;
 - (v) in accordance with Chapter IV, Part X of the Taxes Act 1988, surrender losses or make any claim for or any payment for group relief (as therein defined); and
 - (vi) perform any act incidental to or necessary in connection with (i) to (v) (inclusive) above;
- (b) 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 this Deed, the Trust Deed, the Notes,

the Fee Letter, the Services Letter, any Hedge Agreement, the Substitute Administrator Agreement, the Agency Agreement, the A1 Note Conditional Purchase Agreement, the Remarketing Agreement or the VAT Declaration of Trust, and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;

- (c) create or permit to exist upon or affect any of the Charged Property any Security Interest whatsoever other than the Security Interests created by or pursuant to this Deed, provided always that, for the avoidance of doubt, the Issuer may consent to Borrowers creating subsequent mortgages, Standard Securities or charges over any of the Properties where the amounts secured by such mortgages, Standard Securities or charges rank after the amounts secured or to be secured by the Mortgages (including Mandatory Further Advances, Discretionary Further Advances and interest thereon) and the subsequent mortgagee, heritable creditor or chargee expressly postpones its rights to those of the Issuer and the Trustee;
- (d) 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 this Deed, the Trust Deed or the Administration Agreement, unless:
 - (i) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes, the Class B Notes and the Class C Notes and the performance and observance of every covenant in the Trust Deed and in the Conditions on the part of the Issuer to be performed or observed;
 - (ii) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;
 - (iii) the Trustee is satisfied that the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
 - (iv) 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;
 - (v) the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes are not adversely affected; and

- (vi) 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.
- (e) permit the validity or effectiveness of the Trust Deed or this Deed or the priority of the security created hereby or pursuant hereto to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Charged Property to be released from such obligations;
- (f) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
- (g) have an interest in any bank account other than the Transaction Account, the VAT Account and the Collection Account Declarations of Trust, unless such account or the Issuer's interest therein is charged or otherwise secured in favour of the Trustee on terms acceptable to the Trustee.

provided that, in the case of (b), it is acknowledged that the Issuer may borrow amounts from time to time under any facility from a third party (other than the Subordinated Lenders) under the Subordinated Loan Agreement.

11.3 The Issuer covenants with and undertakes to the Trustee as follows:

- (a) at all times to carry on and conduct its affairs in a proper and efficient manner;
- (b) at all times to ensure that it is centrally managed and controlled solely in the United Kingdom and, accordingly, is within the charge to United Kingdom corporation tax;
- (c) to give to the Trustee such information and evidence (and in such form) as the Trustee shall reasonably require (including but without prejudice to the generality of the foregoing the procurement by the Issuer of all such certificates called for by the Trustee pursuant to clause 12(B) of the Trust Deed) for the purpose of the discharge of the duties, trusts, powers, authorities and discretions vested in it under or pursuant to this Deed, the Trust Deed or by operation of law;
- (d) to cause to be prepared and certified by the auditors in respect of each financial year, accounts in such form as will comply with the requirements for the time being of the Companies Act 1985;

- (e) at all times to keep proper books of account and allow the Trustee and any person appointed by the Trustee to whom the Issuer shall have no reasonable objection free access to such books of account at all reasonable times during normal business hours;
- (f) to send to the Trustee one copy of every balance sheet, profit and loss account, report, circular and notice of general meeting and every other document issued or sent to its shareholders together with any of the foregoing and every document sent to Noteholders as soon as practicable after the issue or publication thereof;
- (g) forthwith after becoming aware thereof to give notice in writing to the Trustee of the occurrence of any Event of Default (as defined in Condition 9) or any condition, event or act which with the giving of notice and/or the lapse of time and/or the issue of a certificate would constitute such an Event of Default;
- (h) to give to the Trustee (a) within seven days after demand by the Trustee therefor and (b) (without the necessity for any such demand) promptly after the publication of its audited accounts in respect of each financial period commencing with the financial period ending on 30 September 2005 and in any event not later than 180 days after the end of each such financial period a certificate of the Issuer signed by two Directors of the Issuer to the effect that as at a date not more than seven days before delivering such certificate (the "relevant date") there did not exist and had not existed since the relevant date of the previous certificate (or in the case of the first such certificate the date hereof) any Event of Default or any condition, event or act which with the giving of notice and/or the lapse of time and/or the issue of a certificate would constitute an Event of Default (or if such exists or existed specifying the same) and that during the period from and including the relevant date of the last such certificate (or in the case of the first such certificate the date hereof) to and including the relevant date of such certificate the Issuer has complied with all its obligations contained in the Relevant Documents or (if such is not the case) specifying the respects in which it has not complied;
- (i) at all times to execute all such further documents, and do all such acts and things as may be necessary at any time or times in the opinion of the Trustee to give effect to the Relevant Documents;
- (j) at all times to comply with and perform all its obligations under the Relevant Documents and use all reasonable endeavours to procure that the other parties thereto, other than the Trustee, comply with and perform all their respective obligations thereunder and not to make any amendment or modification thereto or agree to waive or authorise any breach thereof without the prior written approval of the Trustee;
- (k) not at any time to approve or agree or consent to any act or do any thing whatsoever which in the opinion of the Trustee is material under the Relevant

Documents without the prior written approval of the Trustee and to do, or refrain from doing, any material act or thing in relation thereto which in the opinion of the Trustee is material as the Trustee may require;

- (l) at all times to comply with any reasonable direction given by the Trustee in relation to the Charged Property;
- (m) to pay or procure payment of all premiums or other sums payable by the Issuer in respect of the Insurance Contracts, to produce to (or, if required, deposit with) the Trustee upon receipt of reasonable notice all or any of the relevant policies and the receipts for the last premiums payable thereunder and to comply with the terms and conditions of the relevant policies;
- (n) except with the prior written consent of the Trustee, which prior to the service of a Protection Notice or an Enforcement Notice shall not be unreasonably withheld, not to negotiate, compromise, abandon or settle any claim for compensation (whether payable under any enactment or otherwise) or any claim under any of the Insurance Contracts save that this provision shall not apply to any arrangement described in Clause 11.4(a)(i) or to any such claim for an amount not exceeding £5,000 or, if greater, the Maximum Amount (as defined in Clause 11.4(a)(iv)); and
- (o) maintain its registered office, its head office and (subject to Clause 11.7 below) its "centre of main interests" (as such term is defined in Article 3(1) of the EU Insolvency Regulations) in England and Wales and will not move such offices to another jurisdiction.

11.4 The Issuer covenants with and undertakes to the Trustee, each Administrator, each Seller, each Originator and PFPLC in relation to the Insurance Contracts as follows:

- (a) Buildings Insurance
 - (i) The Issuer shall procure that, with effect from the Closing Date, the interests of PGC, the Issuer and the Trustee will be noted on the Block Buildings Policies.
 - (ii) The Issuer shall not knowingly take any action or omit to take any action which would result in the avoidance or termination of (or give rise to any right of any person to avoid or terminate) any applicable Block Buildings Policy or would reduce the amount payable on any claim thereunder. The Issuer shall procure that each Block Buildings Policy (or another policy providing equivalent cover) is kept in full force and effect in relation to any Mortgage and associated Property to which it applies.
 - (iii) The Issuer shall procure the payment of premiums due and payable under any applicable Block Buildings Policy in order that the cover provided by such Block Buildings Policy shall not lapse.

- (iv) If a claim is made under any Block Buildings Policy for an amount less than or equal to £5,000 (or such other figure as is for the time being the maximum amount of insurance proceeds which the Administrators in accordance with their then normal practice permits to be paid direct to borrowers) (the "Maximum Amount") the proceeds of such claim will be sent directly to the Borrower. The Issuer may procure the preparation and submission of any claim under any Block Buildings Policy in excess of the Maximum Amount. In such a case the Issuer may (but shall not be obliged to) instruct a valuer to check that satisfactory reinstatement has taken place and to review the value of the Property in respect of which the claim was made as security for the relevant Mortgage. The Issuer will arrange for the proceeds of any such claim in excess of the Maximum Amount only to be paid to the relevant Borrower after the Issuer has satisfied itself that all amounts due and owing from the Borrower under his Mortgage have been paid and subject to Clauses 6, 7 and 8 of this Deed.
 - (v) The Issuer shall make arrangements for collection and payment by Borrowers of premiums in relation to Block Buildings Policies (whether collected as part of a Monthly Payment (as defined in the Administration Agreement) or otherwise) in accordance with the Mortgage Conditions, and the payment thereof to the relevant insurance company subject to Clauses 6, 7 and 8 of this Deed.
 - (vi) Upon receipt of notice that any Property is not insured against fire and other perils (including subsidence) under a householder's comprehensive insurance policy or similar policy in accordance with the terms of each Mortgage, the Issuer will arrange such insurance in accordance with the terms of each Mortgage.
- (b) Fidelity Insurance Policy
- (i) The Issuer shall procure that, with effect from the Closing Date, the Fidelity Insurance Policy records the Issuer as a named insured under such Fidelity Insurance Policy, that it is extended to cover the acts and omissions of employees, officers or directors of the Issuer and the Administrators and that the Trustee's interest is recorded thereon.
 - (ii) The Issuer shall not knowingly take any action or omit to take any action which would result in the avoidance or termination of or give rise to any right of any person to avoid or terminate the Fidelity Insurance Policy (unless replaced with a policy providing equivalent cover) or reduce the amount payable on any claim thereunder.
 - (iii) The Issuer shall procure the preparation and submission of any claim under the Fidelity Insurance Policy.

(c) Mortgage Impairment Insurance for Financial Institutions Policy

- (i) The Issuer shall not knowingly take any action or omit to take any action which would result in the avoidance or termination of or give rise to any right of any person to avoid or terminate the Mortgage Impairment Insurance for Financial Institutions Policy (or another similar policy providing similar cover) in relation to any Mortgage to which the Mortgage Impairment Insurance for Financial Institutions Policy (or such other policy) applies or would reduce the amount payable on any claim thereunder. The Issuer shall use its reasonable endeavours to keep in full force and effect the Mortgage Impairment Insurance for Financial Institutions Policy, in relation to any Mortgage to which it applies. The Issuer shall procure that the Mortgage Impairment Insurance for Financial Institutions Policy will record the Issuer (as a subsidiary of the Paragon Group of Companies PLC) as a named insurer under such Mortgage Impairment Insurance for Financial Institutions Policy and either name the Trustee as an insured party also or otherwise assign such Mortgage Impairment Insurance for Financial Institutions Policy to the Trustee (such assignment to be made without notice).
- (ii) The Issuer shall procure the preparation and submission of any claim under the Mortgage Impairment Insurance for Financial Institutions Policy.

11.5 Exercise of rights by the Trustee

If the Issuer for any reason fails to observe or punctually to perform any of its obligations to the Trustee, whether under this Deed or otherwise, the Trustee shall have power (but shall be under no obligation), on behalf of or in the name of the Issuer or otherwise, to perform the obligation and to take any steps which the Trustee may consider appropriate with a view to remedying, or mitigating the consequences of, the failure, but so that the exercise of this power, or the failure to exercise it, shall in no circumstances prejudice the Trustee's rights under this Deed or otherwise or constitute the Trustee a mortgagee or heritable creditor in possession.

11.6 Group Relief

The Issuer covenants with and undertakes to the Trustee that in respect of any claims that it makes for the surrender to it of tax losses, reliefs, allowances or credits ("**Reliefs**") by PFPLC or any member of its group that:

- (a) the price payable for any such Relief shall be no more than the amount of tax saved by the Issuer as a result of the relevant surrender; and
- (b) such price shall be paid on the later of the date on which the Issuer would otherwise have had to pay the liability to tax which has been eliminated as a result of such surrender and the date by which both the Issuer and the relevant surrendering company's tax computations and Reliefs for the relevant

accounting periods have been agreed with and finally determined by H. M. Revenue & Customs.

- 11.7 The Trustee and the Issuer may agree, without the consent of any of the other parties hereto, to waive the requirement set out in Clause 11.3(o) in relation to the Issuer maintaining its "centre of main interests" (as such term is defined in Article 3(I) of the EU Insolvency Regulations) in England and Wales, *provided that* the Trustee has received from each Rating Agency a confirmation that such waiver would not result in a downgrade of the then current ratings of the Notes.

12. EXPENSES

The Issuer further covenants with and undertakes to the Trustee to reimburse, pay or discharge (on the basis of a full indemnity) all costs, charges, liabilities and expenses properly incurred by the Trustee, the Receiver or any attorney, manager, agent or delegate appointed by the Trustee under this Deed, the Trust Deed or any of the other Relevant Documents (other than in relation to Tax on their net income, profits and gains) in connection with:

- (a) the preparation, execution, registration, recording or perfecting of the Relevant Documents or any other document relating thereto;
- (b) the carrying out of the trusts and duties under or in connection with this Deed and the Trust Deed or any other of the Relevant Documents;
- (c) the exercise, or the attempted or purported exercise, or the consideration of the exercise, by or on behalf of the Trustee or the Receiver of any of the powers of the Trustee or the Receiver; and
- (d) any other action taken by or on behalf of the Trustee with a view to or in connection with enforcing any obligations of the Issuer or any other person under any of the Relevant Documents or the recovery of the Secured Amounts from the Issuer or any other person or the enforcement of the security for the Secured Amounts.

together with any amounts in respect of VAT or similar tax charged or chargeable in respect thereof provided that the Issuer shall only be obliged to reimburse the Trustee in respect of any amounts in respect of VAT incurred by it on such costs, charges and expenses to the extent that any such amount in respect of VAT is not recoverable by the Trustee, or any other company treated as a member of the same group of companies as the Trustee for VAT purposes, by way of repayment, credit or set-off.

13. THE TRUSTEE'S POWERS

- 13.1 Section 103 of the Act shall not apply to this Deed (or in relation to assets or rights situated in, or governed by the laws of, Northern Ireland, Section 20 of the 1881 Act) and forthwith after the service of a Protection Notice or an Enforcement Notice this Deed shall become immediately enforceable and the powers conferred by the Act (or in Northern Ireland, the 1881 Act) and this Deed immediately exercisable without the

restrictions contained in the Act (or in Northern Ireland, the 1881 Act), and the Issuer shall be deemed to be in default within the meaning of Condition 9(1)(b) of Schedule 3 to the Conveyancing and Feudal Reform (Scotland) Act 1970.

- 13.2 The provisions of the Act relating to the power of sale and the other powers conferred by section 101(1) and (2) of the Act (or in Northern Ireland, Section 19(1) of the 1881 Act or Section 4 of the Conveyancing Act 1911) (insofar as applicable to the Charged Property) are hereby extended (as if such extensions were contained in such Act) to authorise the Trustee at its absolute discretion and upon such terms as it may think fit:
- (a) to dispose of the Charged Property, or any interest in the same, and to do so for shares, debentures or any other securities whatsoever, or in consideration of an agreement to pay all or part of the purchase price at a later date or dates, or an agreement to make periodical payments, whether or not the agreement is secured by a Security Interest or a guarantee, or for such other consideration whatsoever as the Trustee may think fit, and also to grant any option to purchase, and to effect exchanges and nothing shall preclude the Trustee from making any disposal to any person it thinks fit;
 - (b) with a view to, or in connection with, the disposal of the Charged Property, to carry out any transaction, scheme or arrangement which the Trustee may in its absolute discretion, consider appropriate;
 - (c) to take possession of, get in and collect the Charged Property;
 - (d) to carry on and manage or concur in managing the business of the Issuer;
 - (e) to appoint and engage employees, managers, agents and advisers upon such terms as to remuneration and otherwise and for such periods as it may determine, and to dismiss them;
 - (f) in connection with the exercise, or the proposed exercise, of any of its powers to borrow or raise money from any person, without security or on the security of the Charged Property (either in priority to this security or otherwise) and generally in such manner and on such terms as it may think fit;
 - (g) to bring, defend, submit to arbitration, negotiate, compromise, abandon and settle any claims and proceedings concerning the Charged Property;
 - (h) to transfer all or any of the Charged Property and/or any of the liabilities of the Issuer to any other company or body corporate, whether or not formed or acquired for the purpose and whether or not a subsidiary or associated company of the Trustee, PFPLC, any Seller, any Originator, the Issue Services Provider, any Subordinated Lender or a company in which the Trustee, PFPLC, the Issue Services Provider, any Subordinated Lender, any Seller or any Originator has an interest;

- (i) to call up all or any portion of the uncalled capital (if any) for the time being of the Issuer;
- (j) generally to carry out, or cause or authorise to be carried out, any transaction, scheme or arrangement whatsoever, whether similar or not to any of the foregoing, in relation to the Charged Property which it may consider expedient as effectually as if it were solely and absolutely entitled to the Charged Property;
- (k) in connection with the exercise of any of its powers, to execute or do, or cause or authorise to be executed or done, on behalf of or in the name of the Issuer or otherwise, as it may think fit, all documents, acts or things which it may consider appropriate; and
- (l) to pay and discharge out of the profits and income of the Charged Property and the monies to be made by it in carrying on any such business as aforesaid the expenses incurred in and about the carrying on and management of any such business as aforesaid or in the exercise of any of the powers conferred by this Clause 13.2 or otherwise in respect of the Charged Property and all outgoings which it shall think fit to pay.

13.3 Each Originator, MTS and the Issuer hereby covenant and agree with and undertake to the Trustee that if at any time after the security constituted by or pursuant to this Deed shall have become enforceable the Trustee or any Receiver shall so require, they will join together in directing each Originator or the Administrators to sell or dispose of all or any part of the Scottish Trust Property on terms previously approved by the Trustee and/or in causing the trusts constituted by the Scottish Declarations of Trust to be wound up or performed and they will take all such actions and execute all such documents as may be necessary to effect such sale or disposal or winding up or performance and the distribution or transfer of the Scottish Trust Property or any part thereof in accordance with the terms of the Scottish Declarations of Trust and this Deed. PML and the Issuer hereby acknowledge and consent to the foregoing as trustee and beneficiary respectively in terms of the Scottish Declaration of Trust made by PML in favour of the Issuer. MTL, MTS and the Issuer hereby acknowledge and consent to the foregoing as trustee, consenter and beneficiary respectively in terms of the Scottish Declaration of Trust made by MTL in favour of the Issuer.

13.4 The Trustee may, at any time after there are no Notes outstanding, request PML and/or MTS to nominate a successor to it as trustee of the Charged Property under this Deed. Upon such nomination being made, the Trustee shall transfer the Charged Property to such successor, to be held by it on the same terms as those applying to the Trustee, and shall cease to be under any further obligation under this Deed. In the absence of any nomination by PML and/or MTS within 20 days of the request by the Trustee, the Trustee shall be entitled to release the Charged Property created by this Deed and to reassign and transfer the Charged Property to the Issuer and the Trustee shall have no responsibility to PML and/or MTS for having done so.

14. RECEIVER

- 14.1 At any time after the security created under this Deed becomes enforceable or after any application is made for the appointment of an administrator in relation to the Issuer, or notice of intention to appoint an administrator of the Issuer is given or filed with the court the Trustee may appoint such person or persons (including an officer or officers of the Trustee) as it thinks fit to be receiver or receivers, managers, receivers or managers (to act jointly or severally) or administrator or administrative receiver of the Charged Property.
- 14.2 The Trustee may remove the Receiver appointed by it whether or not appointing another in his place, and the Trustee may also appoint another receiver if the Receiver resigns.
- 14.3 The exclusion of any part of the Charged Property from the appointment of the Receiver shall not preclude the Trustee from subsequently extending his appointment (or that of the Receiver replacing him) to that part.
- 14.4 The Receiver shall, so far as the law permits, be the agent of the Issuer and (subject to the Insolvency Act 1986) the Issuer shall be solely responsible for his acts and defaults and liable on any contracts or engagements made or entered into by him; and in no circumstances whatsoever shall the Trustee or any Administrator or the Substitute Administrator or PFPLC or any Seller or any Originator or the Issue Services Provider, any Agent, any Hedge Provider, any Subordinated Lender or any Additional Subordinated Lender be in any way responsible for any misconduct, negligence or default of his.
- 14.5 Subject to section 36 of the Insolvency Act 1986, the remuneration of the Receiver may be fixed by the Trustee (and may be or include a commission calculated by reference to the gross amount of all money received or otherwise), but such remuneration shall be payable by the Issuer alone; and the amount of such remuneration may be debited by the Trustee to any account of the Issuer but shall, in any event, form part of the Trustee Secured Amounts and accordingly be secured on the Charged Property under the charges contained in and granted pursuant to this Deed.
- 14.6 The Receiver may be invested by the Trustee with such of the powers, authorities and discretions exercisable by the Trustee under this Deed and the Insolvency Act 1986 as the Trustee may think fit and the power to do all things which seem to the Receiver to be incidental or conducive to (a) any of the functions, powers, authorities or discretions conferred or vested in him; (b) the exercise of any or all of his rights under this Deed or (c) the collection of the Charged Property. Without prejudice to the generality of the foregoing, any Receiver appointed to the whole or substantially the whole of the Issuer's property shall have the powers referred to in Schedule 1 to the Insolvency Act 1986.
- 14.7 The Receiver shall in the exercise of his powers, authorities and discretions conform to the regulations and directions from time to time made and given by the Trustee.

- 14.8 The Trustee may from time to time and at any time require any such Receiver to give security for the due performance of his duties as such Receiver and may fix the nature and amount of the security to be so given but the Trustee shall not be bound in any case to require any such security.
- 14.9 Save so far as otherwise directed by the Trustee all monies from time to time received by such Receiver shall be paid over to the Trustee to be held by it on the trusts declared by Clause 8.2.
- 14.10 The Trustee may pay over to such Receiver any monies constituting part of the Charged Property to the intent that the same may be applied for the purposes of this Deed by such Receiver and the Trustee may from time to time determine what funds the Receiver shall be at liberty to keep in hand with a view to the performance of his duties as such Receiver.
- 14.11 Section 109(6) and (8) of the Act (or, in relation to assets or rights situated in, or governed by the laws of, Northern Ireland, Section 24(6) and (8) of the 1881 Act) shall not apply in relation to the Receiver.

15. PROTECTION OF THIRD PARTIES

- 15.1 The statutory powers of sale and of appointing a receiver which are conferred upon the Trustee as varied and extended by this Deed and all other powers shall in favour of any purchaser be deemed to arise and be exercisable immediately after the execution of this Deed.
- 15.2 No purchaser from, or other person dealing with, the Trustee and/or the Receiver shall be concerned to enquire whether any of the powers which they have exercised or purported to exercise has arisen or become exercisable, or whether the Secured Amounts remain outstanding, or whether any event has happened to authorise the Receiver to act or as to the propriety or validity of the exercise or purported exercise of any such power; and the title and position of a purchaser or such person shall not be impeachable by reference to any of those matters.
- 15.3 The receipt of the Trustee or the Receiver shall be an absolute and conclusive discharge to a purchaser or such person and shall relieve him of any obligation to see to the application of any monies paid to or by the direction of the Trustee or the Receiver or, if applicable, each Administrator, the Substitute Administrator, each Seller, each Originator, each Hedge Provider, the Issue Services Provider, each Subordinated Lender, any Additional Subordinated Lender, each Agent, each A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent or PFPLC.

16. PROTECTION OF TRUSTEE AND RECEIVER

- 16.1 Neither the Trustee nor any Receiver shall be liable in respect of any loss or damage which arises out of the exercise, or attempted or purported exercise of, or the failure to exercise any of their respective powers, unless such loss or damage is caused by its or his negligence or wilful default.

16.2 Without prejudice to Clause 16.1, entry into possession of the Charged Property shall not render the Trustee or the Receiver liable to account as mortgagee or heritable creditor in possession or to be liable for any loss on realisation or for any default or omission for which a mortgagee or heritable creditor in possession might be liable; and if and whenever the Trustee or the Receiver enters into possession of the Charged Property, it shall be entitled at any time at its pleasure to go out of such possession.

17. INDEMNITY AND INTEREST

17.1 Without prejudice to the right of indemnity given by law to trustees, the Issuer further covenants with and undertakes to the Trustee, each Administrator, the Substitute Administrator, each Seller, each Originator, PFPLC, each Subordinated Lender, each Additional Subordinated Lender, the Issue Services Provider, each Hedge Provider, each Agent, each A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent and the Receiver fully to indemnify the Trustee, each Administrator, the Substitute Administrator, each Seller, each Originator, PFPLC, each Subordinated Lender, each Additional Subordinated Lender, the Issue Services Provider, each Hedge Provider, each Agent, each A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent and the Receiver and their respective officers, employees and agents against all claims, proceedings, liabilities, costs, charges and expenses which the Trustee, each Administrator, the Substitute Administrator, each Seller, each Originator, PFPLC, each Subordinated Lender, each Additional Subordinated Lender, the Issue Services Provider, each Hedge Provider, each Agent, each A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent or the Receiver and their respective officers, employees, delegates and agents may incur (other than VAT which is recoverable by way of repayment, credit or set-off by that person, or any other person with which that person is treated as a member of a group for VAT purposes, under sections 24 and 25 of the Value Added Tax Act 1994) (in the case of the Trustee, whether before or after this Deed has become enforceable):

- (a) in consequence of or in connection with anything done or purported to be done or omitted by the Trustee, any Administrator, the Substitute Administrator, any Seller, any Originator, PFPLC, any Subordinated Lender, any Additional Subordinated Lender, the Issue Services Provider, any Hedge Provider, any Agent, any A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent or the Receiver under or in connection with this Deed or any other of the Relevant Documents to which the Trustee or any other Secured Party is a party or of any failure by the Issuer to comply with its obligations to the Trustee, any Administrator, the Substitute Administrator, any Seller, any Originator, PFPLC, any Subordinated Lender, any Additional Subordinated Lender, the Issue Services Provider, any Hedge Provider, any Agent, any A1 Note Conditional Purchaser, the Remarketing Agent, the Tender Agent or the Receiver under or in connection with this Deed or any other Relevant Document; or

- (b) in consequence of any payment in respect of the Secured Amounts (whether made by the Issuer or a third person) being impeached or declared void for any reason whatsoever,

save where such claims, proceedings, liabilities, costs, charges and expenses arise as a result of the negligence or wilful default or breach of the provisions of this Deed or any of the other Relevant Documents by the person claiming to be entitled to be indemnified.

- 17.2 The Issuer covenants with and undertakes to each Secured Party to pay the amounts payable under Clauses 12 and 17.1 and all other amounts from time to time payable to any Secured Party pursuant to this Deed on demand with interest as well after as before judgment at the rate of 2 per cent. per annum above the base rate from time to time of Barclays Bank PLC from the date on which they were paid, charged or incurred by such Secured Party until payment.

18. FURTHER ASSURANCES AND POWER OF ATTORNEY

- 18.1 The Issuer further covenants with and undertakes to the Trustee from time to time upon demand to execute, at its own cost, any document or do any act or thing which the Trustee or the Receiver may properly specify with a view to perfecting or improving any charge or security created or intended to be created by or pursuant to this Deed or facilitating the exercise, or the proposed exercise, of any of their powers (including, without limitation, the provision of all information as the Trustee may require in relation to the completion of the Land Registry or Registers of Scotland or the Land Registry of Northern Ireland or Registry of Deeds, Belfast application forms in respect of the Mortgages).

- 18.2 The Issuer irrevocably and by way of security appoints the Trustee and every Receiver severally to be its attorney (with full power to appoint substitutes and to delegate, including power to authorise the person so appointed to make further appointments) on behalf of the Issuer and in its name or otherwise, to execute any document or do any act or thing which the Trustee or such Receiver (or such substitute or delegate) may, in its or his absolute discretion, consider appropriate in connection with the exercise of any of the powers of the Trustee or the Receiver or which the Issuer is obliged to execute or do, whether under this Deed or otherwise.

- 18.3 References in Clause 12 and Clause 17 to the Trustee and the Receiver shall include references to any substitute or delegate appointed under Clause 18.2.

- 18.4 The Issuer hereby ratifies and confirms and agrees to ratify and confirm whatever any such attorney shall do or purport to do in the exercise or purported exercise of all or any of the powers, authorities and discretions referred to in this Clause 18.

19. OTHER SECURITY ETC.

- 19.1 This security is in addition to, and shall neither be merged in, nor in any way exclude or prejudice, any other Security Interest, right of recourse or other right whatsoever

which any Secured Party may now or at any time hereafter hold or have (or would apart from this security hold or have) as regards the Issuer or any other person in respect of the Secured Amounts.

- 19.2 The restriction on consolidation of mortgages contained in section 93 (or, in relation to assets or rights situated in, or governed by, the laws of Northern Ireland, Section 17 of the 1881 Act) of the Act shall not apply in relation to any of the charges contained in this Deed.
- 19.3 The powers which this Deed confers on any of the Secured Parties are cumulative, without prejudice to their respective powers under the general law, and may be exercised as often as such Secured Party thinks appropriate; each of the Secured Parties may, in connection with the exercise of their powers, join or concur with any person in any transaction, scheme or arrangement whatsoever; and the Issuer acknowledges that the respective powers of each of the Secured Parties shall in no circumstances whatsoever be suspended, waived or otherwise prejudiced by anything other than an express waiver or variation in writing.

20. **DEMANDS**

The provisions of clause 24 of the Administration Agreement and (as regards the Substitute Administrator) of clause 13 of the Substitute Administrator Agreement and (as regards each Hedge Provider) of clause 12(a) of the relevant Hedge Agreement regarding notices shall apply, *mutatis mutandis*, to any notice or demand under this Deed to or upon any of the relevant parties hereto with the relevant details for any substitute administrator (other than the Substitute Administrator) being those notified at the time of the appointment of such substitute.

21. **TRUST DEED**

The Trust Deed shall be read and construed in conjunction with this Deed.

22. **EXCLUSION OF THIRD PARTY RIGHTS**

The parties to this Deed do not intend that any term of this Deed should be enforced, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this Deed.

23. GOVERNING LAW

This Deed is governed by, and shall be construed in accordance with, the laws of England, other than Clauses 3.2 and 3.3 and any terms hereof which are particular to Scots law which are governed by, and shall be construed in accordance with, the laws of Scotland and any terms hereof which are particular to Northern Irish law which are governed by, and shall be construed in accordance with, the laws of Northern Ireland.

IN WITNESS WHEREOF the parties hereto have executed and delivered this Deed and caused this Deed to be signed as a deed and delivered on their respective behalves, on the day and year first before written at London.

Executed by:

Paragon Mortgages (No.11) PLC

By: JOHN ALEXANDER HARVEY

Name: John Alexander Harvey

Title: Attorney

Witness: MARTIN CORRIGAN

Name: Martin Corrigan

Occupation: Trainee Solicitor

Address: Clifford Chance LLP
10 Upper Bank Street,
London, E14 5JJ

Executed as a deed by:
acting by:

Citicorp Trustee Company Limited

By: MARNE LIDSTER

Name: Marne Lidster

Title: Director

By: DAVID MARES

Name: David Mares

Title: Director

Deed of Sub-Charge and
Assignment

Executed by:

Paragon Finance PLC

As its deed as follows:

Signed for and on its behalf by one of its duly
authorised attorneys

By: JOHN ALEXANDER HARVEY

Name: John Alexander Harvey

Title: Attorney

Witness: MARTIN CORRIGAN
Name: Martin Corrigan
Occupation: Trainee Solicitor
Address: Clifford Chance LLP
10 Upper Bank Street, London

Executed by:

Paragon Mortgages Limited

As its deed as follows:

Signed for and on its behalf by one of its duly
authorised attorneys

By: JOHN ALEXANDER HARVEY

Name: John Alexander Harvey

Title: Attorney

Witness: MARTIN CORRIGAN
Name: Martin Corrigan
Occupation: Trainee Solicitor
Address: Clifford Chance LLP
10 Upper Bank Street,
London

Executed by:

Mortgage Trust Services plc

As its deed as follows:

Signed for and on its behalf by one of its duly
authorised attorneys

By: JOHN ALEXANDER HARVEY

Name: John Alexander Harvey

Title: Attorney

Signature: MARTIN CORRIGAN

Witness: Martin Corrigan
Name: Trainee Solicitor
Occupation: Clifford Chance LLP
Address: 10 Upper Bank Street, London

Deed of Sub-Charge and
Assignment

Executed by:

Mortgage Trust Limited

As its deed as follows:

Signed for and on its behalf by one of its duly
authorised attorneys

By: JOHN ALEXANDER HARVEY

Name: John Alexander Harvey

Title: Attorney

Signature: **MARTIN CORRIGAN**

Martin Corrigan

Witness:

Trainee Solicitor

Name:

Clifford Chance LLP

Occupation:

10 Upper Bank Street, London

Address:

Executed by:

Homeloan Management Limited

As its deed as follows:

Signed for and on its behalf by one of its duly
authorised attorneys

By: DAVID GRANT

Name: David Grant

Title: Commercial Director

Signature: **JOHN TAYLER**

John Tayler

Witness:

Solicitor

Name:

1 School Green

Occupation:

Brighthouse

Address:

Deed of Sub-Charge and
Assignment

Executed by: **ABN AMRO Bank N.V., London Branch**

As its deed as follows:

Signed for and on its behalf by one of its duly
authorised attorneys

By: J BENNETT

Name: J Bennett

Title: Authorised Signatory

By: D VISKOVICH

Name: D Viskovich

Title: Authorised Signatory

Signature:

Witness

Name:

Occupation:

Address:

Executed by:

As its deed as follows:

Signed for and on its behalf by one of its duly
authorised attorneys

**JPMorgan Chase Bank, National
Association**

By: JULIAN LESLIE

Name: Julian Leslie

Title: Vice President

Signature: **KENNETH MILLAR**

Witness

Name: Kenneth Millar

Occupation:

Address: JP Morgan, 125 London Wall

Deed of Sub-Charge and
Assignment

Executed by:

Barclays Bank PLC

As its deed as follows:

Signed for and on its behalf by one of its duly
authorised attorneys

By: **MATT DURKIN**

Name: Matt Durkin

Title: Director

Signature: **ALAN BREWER**

Witness

Name: Alan Brewer

Occupation: Manager

Address: Barclays Capital, 5 North
Collonade, London

Executed by:

The Royal Bank of Scotland plc

As its deed as follows:

(as Remarketing Agent and an A1 Note
Conditional Purchaser)

Signed for and on its behalf by one of its duly
authorised attorneys

By: **NICK RICE**

Name: Nick Rice

Title: Director

Signature: **MARTIN CORRIGAN**

Witness

Name: Martin Corrigan

Occupation: Trainee Solicitor

Address: Clifford Chance LLP, 10 Upper
Bank Street, London

Deed of Sub-Charge and
Assignment

Executed by:

As its deed as follows:

Signed for and on its behalf by one of its duly
authorised attorneys

Deutsche Bank AG, London Branch
(as an A1 Note Conditional Purchaser)

By: JAMIE PRATT
Name: Jamie Pratt
Title: Director

Signature:

Witness

Name:

Occupation:

Address:

Executed by:

As its deed as follows:

Signed for and on its behalf by one of its duly
authorised attorneys

Citibank, N.A., London Branch
(as Principal Paying Agent, Reference Agent,
Tender Agent and Registrar)

By: CARL HARDIE
Name: Carl Hardie
Title: Associate

Signature: **MARTIN CORRIGAN**

Witness

Name: Martin Corrigan

Occupation: Trainee Solicitor

Address: Clifford Chance LLP, 10 Upper
Bank Street, London

Deed of Sub-Charge and
Assignment

Executed by:

Citibank, N.A., New York Branch

As its deed as follows:

(as U.S. Paying Agent)

Signed for and on its behalf by one of its duly
authorised attorneys

By: **CARL HARDIE**

Name: Carl Hardie

Title: Associate

Signature: **MARTIN CORRIGAN**

Witness

Name: Martin Corrigan

Occupation: Trainee Solicitor

Address: Clifford Chance LLP, 10 Upper
Bank Street, London

SCHEDULE 1
INSURANCE CONTRACTS

In relation to the Individual Mortgages and the Corporate Mortgages:

1. The Block Buildings Policies to the extent that such policies relate to the Properties.
2. Those buildings insurance policies on the Properties (not being any of the Block Buildings Policies) where PML, MTL, the Issuer or the Trustee or one or more of them is a named insured or where any of their respective interests are noted.
3. Mortgage Impairment Insurance for Financial Institutions Policy to the extent that such policy relates to the Mortgages.
4. The Fidelity Insurance Policy to the extent of any loss to the Issuer arising in connection with the performance by or on behalf of the relevant Administrator of the services to be provided pursuant to the Administration Agreement.

SCHEDULE 2
FORM OF SCOTTISH SUB-SECURITY (LAND REGISTER)

WE, **PARAGON MORTGAGES (NO.11) PLC**, incorporated under the Companies Acts in England (Number 04513183) and having our Registered Office at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE (hereinafter referred to as the "**Issuer**")
CONSIDERING that:

- (A) We have entered into a trust deed (hereinafter referred to as the "**Trust Deed**") dated 23 March 2006 between us the Issuer and **CITICORP TRUSTEE COMPANY LIMITED**, whose registered office is at Citigroup Centre, 14th Floor, Canada Square, Canary Wharf, London E14 5LB (hereinafter referred to as the "**Trustee**", which expression shall include such company and all other persons or companies for the time being acting as trustee or trustees under the Trust Deed or this deed) constituting certain mortgage-backed floating rate notes;
- (B) In security of the performance of the obligations specified therein we have entered into a deed of charge (hereinafter referred to as the "**Deed of Charge**") between, among others, us the Issuer, the Trustee, **PARAGON MORTGAGES LIMITED**, incorporated under the Companies Acts in England (Number 2337854) and having its Registered Office at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE, and **MORTGAGE TRUST LIMITED**, (registered number 2048895) whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE and others dated 23 March 2006;
- (C) In terms of the Deed of Charge we have agreed to grant this deed; and
- (D) Capitalised terms in this deed (including the recitals hereto) shall, except where the context otherwise requires and save where otherwise defined herein, bear the meanings ascribed to them in the Deed of Charge (as the same may be amended, varied or supplemented from time to time) and this deed shall be construed in accordance with the principles of interpretation and constructions set out therein:

NOW THEREFORE we the Issuer in security of the payment and discharge of all present and future monies, obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) constituting or comprised within the Secured Amounts and any variation or alteration thereof and in implement *pro tanto* of clause 3.2 of the Deed of Charge HEREBY GRANT a Standard Security in favour of the Trustee over ALL and WHOLE those Standard Securities granted by the respective parties whose names are specified in Column 2 of the said Schedule annexed and executed as relative hereto in favour of the said Paragon Mortgages Limited or Mortgage Trust Limited for all sums due and to become due over the subjects therein described, registered said respective Standard Securities in the Land Register under the Title Number specified in the relative entry in Column 4 of the said Schedule on the date specified in the relative entry in Column 5 of the said Schedule (which said respective Standard Securities are hereinafter together referred to as the "**Principal Securities**"): Together with our whole right, title and interest, present and

future therein and thereto: The Standard Conditions specified in Schedule 3 to the Conveyancing and Feudal Reform (Scotland) Act 1970 and any lawful variation thereof operative for the time being shall apply: And we agree that:

- (First) Conditions 1 to 7 (inclusive) of the Standard Conditions shall not apply to this Standard Security;
- (Second) the remaining Standard Conditions shall be varied to the effect that in so far as the provisions of the Trust Deed or the Deed of Charge (the terms of each of which shall be deemed to be incorporated herein) extend, add to, depart from or conflict with the said Standard Conditions, the Trust Deed or the Deed of Charge (as the case may be) shall, subject to the provisions of the said Act, prevail and take effect;
- (Third) upon the service by the Trustee of an Enforcement Notice in accordance with the provisions of the Trust Deed we shall (in addition to the circumstances specified in the said Act) be deemed to be in default within the meaning of Condition 9(1)(b) of the Standard Conditions whereupon and without prejudice to its whole other rights and powers under the said Act or the Relevant Documents, the Trustee shall be entitled to enforce this Standard Security in accordance with the provisions of the said Act;
- (Fourth) without prejudice to the rights and remedies of the Trustee under the said Act or otherwise, in the event of our being in default hereunder (a) we shall on demand grant, execute and deliver a valid assignment of the Principal Securities or any of them in favour of the Trustee or any nominee of the Trustee and (b) the Trustee shall have power to uplift, receive, sue for and discharge all sums and liabilities due and to become due under the Principal Securities and to enforce all the rights and obligations contained or implied therein or thereby and to discharge the same in whole or in part and generally to do whatever is or may be or would, if this deed had not been granted, have been competent to us in respect thereof, and that without the consent of or notice to us and on such terms and conditions as the Trustee in its absolute discretion may determine, declaring that the exercise or otherwise by the Trustee of all or any of the powers hereby conferred shall be without prejudice to and shall in no way restrict or discharge the obligations undertaken by us herein or otherwise; and
- (Fifth) the security rights and interests created, made or given under this deed shall be held by the Trustee as trustee for the Secured Parties upon and subject to the terms and conditions of the Deed of Charge:

And we grant warrandice *[insert any exceptions therefrom]*: And we further ASSIGN to the Trustee in security of all monies, obligations and liabilities foresaid our whole right, title and interest in and to all and any personal bonds, credit agreements or agreements for loan (howsoever constituted) granted by or entered into with the said respective parties whose names are specified in Column 2 of the said Schedule and secured by the Principal Securities:

Deed of Sub-Charge and
Assignment

IN WITNESS WHEREOF these presents typewritten on this and the preceding page together with the Schedule annexed hereto are executed at [] on the [] day of [] as follows:

SUBSCRIBED for and on behalf of the said

PARAGON MORTGAGES (NO.11) PLC

By:

Name:

Title: Director

and

By:

Name:

Title: Director/Secretary

Deed of Sub-Charge and
Assignment

Schedule referred to in the foregoing Standard Security by
by Paragon Mortgages (No.11) PLC in favour of Citicorp Trustee Company Limited (as
Trustee)

1	2	3	4	5
Account Number	Borrowers' Full Names	Secured Property	Title Number	Registration Date

SCHEDULE 3
FORM OF SCOTTISH SUB-SECURITY (SASINE REGISTER)

WE, **PARAGON MORTGAGES (NO.11) PLC**, incorporated under the Companies Acts in England (Number 04513183) and having our Registered Office at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE (hereinafter referred to as the "**Issuer**")
CONSIDERING that:

- (A) We have entered into a trust deed (hereinafter referred to as the "**Trust Deed**") dated 23 March 2006 between us the Issuer and **CITICORP TRUSTEE COMPANY LIMITED**, whose registered office is at Citigroup Centre, 14th Floor, Canada Square, Canary Wharf, London E14 5LB (hereinafter referred to as the "**Trustee**", which expression shall include such company and all other persons or companies for the time being acting as trustee or trustees under the Trust Deed or this deed) constituting certain mortgage-backed floating rate notes;
- (B) In security of the performance of the obligations specified therein we have entered into a deed of charge (hereinafter referred to as the "**Deed of Charge**") between, among others, us the Issuer, the Trustee, **Paragon Mortgages Limited**, incorporated under the Companies Acts in England (Number 2337854) and having its Registered Office at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE, and **MORTGAGE TRUST LIMITED**, (registered number 2048895) whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE and others dated 23 March 2006;
- (C) In terms of the Deed of Charge we have agreed to grant this deed; and
- (D) Capitalised terms in this deed (including the recitals hereto) shall, except where the context otherwise requires and save where otherwise defined herein, bear the meanings ascribed to them in the Deed of Charge (as the same may be amended, varied or supplemented from time to time) and this deed shall be construed in accordance with the principles of interpretation and constructions set out therein:

NOW THEREFORE we the Issuer in security of the payment and discharge of all present and future monies, obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) constituting or comprised within the Secured Amounts and any variation or alteration thereof and in implement *pro tanto* of clause 3.2 of the Deed of Charge HEREBY GRANT a Standard Security in favour of the Trustee over ALL and WHOLE those Standard Securities granted by the respective parties whose names are specified in Column 2 of the said Schedule annexed and executed as relative hereto in favour of the said Paragon Mortgages Limited or Mortgage Trust Limited for all sums due and to become due over the subjects therein described lying in the County specified in the relative entry in the relative entry in Column 4 of the said Schedule, recorded said respective Standard Securities in the Register for the County specified as aforesaid in the relative entry in Column 4 of the said Schedule on the date specified in the relative entry in Column 5 of the said Schedule (which said respective Standard Securities are hereinafter together referred to as

the "Principal Securities"): Together with our whole right, title and interest, present and future therein and thereto: The Standard Conditions specified in Schedule 3 to the Conveyancing and Feudal Reform (Scotland) Act 1970 and any lawful variation thereof operative for the time being shall apply: And we agree that:

- (First) Conditions 1 to 7 (inclusive) of the Standard Conditions shall not apply to this Standard Security;
- (Second) the remaining Standard Conditions shall be varied to the effect that in so far as the provisions of the Trust Deed or the Deed of Charge (the terms of each of which shall be deemed to be incorporated herein) extend, add to, depart from or conflict with the said Standard Conditions, the Trust Deed or the Deed of Charge (as the case may be) shall, subject to the provisions of the said Act, prevail and take effect;
- (Third) upon the service by the Trustee of an Enforcement Notice in accordance with the provisions of the Trust Deed we shall (in addition to the circumstances specified in the said Act) be deemed to be in default within the meaning of Condition 9(1)(b) of the Standard Conditions whereupon and without prejudice to its whole other rights and powers under the said Act or the Relevant Documents, the Trustee shall be entitled to enforce this Standard Security in accordance with the provisions of the said Act;
- (Fourth) without prejudice to the rights and remedies of the Trustee under the said Act or otherwise, in the event of our being in default hereunder (a) we shall on demand grant, execute and deliver a valid assignation of the Principal Securities or any of them in favour of the Trustee or any nominee of the Trustee and (b) the Trustee shall have power to uplift, receive, sue for and discharge all sums and liabilities due and to become due under the Principal Securities and to enforce all the rights and obligations contained or implied therein or thereby and to discharge the same in whole or in part and generally to do whatever is or may be or would, if this deed had not been granted, have been competent to us in respect thereof, and that without the consent of or notice to us and on such terms and conditions as the Trustee in its absolute discretion may determine, declaring that the exercise or otherwise by the Trustee of all or any of the powers hereby conferred shall be without prejudice to and shall in no way restrict or discharge the obligations undertaken by us herein or otherwise; and
- (Fifth) the security rights and interests created, made or given under this deed shall be held by the Trustee as trustee for the Secured Parties upon and subject to the terms and conditions of the Deed of Charge:

And we grant warrandice *[insert any exceptions therefrom]*: And we further ASSIGN to the Trustee in security of all monies, obligations and liabilities foresaid our whole right, title and interest in and to all and any personal bonds, credit agreements or agreements for loan

Deed of Sub-Charge and
Assignment

(howsoever constituted) granted by or entered into with the said respective parties whose names are specified in Column 2 of the said Schedule and secured by the Principal Securities:

IN WITNESS WHEREOF these presents typewritten on this and the [two] preceding page[s] together with the Schedule annexed hereto are executed at [____] on the [____] day of [____] as follows:

SUBSCRIBED for and on behalf of the said

PARAGON MORTGAGES (NO.11) PLC

By:
Name:
Title: Director

and

By:
Name:
Title: Director/Secretary

Deed of Sub-Charge and
Assignment

Schedule referred to in the foregoing Standard Security by
by Paragon Mortgages (No.11) PLC in favour of Citicorp Trustee Company Limited (as
Trustee)

1	2	3	4	5
Account Number	Borrowers' Full Names	Secured Property	County	Recording Date

SCHEDULE 4
FORM OF NOTICE OF ASSIGNMENT

To: []

Date: []

Dear Sirs,

1. We hereby give you notice that we have assigned to Citicorp Trustee Company Limited (the "Assignee") pursuant to a Deed of Sub-Charge and Assignment entered into by us in favour of the Assignee dated 23 March 2006 all our right, title, interest and benefit present and future in [*details of agreement*] (the "Agreement") including all moneys which may be payable in respect of the Agreement.
2. With effect from the date of your receipt of this notice:
 - 2.1 all payments by you to us under or arising from the Agreement (the "Payments") shall be paid to the Assignee or to its order as it may specify in writing from time to time;
 - 2.2 all remedies provided for in the Agreement or available at law or in equity in respect of the Payments shall be exercisable by the Assignee;
 - 2.3 all rights to compel performance of the Contract shall be exercisable by, or at the direction of, the Assignee although we shall remain liable to perform all the obligations assumed by us under the Contract; and
 - 2.4 all rights, interests and benefits whatsoever accruing to or for the benefit of ourselves arising from the Contract shall belong to the Assignee.
4. These instructions may not be revoked, nor may the terms of the Contract be amended, varied, waived or terminated, without the prior written consent of the Assignee.
5. Please acknowledge receipt of this notice by signing the acknowledgement on the enclosed copy letter and returning it to the Assignee at Citigroup Centre, 14th Floor, Canada Square, Canary Wharf, London, E14 5LB marked for the attention of Agency & Trust.
6. This notice is governed by English law.

Yours faithfully,

For and on behalf of
Paragon Mortgages (No.11) plc

Acknowledgement

[On copy only:

To: Assignee

We acknowledge receipt of a notice in the terms set out above and confirm that we have not received notice of any previous assignments or charges of or over any of the rights, interests and benefits in and to the Payments and that we will comply with the terms of the notice from the Assignor.

We further confirm that:

- (a) we have not claimed or exercised and have no outstanding right to claim or exercise any right of set-off, counterclaim or other right relating to the Payments;
- (b) no amendment, waiver or release of any rights, interests and benefits in and to the Contract shall be effective without your prior written consent;
- (c) no termination of those rights, interests or benefits shall be effective unless we have given you thirty days written notice of the proposed termination, specifying the action necessary to avoid such termination; and
- (d) no breach or default on the part of [*Assignor*] of any of the terms of the Contract shall be deemed to have occurred unless we have given you notice of such breach specifying how to make good such breach.

For and on behalf of [*Obligor*]

By:

Dated:

.....

Deed of Sub-Charge and
Assignment

THE ASSIGNOR

EXECUTED as a DEED

by PARAGON MORTGAGES (NO.11) PLC

Director

Director/Secretary

THE ASSIGNEE

[Full name of Assignee]

By:

Name:

Title: