

CONFORMED COPY

ADMINISTRATION AGREEMENT

made on

23 March 2006

between

PARAGON FINANCE PLC

as an Administrator

MORTGAGE TRUST SERVICES PLC

as an Administrator and a Seller

PARAGON MORTGAGES (NO. 11) PLC

as the Issuer

PARAGON MORTGAGES LIMITED

as a Seller and an Originator

MORTGAGE TRUST LIMITED

as an Originator

and

CITICORP TRUSTEE COMPANY LIMITED

as the Trustee

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THIS ADMINISTRATION AGREEMENT is made as a deed on 23 March 2006

BETWEEN:

- (1) **PARAGON FINANCE PLC** (registered number 1917566) whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE ("**PFPLC**" and in its capacity as an Administrator);
- (2) **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 an Administrator);
- (3) **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**");
- (4) **PARAGON MORTGAGES LIMITED** (registered number 2337854) whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE ("**PML**" in its capacity as a Seller and an Originator);
- (5) **MORTGAGE TRUST LIMITED**, (registered number 2048895) whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE ("**MTL**" in its capacity as an Originator and together with PML, the "**Originators**") and
- (6) **CITICORP TRUSTEE COMPANY LIMITED** (registered number 235914) whose registered office is at Citigroup Centre, 14th Floor, Canada Square, Canary Wharf, London E14 5LB (in its capacity as the trustee, the "**Trustee**", which expression shall include such person and all other persons for the time being acting as the trustee or trustees under the Trust Deed referred to below).

WHEREAS:

- (A) The Originators carry on the business of investing in mortgage loans secured on residential or other properties within the British Isles. PFPLC and MTS carry on the business of managing and administering mortgage loan portfolios, car loan portfolios and unsecured consumer loan portfolios.
- (B) The Sellers have agreed to sell certain mortgages, which are taken out by individual borrowers, to the Issuer together with, where relevant, the benefit of the collateral security for the same.
- (C) The Sellers have further agreed to sell certain mortgages, which are taken out by corporate borrowers, to the Issuer together with, where relevant, the benefit of the collateral security for the same.
- (D) The Issuer proposes to charge or assign to the Trustee the Mortgages (as defined below) and, where relevant, collateral security purchased by it and all its other assets as security for, among other things, its obligations in relation to the issue of the Notes.

- (E) PFPLC and MTS are willing to provide administration and management services to the Issuer and the Trustee in relation to the Mortgages (as defined below), standard securities and collateral security purchased by the Issuer and charged by the Issuer in favour of the Trustee on the terms and subject to the conditions contained in this Agreement.

IT IS HEREBY AGREED AS FOLLOWS:

1. DEFINITIONS AND INTERPRETATION

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

"**Administration Manual**" means the administration manual or manuals by reference to which each Administrator will administer the Mortgages and, where relevant, collateral security (as from time to time amended in accordance with the practice of a reasonably prudent mortgage lender);

"**Administrator**" means the relevant Administrator, being:

- (A) throughout the period when both PFPLC and MTS are the Administrator under this Agreement, severally:
- (a) PFPLC in relation to all matters relating to the PML Mortgages including, without limitation, all dealings with Borrowers in respect of the PML Mortgages and the matters provided for in clauses 4.9 (*Investment of Transaction Cash and Hedge Collateral Cash*), 4.10 (*Conversion of the Mortgages*), 5 (*Mortgage Rate*), 8 (*Originator Further Advances, Discretionary Further Advances and Mandatory Further Advances*), 10 (*Redemption of Mortgages*), 14 (*Insurances*) and 15 (*Mortgage Deeds*) of this Agreement;
 - (b) MTS in relation to all matters relating to the MTL Mortgages including, without limitation, all dealings with Borrowers in respect of the MTL Mortgages and the matters provided for in clauses 4.10 (*Conversion of the Mortgages*), 5 (*Mortgage Rate*), 8 (*Originator Further Advances, Discretionary Further Advances and Mandatory Further Advances*), 10 (*Redemption of Mortgages*), 14 (*Insurances*) and 15 (*Mortgage Deeds*) of this Agreement; and
 - (c) PFPLC in relation to any other Services to be provided by the Administrators pursuant to this Agreement including, without limitation, matters relating to the Issuer's cash, finances and obligations (provided for in clause 6 of this Agreement), information and reporting obligations (provided for in clause 13 of this Agreement) and as provided for under the Relevant Documents;

- (B) throughout the period from and including the time when one of the Administrators (the "**Assuming Administrator**") assumes the role of the other Administrator pursuant to clause 9.4 of the Deed of Charge, the Assuming Administrator; and
- (C) at any time in the event of both PFPLC and MTS ceasing to be the Administrators as contemplated in this Agreement, any other person (including the Substitute Administrator) appointed in substitution for both PFPLC and MTS as provider of the Services (for the avoidance of doubt, such substitution to be in respect of both PFPLC and MTS as Administrators and not one of them only);

"**Affected Originator**" has the meaning indicated in clause 4.4.2 of this Agreement;

"**Agency Agreement**" means the agreement to be dated on or about the date of this Agreement between the Issuer, the Trustee, Citibank, N.A., London Branch as Principal Paying Agent, Reference Agent and Registrar and Citibank, N.A., New York as U.S. Paying Agent;

"**agreed draft**" means, in relation to any document, the draft of the document which has been agreed between the parties hereto and initialled on their behalf for the purpose of identification;

"**Arrears Mortgages**" has the same meaning as in the Mortgage Sale Agreement;

"**Authorised Entities**" means (a) the Operating Bank and (b) any other entity either the long term unsecured and unguaranteed debt of which is rated AAA by Fitch, Aaa by Moody's and AAA by S&P or any of the short term unsecured and unguaranteed debt of which is rated at least F1 by Fitch, at least P-1 by Moody's and at least A-1 by S&P (or, in the case of an Authorised Entity which holds the amount representing the First Loss Fund, at least F1+ by Fitch and at least A-1+ by S&P) or, if at the relevant time there are no such other entities, any entity approved in writing by the Trustee;

"**Authorised Investment**" means in the case of the Issuer, (i) any bank account, security or other obligation of or right against any Authorised Entity and (ii) any other bank account, security or other obligation as would not adversely affect the then current ratings of the Class A Notes (or, if there are no Class A Notes outstanding, the Class B Notes or if there are no Class A Notes and no Class B Notes outstanding, the Class C Notes only) being, in the case of both (i) and (ii) above, a bank account, security, obligation or right:

- (a) which is denominated in sterling;
- (b) which is immediately repayable on demand or the maturity date of which falls:
 - (i) on or before the next Interest Payment Date following the acquisition of such investment by the Issuer or if the Issuer will have insufficient available cash funds in the Revenue Ledger to make payments which are

due and payable on the next Interest Payment Date, on that next Interest Payment Date; and

- (ii) in the case of an investment with an Authorised Entity rated no higher than F1 by Fitch and A-1 by S&P, on or before the next Interest Payment Date or 30 days (whichever is the shorter) after the acquisition of such investment by the Issuer;

provided that (a) monies invested in entities rated A-1 or below by S&P may not exceed 20% of the then aggregate GBP Equivalent Principal Amount Outstanding of the Notes and, any monies to be invested in excess of this aforementioned amount must be invested with entities whose short term unsecured and unguaranteed debt is rated A-1+ or better by S&P and (b) an amount representing the First Loss Fund shall at all times be held by an Authorised Entity whose short-term unsecured and unguaranteed debt is rated at least F1+ by Fitch and A-1+ by S&P;

"**Available Redemption Funds**" has the meaning indicated in Condition 5(a);

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

"**Basis Hedge Provider**" means each of JPMorgan Chase Bank, National Association and ABN AMRO Bank N.V., London Branch and/or any other bank or financial institution acting as the Basis Hedge Provider under a Basis Hedge Agreement which, if not a party to the Deed of Charge, undertakes in a manner and form reasonably satisfactory to the Trustee to be bound by the Deed of Charge as if it were a party thereto in the capacity of a Secured Party;

"**Base Rate Tracker Mortgage**" means a Mortgage under which the Borrower is required to pay interest at a fixed margin over the Bank of England's base rate from time to time during the term of that Mortgage;

"**Block Buildings Policies**" means the block policies listed in paragraph 1 of Part A of Schedule 2;

"**Borrower**" has the same meaning as in the Deed of Charge;

"**Buildings Policy**" means the block policies listed in Part A of Schedule 2;

"**Business Day**" has the same meaning as 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 or a Non-Verified Mortgage which is purchased on a Further Purchase Date) 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 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 ratings of the Class A Notes, the Class B Notes and the Class C Notes are not adversely affected as a result;

"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;

"Capped Rate Mortgage" means a Mortgage where the rate of interest payable by the borrower in accordance with the Mortgage Conditions relating thereto is determined for a specified period from origination of the loan by reference to a fixed margin over three month LIBOR for GBP deposits up to a specified rate; and thereafter the Borrower is required to pay interest at a variable rate;

"Cheque Payment" means any payment (including by standing order) from a Borrower which is not paid through the Direct Debiting Scheme;

"Class A Noteholders" has the same meaning as in the Trust Deed;

"Class A Note Rate of Interest" means the rate of interest payable from time to time on each class of Class A Notes determined in accordance with Condition 4(c);

"Class A Notes" has the same meaning as in the Trust Deed;

"Class B Noteholders" has the same meaning as in the Trust Deed;

"Class B Note Rate of Interest" means the rate of interest payable from time to time on the Class B Notes determined in accordance with Condition 4(c);

"Class B Notes" has the same meaning as in the Trust Deed;

"**Class C Noteholders**" has the same meaning as in the Trust Deed;

"**Class C Note Rate of Interest**" means the rate of interest payable from time to time on the Class C Notes determined in accordance with Condition 4(c);

"**Class C Notes**" has the same meaning as in the Trust Deed;

"**Closing Date**" has the same meaning as in the Subscription Agreement;

"**Collection Account Provider**" means the relevant financial institutions with which the relevant Collection Accounts are maintained, being NatWest (in respect of the Collection Account in the name of PML) and Barclays Bank PLC (in respect of the Collection Account held in the name of MTS);

"**Collection Accounts**" means the account of PML numbered 56164378 (Code 55-50-15) with NatWest at its branch at 4 High Street, Solihull, West Midlands B91 3WL and the accounts of MTS numbered 00452165, 80682772 and 90702560 (Code 20-19-90) with Barclays at its branch at 1 Churchill Place, London E14 5HP and/or such other account (or accounts) of PML and/or MTS which has (or have) been approved in writing by the Trustee;

"**Collection Account Declarations of Trust**" means each of the declarations of trust over the Collection Accounts in favour of the Issuer made by PML and MTS as respective holders of the Collection Accounts as the same may be supplemented and amended from time to time (including by any supplemental deed of declaration of trust dated on or about the date of this Agreement) and as may be further supplemented and amended from time to time;

"**Collection Period**" means each consecutive period from but excluding the preceding Principal Determination Date (provided that the first such period shall commence on (and include) the Closing Date) up to and including the next following Principal Determination Date;

"**Conditions**" means the terms and conditions applicable to the Notes, in the form set out in the Trust Deed, as the same may from time to time be modified in accordance with the provisions of the Trust Deed and any reference to a particular numbered Condition shall be construed accordingly;

"**Conversion**" of a Mortgage means the change, in accordance with clause 4.10, of a Mortgage from one type to another type (or a combination of types) and any reference to a Mortgage being converted shall be construed accordingly;

"**Corporate Borrower**" means the company defined as the "Company" in the Mortgage Conditions applicable to a Corporate Mortgage;

"**Corporate Mortgages**" has the same meaning as in Mortgage Sale Agreement;

"**Cross-collateral Mortgage Rights Deed**" has the same meaning as in the Deed of Charge;

"Cross-collateral Party" means a party to the Cross-collateral Mortgage Rights Deed;

"Cross-collateral Duplicate Rights" means any rights of the relevant mortgagee or lender under the terms and conditions of a Mortgage (as defined in the Cross-collateral Mortgage Rights Deed) which have substantially the same extent and effect as Cross-collateral Rights (if any) which are contained in the terms and conditions of that Mortgage;

"Cross-collateral Rights" has the same meaning as in the Cross-collateral Mortgage Rights Deed;

"Current Balance" has the same meaning as in the Deed of Charge;

"Deed of Charge" means a deed of sub-charge and assignment to be entered into on the Closing Date between the Issuer, the Trustee, PFPLC, PML, MTL, MTS, Homeloan Management Limited, JPMorgan Chase Bank, National Association and ABN AMRO Bank, N.V. London Branch as Basis Hedge Providers, Barclays Bank PLC, as Currency Swap Provider, the Subordinated Lenders, the Issue Services Provider, The Royal Bank of Scotland plc as Remarketing Agent and A1 Note Conditional Purchaser and Deutsche Bank AG, London Branch as A1 Note Conditional Purchaser creating security for the obligations of the Issuer under, among other things, the Trust Deed, the Notes, this Agreement, the Mortgage Sale Agreement, the Cross-collateral Mortgage Rights Deed, the Fee Letter, the Services Letter, each Currency Swap Agreement, each Basis Hedge Agreement, the Subscription Agreement and the Subordinated Loan Agreement and regulating the priority of payments by the Issuer, and includes, where the context so admits, each further or supplemental charge or security granted pursuant thereto;

"Direct Debiting Scheme" means the scheme for the manual or automated debiting of bank accounts operated in accordance with the detailed rules of certain members of the Association for Payment Clearing Services;

"Discretionary Further Advance" means a further advance (other than a Mandatory Further Advance) made to a Borrower in respect of a Mortgage in the manner provided in clause 8.2;

"Enforcement Notice" has the same meaning as in the Deed of Charge;

"Enforcement Procedures" has the meaning given in clause 1.7 and the expression **"completion of the Enforcement Procedures"** shall be construed in accordance with clause 1.7;

"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 issue of the Notes incurred by the Issue Services Provider on behalf of the Issuer and the payment by the Issuer of an arrangement fee to the Issue Services Provider;

"Fidelity Insurance Policy" means the insurance policy or policies written by certain underwriters at Lloyd's of London through the agency of Willis Limited in relation to loss suffered as a result of fraud, forgery or computer crime, the acts or omissions of the Administrators, the relevant Originator, the Administrators' employees or the relevant Originator's employees and any similar policy or policies in relation to the acts or omissions of any person performing the Services or any part of them on behalf of the Administrators or any other insurance policy of similar effect written by certain underwriters at Lloyd's of London being at the date hereof the policies numbered MK98357, MK98358 and MK98359.

"Final Redemption" means the date on which all moneys and other liabilities for the time being due or owing by the Issuer to the Trustee or the Noteholders (as defined in the Trust Deed) under the Notes, the Trust Deed and the Deed of Charge have been paid in full;

"First Loss Fund" means the amount standing to the credit of the First Loss Ledger from time to time;

"First Loss Fund Initial Amount" means on the Closing Date an amount which equals 1.9% of the aggregate GBP Equivalent Initial Principal Amount of the Notes, as credited to the First Loss Ledger;

"First Loss Ledger" means the ledger so referred to in clause 6.2.1;

"Fitch" means Fitch Ratings Limited;

"Fixed Rate Mortgage" means (until the rate of interest chargeable in relation thereto becomes the Standard Rate or the LIBOR-Linked Rate, whereupon the relevant Mortgage shall be a Standard Mortgage or LIBOR-Linked Mortgage as applicable) a Mortgage where the rate of interest payable by the Borrower in accordance with the Mortgage Conditions relating thereto is fixed by reference to a pre-determined rate or series of rates for a fixed period or periods after which the rate of interest chargeable becomes the Standard Rate or LIBOR-Linked Rate or such other Mortgage pursuant to which the rate of interest payable by the Borrower in accordance with the Mortgage Conditions relating thereto is, for a fixed period or periods, not capable of being reset monthly or quarterly at will by the relevant Originator, the Administrators or the Issuer;

"Flexible Mortgage" means a Mortgage under which the Borrower is entitled to make principal overpayments and obtain Flexible Drawing Advances;

"Flexible Mortgage Commitment Fee" means the monthly commitment fee payable by a Borrower under the terms of a Flexible Mortgage;

"Flexible Drawing Advance" means a Flexible Drawing Cash Advance or a Flexible Drawing Capitalised Advance;

"Flexible Drawing Cash Advance" means an amount withdrawn from a Flexible Mortgage account by a Borrower under a Flexible Mortgage in exercise of a right to redraw such amount in accordance with the relevant Mortgage Conditions relating to the relevant Flexible Mortgage;

"Flexible Drawing Capitalised Advance" means an amount of interest scheduled to be paid by the relevant Monthly Payment which has been capitalised to a Flexible Mortgage account following a request by a Borrower under a Flexible Mortgage;

"FSMA authorisation" has the meaning specified in clause 17;

"Further Purchase Date" has the same meaning as in the Mortgage Sale 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;

"GBP LIBOR" means in respect of any Interest Period the Reference Rate in respect of the GBP Notes in respect of that Interest Period as determined in accordance with Condition 4(d) or, in the event that no GBP Notes are outstanding, determined by the Administrators using the same method set out in Condition 4(d);

"Guarantee" means a guarantee of a Borrower's obligations under a Mortgage on the terms of the relevant Mortgage Conditions;

"Hedge Collateral" means any asset (including, without limitation, cash and/or securities) paid or transferred to the Issuer by a Hedge Provider in accordance with the terms of the relevant Hedge Agreement as collateral to secure the performance of that Hedge Provider's obligations under the relevant Hedge Agreement together with any income or distributions received in respect of such asset and any equivalent of or replacement of such asset into which such asset is transformed;

"Hedge Collateral Accounts" means the Hedge Collateral Cash Account and the Hedge Collateral Securities Account;

"Hedge Collateral Ancillary Document" means any document (including, without limitation, any custodial agreement or bank account agreement but excluding the Hedge Agreements, this Agreement and the Deed of Charge) as may be entered into by the Issuer from to time in connection with Hedge Collateral;

"Hedge Collateral Authorised Investments" means investments in which Hedge Collateral may be held or invested pursuant to the relevant Hedge Agreement;

"Hedge Collateral Cash" means Hedge Collateral in cash form standing from time to time to the credit of the Hedge Collateral Cash Account;

"Hedge Collateral Cash Account" means an account opened in the name of the Issuer for the purpose of holding Hedge Collateral Cash and maintained in accordance with the terms of this Agreement;

"Hedge Collateral Excluded Amount" means, at any time, the amount of Hedge Collateral which may not be applied at that time in satisfaction of the relevant Hedge Provider's obligations to the Issuer under the terms of the relevant Hedge Agreement;

"Hedge Collateral Ledger" means the ledger and any sub-ledgers maintained by the Administrators in the books of the Issuer in accordance with clause 6.22.1(a);

"Hedge Collateral Principal Amount" means, at any time, the amount of Hedge Collateral which under the terms of the relevant Hedge Agreement may be applied at that time in satisfaction of the relevant Hedge Provider's obligations to the Issuer to the extent that such obligations relate to or correspond to payments of principal under the relevant Hedge Agreement or relate to or correspond to the Issuer's obligations to pay principal in respect of the Notes;

"Hedge Collateral Revenue Amount" means, at any time, the amount of Hedge Collateral, excluding Hedge Collateral Principal Amounts, which under the terms of the relevant Hedge Agreement may be applied at that time in satisfaction of the relevant Hedge Provider's obligations;

"Hedge Collateral Securities" means Hedge Collateral in the form of securities;

"Hedge Collateral Securities Account" means a securities account opened in the name of the Issuer for the purpose of holding Hedge Collateral Securities and maintained in accordance with the terms of this Agreement;

"Hedge Provider" has the same meaning as in the Deed of Charge;

"Hedge Provider Termination Amount" means the amount of any payment payable by the Issuer to a Hedge Provider in the event of any termination of the relevant Hedge Agreement;

"Individual Borrower" means the person defined as the "Borrower" in the Mortgage Conditions applicable to an Individual Mortgage;

"Individual Mortgages" has the same meaning as in the Mortgage Sale Agreement;

"Initial Principal Amount" in relation to each Note means the initial face principal amount of that Note upon issue of the relevant global note relating to that Note;

"Insurance Contracts" means the insurance contracts specified in Schedule 2;

"Interest Charging Balance" means, in relation to any Mortgage, the principal amount outstanding secured by that Mortgage as at the date of origination together with

the amount of any further advances made, capitalised fees, capitalised interest and accrued interest which has become due and remains unpaid (and interest accrued thereon) since the date of origination less any amount applied to reduce the principal amount secured by that Mortgage since the date of origination, provided that (i) in relation to any Repayment Mortgage, the principal secured thereby shall for these purposes be deemed to be reduced at such intervals and by such amounts as correspond to the relevant Originator's normal practice from time to time for determining the balance on which interest is charged for Repayment Mortgages and (ii) after completion of the Enforcement Procedures in relation to that Mortgage, any amount of principal secured by that Mortgage not then received shall not be treated for the purposes of this Agreement (other than for the purposes of clause 6.2.2) as outstanding;

"**Interest-only Mortgage**" means a Mortgage (other than a Repayment Mortgage) pursuant to which the Borrower pays interest until the Mortgage is fully repaid on its maturity in accordance with the relevant Mortgage Conditions;

"**Interest Payment Date**" has the same meaning as in the Conditions, whether or not there are any Notes outstanding;

"**Interest Period**" has the same meaning as in the Conditions, whether or not there are any Notes outstanding;

"**Interest Shortfall Ledger**" means the ledger so referred to in clause 6.2.1;

"**Investment Home Mortgage**" has the same meaning as in the Mortgage Sale Agreement;

"**Issue Services Provider**" means Paragon Finance PLC;

"**Issuer Account**" means each Issuer Cash Account and each Hedge Collateral Securities Account;

"**Issuer Cash Account**" means the Transaction Account and each Hedge Collateral Cash Account;

"**Issuer's Monies**" has the meaning specified in clause 6.5;

"**Lending Guidelines**" has the meaning given to it in the Mortgage Sale Agreement;

"**LIBOR-Linked Mortgage**" means a Mortgage under which the Borrower is required to pay interest at a fixed margin over three month LIBOR for GBP deposits determined quarterly;

"**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;

"**Loan Files**" means the file or files relating to each Mortgage containing, among other things:

- (a) all material correspondence relating to that Mortgage; and
- (b) the completed Mortgage Documentation applicable to the Mortgage (other than the Mortgage Deeds) including the valuer's report and the solicitor's or licensed or qualified conveyancer's report on title or certificate of title, if applicable;

"**Mandatory Further Advance**" means any part of an initial mortgage advance retained pending completion of construction or refurbishment required to be made to a Borrower in respect of a Mortgage in accordance with the relevant Mortgage Conditions and any Flexible Drawing Cash Advance, both in the manner provided in clause 8.3;

"**MHA Documentation**" has the same meaning as in the Mortgage Sale Agreement;

"**Minimum Mortgage Rate**" means the rate determined in accordance with clause 13.5 and Schedule 3;

"**Moody's**" means Moody's Investors Service Limited;

"**Monthly Payment**" means the gross amount (comprising interest and, where applicable, buildings insurance premium, payment protection plan and (in the case of any Mortgage which is or has been converted into a Repayment Mortgage, in whole or in part) any instalments of principal which the Borrower is bound to make) payable by a Borrower in respect of his Mortgage on each Mortgage Payment Date;

"**Mortgage Conditions**" means in relation to each Mortgage the terms and conditions on which the initial advance was (and any further advance expressed or intended to be secured by such Mortgage was or is to be) made to the Borrower;

"Mortgage Deeds" means in relation to each Mortgage:

- (a) all deeds and documents of title to the Property and associated papers received from a solicitor or licensed or qualified conveyancer including the results of any searches and enquiries and any consents to the Mortgage and, if applicable, the searches undertaken by the relevant Originator;
- (b) the Mortgage and the original or a certified copy of any transfer or sub-charge thereof (and any release or discharge of such sub-charge) and any documentation relating to any other collateral security (if any) relating to such Mortgage; and
- (c) where relevant, any deed of postponement or deed of variation or deed of guarantee or MHA Documentation;

"Mortgage Impairment Contingency Policy" means the indemnity policy written by Chubb Insurance Company of Europe S.A. in respect of any loss suffered by the insured arising by reason of (i) damage to Property occurring as a direct result of the failure of the Borrower to effect or renew adequate insurance cover, to make or pursue a legitimate insurance claim or to utilise the proceeds of any claim to repair such damage and (ii) an inadvertent omission on the part of the insured to ensure that buildings insurance is in place on any property where it has an interest as mortgagee or heritable creditor (being at the date hereof the policy numbered no. 35758567) or any other insurance policy of similar effect written by another reputable insurance company carrying on business in the United Kingdom with similar standing;

"Mortgage Payment Date" means the last Business Day of each calendar month or such other date as may be agreed with the relevant Borrower from time to time;

"Mortgage Sale Agreement" means the mortgage sale agreement dated on or about the date of this Agreement between the Sellers, the Warehouse, MTL, the Administrators, the Issuer and the Trustee in relation to the sale and purchase of the Mortgages;

"Mortgages" has the same meaning as in the Mortgage Sale Agreement;

"MTL Mortgages" means the Mortgages sold by MTS to the Issuer pursuant to the Mortgage Sale Agreement;

"NatWest" means National Westminster Bank Plc;

"Non-Verified Mortgages" has the same meaning as in the Mortgage Sale Agreement;

"Non-Verified Mortgage Amount" means the amount credited to the Pre-Funding Reserve Ledger on the Closing Date which will equal the balance of the gross proceeds of the issue of the Notes and any drawing under the Subordinated Loan Agreement which is not applied on the Closing Date in purchasing Mortgages or in establishing the First Loss Fund;

"Non-Verified Mortgage Request" means a request from the Warehouse, PML or MTS pursuant to clauses 2.1 or 3.1 of the Mortgage Sale Agreement, substantially in the form of the notice in Schedule 13 of the Mortgage Sale Agreement;

"Non-Verified Payment" means the purchase price payable by the Issuer for any Non-Verified Mortgage and, for the avoidance of doubt, includes any necessary UCD Amount;

"Noteholders" means the Class A Noteholders, the Class B Noteholders and the Class C Noteholders;

"Notes" means the Class A Notes, the Class B Notes and the Class C Notes;

"Originator" has the meaning indicated in the Mortgage Sale Agreement;

"Offering Circular" means the offering circular dated 23 March 2006 in relation to the issue by the Issuer of the Notes;

"Operating Bank" means NatWest or such other bank, satisfying the requirements of clause 6.6, as the Issuer may choose with the approval of the Trustee (such approval not to be unreasonably withheld) and with which the Transaction Account is for the time being maintained;

"Paragon VAT Group" means the group of companies forming the VAT group of which PFPLC and the Issuer are a part and whose names have been notified to the Trustee and the Rating Agencies from time to time;

"Permitted Basis Hedge Agreement" has the same meaning as in the Deed of Charge;

"Permitted Basis Hedge Provider" has the same meaning as in the Deed of Charge;

"PGC" means The Paragon Group of Companies PLC (registered number 2336032);

"Pool Factor" has the meaning indicated in Condition 5(b);

"Potential Interest Shortfall Amount" means the amount calculated in accordance with Schedule 4;

"Power of Attorney" means the power of attorney given by each Originator and MTS as a Seller in favour of the Issuer, the Trustee and the Administrators substantially in the form of the power of attorney set out in Schedule 5 of the Mortgage Sale Agreement;

"Pre-Funding Reserve Ledger" means the ledger so referred to in clause 6.2.1;

"PML Mortgages" means the Mortgages sold by PML to the Issuer pursuant to the Mortgage Sale Agreement;

"Prepayment Charge" means in relation to any Mortgage, any amount payable by the Borrower under the Mortgage Conditions upon the early redemption (in full or in part and whether on acceleration or otherwise) of the relevant Mortgage;

"Principal Amount Outstanding" has the meaning in Condition 5(i), whether or not there are any Class A Notes outstanding;

"Principal Deficiency Ledger" means the ledger so referred to in clause 6.2.2;

"Principal Determination Date" has the meaning in Condition 5(a), whether or not there are any Class A Notes outstanding;

"Principal Ledger" means the ledger so referred to in clause 6.2.1;

"Principal Paying Agent" means Citibank, N.A., London office, or such other person as may for the time being be acting as principal paying agent in relation to the Notes;

"Protection Notice" means a notice served under clause 7.1 of the Deed of Charge;

"Purchase Date" has the same meaning as in the Mortgage Sale Agreement;

"Purchased Pre-Closing Accruals and Arrears" has the same meaning as in the Mortgage Sale Agreement;

"Rating Agencies" means Moody's, S&P and Fitch;

"Relevant Documents" has the meaning given to it in the Deed of Charge;

"Repayment Mortgage" means a Mortgage under the terms of which monthly instalments covering both interest and principal are paid by the Borrower until the Mortgage is fully repaid by its maturity in accordance with the relevant Mortgage Conditions;

"Required Amount" has the meaning given to it in the Deed of Charge;

"Retained Pre-Closing Accruals and Arrears" has the same meaning as in the Mortgage Sale Agreement;

"Revenue Ledger" means the ledger so referred to in clause 6.2.1;

"S&P" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc.;

"Secured Parties" has the same meaning as in the Deed of Charge;

"Security Interest" has the same meaning as in the Deed of Charge;

"Services" means the services, including those set out in Schedule 1, to be provided by the Administrators to the Issuer and the Trustee pursuant to this Agreement;

"Services Letter" means the services letter dated the same date as this Agreement and made between the Issuer and PFPLC in its capacity as an Administrator;

"Shortfall Fund" means the amount (if any) standing to the credit of the Shortfall Ledger from time to time;

"Shortfall Ledger" means the ledger so referred to in clause 6.2.3;

"Standard Mortgage" means a Mortgage (other than a Fixed Rate Mortgage, Capped Rate Mortgage, Base Rate Tracker Mortgage or a LIBOR-Linked Mortgage) pursuant to which the Borrower pays interest at a variable rate which is capable of being reset monthly or quarterly at the will of the relevant Originator, the Administrator or the Issuer;

"Standard Rate" means the rate or rates of interest set by the relevant Originator, the Administrators or the Issuer from time to time and applicable to those Mortgages which are of a standard variable rate nature;

"Subscription Agreement" means the agreement dated on or about 23 March 2006 between the Issuer, PFPLC, MTS (in its capacity as an Administrator), MTL, each Seller and the financial institutions defined therein as the Managers in relation to the subscription and issue of the Notes;

"Subordinated Lenders" has the meaning given to the term in the Deed of Charge;

"Subordinated Loan Agreement" means the agreement dated the same date as this Agreement 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" means Homeloan Management Limited (registered number 2214839) whose registered office is at 1 Providence Place, Skipton, North Yorkshire, BD23 2HL;

"Substitute Administrator Agreement" means the agreement of even date herewith between PFPLC, MTS, the Issuer, the Trustee and the Substitute Administrator;

"Termination Event" has the meaning given to it in clause 20.1;

"Transaction Account" means the account of the Issuer with the account number 58572422 (Sort Code 55-50-15) with NatWest at its branch at 4 High Street, Solihull or such other account as the Trustee may approve as a replacement for or addition to the same at the Operating Bank in the name of the Issuer;

"Transaction Cash" means amounts from time to time standing to the credit of the Transaction Account;

"Transfers" means the transfers and assignments to be executed by the relevant Originator pursuant to clause 3.3 of the Mortgage Sale Agreement;

"Trust Deed" means the Trust Deed between the Issuer and the Trustee, to be dated on or about the date of this Agreement, constituting the Notes and shall include any documents expressed to be supplemental thereto;

"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" means value added tax as provided for in the Value Added Tax Act 1994 and legislation (whether delegated or otherwise) supplemental thereto and any similar or turnover tax replacing or introduced in addition to any of the same and any equivalent in any other jurisdiction;

"VAT Account" means the account numbered 56177496 of PFPLC maintained at the Operating Bank which is subject to the VAT Declaration of Trust;

"VAT Declaration of Trust" means the declaration of trust dated 19 March, 1993 executed by PFPLC, as has been amended and restated from time to time (including by a supplemental deed of declaration of trust dated on or about the date of this Agreement) and as the same may be further amended and restated from time to time, under which PFPLC has declared that the monies standing to the credit of the VAT Account are to be held on trust for the benefit of, among others, the Issuer in the circumstances more particularly described therein;

"Waived Prepayment Charge Amount" means an amount equal to any Prepayment Charge which the Administrators propose to waive pursuant to Clause 6.4.2; and

"Warehouser" has the meaning indicated in the Mortgage Sale Agreement.

- 1.2 The headings and contents pages in this Agreement shall not affect its interpretation. References in this Agreement to clauses and Schedules shall, unless the context otherwise requires, be references to clauses of, and schedules to, this Agreement.
- 1.3 Unless the context otherwise requires, 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.
- 1.4 Each of the Schedules shall have effect as if set out herein.
- 1.5 References in this Agreement to any person shall include references to his successors, transferees and assigns and any person deriving title under or through him. References in this Agreement 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.
- 1.6 References in this Agreement 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.
- 1.7 For the purposes of this Agreement, the "Enforcement Procedures" shall mean the procedures for the enforcement of Mortgages and Guarantees set out in the Administration Manual current from time to time and subject always to the provisions of clause 6.4; and "completion of the Enforcement Procedures" shall have occurred

in respect of a particular Mortgage (the "Relevant Mortgage") when the relevant Administrator(s) certifi(ies)(y) in writing to the Trustee that in its/their opinion, having regard to the circumstances of the relevant Borrower and any guarantor (if relevant) and the relevant Property and the then applicable Enforcement Procedures, the prospects of any further recovery of amounts due from that Borrower or any guarantor (if relevant) are remote or are not sufficiently good to merit further action or proceedings having regard to the amounts which might be recovered and the costs of recovery.

1.8 Each of the parties to this Agreement acknowledges and agrees that there will be no Non-Verified Mortgages and that no Mortgages will be purchased from PML, MTS or PSFL by the Issuer after the Closing Date. Accordingly, it is agreed that notwithstanding any other provision of this Agreement or any of the other Relevant Documents:

- (a) no Non-Verified Mortgages will be purchased from PML, MTS or PSFL, and no Non-Verified Payments will be payable to PML, MTS or PSFL by the Issuer in respect of the Non-Verified Mortgages and no Non-Verified Mortgages will be sold by PML, MTS or PSFL to the Issuer;
- (b) there will be no Pre-Funding Reserve Ledger and accordingly no amounts will be credited to, or debited from, the Pre-Funding Reserve Ledger at any time; and

the Non-Verified Mortgage Amount will be zero at all times.

2. APPOINTMENT OF ADMINISTRATORS

2.1 Subject to clauses 3 and 5, until termination pursuant to clause 20, the Issuer, each Originator, MTS as Seller and the Trustee (according to their respective estates and interests) each hereby appoints each Administrator as its lawful agent in its name and on its behalf to exercise their respective rights, powers and discretions, and to perform their respective duties under the Mortgages and any collateral security therefor and the Power of Attorney and to perform the Services and each Administrator hereby accepts such appointment on the terms and subject to the conditions of this Agreement. In furtherance of such appointment, each of the Issuer, the Trustee, MTS and each Originator will, forthwith upon signature of this Agreement execute and deliver to each Administrator (together with evidence of due execution and its authority to grant the same) relevant powers of attorney in the forms set out in Schedule 5 and Schedule 6 and (in relation to each Originator and MTS only) the power of attorney set out in Schedule 5 of the Mortgage Sale Agreement.

2.2 For the avoidance of doubt and in connection with the powers conferred under clause 2.1, during the continuance of its appointment hereunder, each Administrator shall, subject to the terms and conditions of this Agreement, have the full power, authority and right to do or cause to be done any and all things which it reasonably considers necessary, convenient or incidental to the management of the business and

administration of the assets of the Issuer or the exercise of such rights, powers and discretions, provided however that the Issuer (and its directors) shall not be required or obliged at any time to comply with any directions which each Administrator may give with respect to the operating and financial policies of the Issuer and each Administrator hereby acknowledges that all powers to determine such policies (including the determination of whether or not any particular policy is for the benefit of the Issuer) are, and shall at all times remain, vested in the Issuer (and its directors) and none of the provisions of this Agreement shall be construed in a manner inconsistent with this proviso.

3. **CONDITION**

Without prejudice to the obligations of each Administrator which this Agreement contemplates will be performed on or before the Closing Date, the appointment pursuant to clause 2.1 is conditional upon completion of the sales and purchases of Mortgages referred to in the Mortgage Sale Agreement having taken place on the Closing Date. Subject to the foregoing, such appointment shall take effect upon and from the Closing Date automatically without further action on the part of any person. If the Closing Date has not occurred by 23 April 2006 or by such later date as the Administrators, the Issuer and the Trustee may agree, this Agreement shall cease to be of further effect save for the purpose of enforcing accrued rights of action in respect of matters to be performed or events occurring on or before such date.

4. **THE SERVICES**

General

- 4.1 The duty of each Administrator shall be to provide the Services.
- 4.2 For the avoidance of doubt, nothing in this Agreement shall oblige the Administrators at any time:
- 4.2.1 to charge the same rate of interest in respect of the Mortgages; or
 - 4.2.2 to administer the Mortgages in the same manner, other than in the manner of a reasonably prudent lender,
- as it does in respect of any other mortgages, Standard Securities or charges administered by it or of which it is the mortgagee, chargee or heritable creditor.
- 4.3 Sub-contracts
- 4.3.1 Other than as expressly provided in this clause 4.3, neither Administrator shall:
 - (a) sub-contract or delegate the performance of any of its obligations under this Agreement to sub-contractors and delegates without the prior written consent of the Issuer and the Trustee (which consent shall not unreasonably be withheld); and/or

- (b) sub-contract or delegate the performance of all or substantially all of its obligations under this Agreement if the then current ratings of the Notes would be adversely affected thereby.
- 4.3.2 Clause 4.3.1 shall not apply to the engagement by the Administrators of any solicitor, licensed or qualified conveyancer, valuer, surveyor, accountant, enforcement agent, estate agent or other professional adviser in connection with the performance by the Administrators of any of their obligations under this Agreement, provided that the relevant person is engaged only on a mortgage by mortgage basis and not generally for all or a substantial portion of the Mortgages.
- 4.3.3 Subject to clause 4.3.4, the Administrators may sub-contract or delegate the performance of some (but not all) of their obligations under this Agreement, provided that:
 - (a) where the arrangements involve or may involve the receipt by the sub-contractor or delegate of moneys which, in accordance with the provisions of this Agreement, are to be credited to the Transaction Account, the sub-contractor or delegate acknowledges that any such moneys held by it or to its order are held on trust for the Trustee subject to the Deed of Charge and will be paid forthwith to the Administrators for credit to the Transaction Account; and
 - (b) neither the Issuer nor the Trustee shall have any liability for any costs, charges or expenses payable to or incurred by such sub-contractor or delegate or arising from the termination of any such arrangement in addition to the liability which either the Issuer or the Trustee would have to the Administrators under this Agreement if no such sub-contracting or delegation had occurred.
- 4.3.4 To the extent that any valuer, surveyor, enforcement agent, estate agent or other professional adviser is required to perform some of the obligations of the Administrators under this Agreement, paragraphs (a) and/or (as the case may be) (b) of the proviso to clause 4.3.3 shall not apply to the engagement of such valuer, surveyor, enforcement agent, estate agent or other professional adviser, provided that the performance by such person of any of the obligations of the Administrators is ancillary only to the services to be provided by such person to the Administrators and/or the Issuer. Either the Trustee or the Issuer may require the Administrators to assign to the Trustee and the Issuer any rights which the Administrators may have against any such person arising from the performance of services by such person in connection with any matter contemplated by this Agreement in connection with the Mortgages.
- 4.3.5 Notwithstanding any sub-contract or delegation of the performance of its obligations under this Agreement, the Administrators shall not thereby be

released or discharged from any liability hereunder and shall remain responsible for the performance of the obligations of the Administrators under this Agreement and the performance or non-performance or the manner of performance of any sub-contractor or delegate of any of the Services shall not affect the Administrators' obligations under this Agreement.

4.4 Notices etc.

4.4.1 In respect of the Mortgages, the Administrators will within 15 days after the Closing Date (or, in the case of any notice referred to in clause 4.4.1(e), within 15 days after entering into the relevant Cap Agreement, Hedge Agreement or other hedging arrangement, or in the case of security created pursuant to the Deed of Charge, within 15 days of the date of such creation) in relation to the Mortgages and ancillary rights and interests assigned or charged by the Issuer in or pursuant to the Deed of Charge:

- (a) (save where the Trustee is already an insured thereunder) give notice in the form of the agreed draft in duplicate to each insurance company which is an insurer under an Insurance Contract (other than those referred to in paragraph 2 of Part A of Schedule 2) of the assignment of the interest of the Issuer therein to the Trustee as trustee for the Secured Parties and take reasonable steps to ensure the noting by such insurance company of the interests of the Trustee as trustee for the Secured Parties on such Insurance Contracts and the return by each relevant insurance company of the duplicate notice of assignment by way of acknowledgement of such assignment;
- (b) submit for registration at Companies House a duly completed Form 395 (and, where applicable, Form 398) and submit for registration at the Companies Registry of Northern Ireland a duly completed Form 402 and in each case an original executed copy of the Deed of Charge and any security created pursuant to the Deed of Charge and any other charges created as security for the obligations of the Issuer under, among other things, the Trust Deed, the Notes, this Agreement, the Mortgage Sale Agreement, the Fee Letter, the Services Letter, each Currency Swap Agreement, each Basis Hedge Agreement and the Subordinated Loan Agreement pursuant to Chapter I of Part XII of the Companies Act 1985 or, in Northern Ireland, pursuant to Part XIII of the Companies (Northern Ireland) Order 1986;
- (c) give notice in the form of the agreed draft to the Operating Bank of the assignment of the Transaction Account;
- (d) give notice in the form of the agreed draft to the relevant Collection Account Provider of the Collection Account Declarations of Trust and the relevant Collection Account Provider of the assignment of the rights of the Issuer under the Collection Account Declarations of Trust; and

- (e) give notice in the form of the agreed draft to any Cap Provider or party to a Hedge Agreement or other hedging arrangement of the assignment of the rights of the Issuer under any relevant Cap Agreement or Hedge Agreement or other hedging arrangement and take all reasonable steps to ensure the return by such Cap Provider or other party as aforesaid of the duplicate notice of assignment by way of acknowledgement of such assignment.

4.4.2 Subject to clause 4.4.3 below, prior to the occurrence of any of:

- (a) the valid serving of an Enforcement Notice or a Protection Notice;
- (b) the termination of each of PFPLC's and MTS's role as Administrator under this Agreement;
- (c) the Affected Originator (as defined below) being required by an order of a court of competent jurisdiction, or by a regulatory authority of which the Affected Originator is a member or with whose instructions it is customary for that Affected Originator to comply, to take any of such actions as are referred to below;
- (d) any change occurring in the law after the date of this Agreement rendering it necessary by law to take any of such actions as are referred to below;
- (e) the security created under or pursuant to the Deed of Charge or the Scottish Sub-Securities or any material part of such security being in jeopardy in the reasonable opinion of the Trustee and the Trustee deciding to take such action to reduce materially such jeopardy;
- (f) Final Redemption; or
- (g) any date falling after December 2050,

the Administrators shall not be obliged to and shall not, but thereafter shall forthwith upon demand by the Issuer or the Trustee (i) procure that the Affected Originator shall execute, or failing that, shall itself and as attorney for the Affected Originator execute and deliver Transfers of the Mortgages to the Issuer, (ii) submit for registration at the Land Registry or the Land Registry of Northern Ireland or the Registry of Deeds, Belfast or for registration or recording at the Registers of Scotland (as the case may require) the relevant Transfers and any relevant transfers, assignments, deeds and documents and the necessary notices, forms, requests and applications in respect of the transfers, assignments and the Scottish Sub-Securities and sub-charges referred to in clause 4.4.1 above or otherwise of all the English Mortgages and Northern Irish Mortgages which comprise registered land and, in Northern Ireland, which comprise unregistered land or land which is the subject of an application for first registration and of all the Scottish

Mortgages, (iii) procure that the Issuer shall execute and deliver subcharges or Scottish Sub-Securities over the Mortgages and related collateral security and (iv) give notice to each relevant Borrower and (where necessary) each guarantor or surety of (1) the transfer of his or its Mortgage (where applicable) to the Issuer and (2) the sub-charge of his or its Mortgage and the benefit of any guarantee or surety relating to such Mortgage by the Issuer to the Trustee as trustee for the Secured Parties, provided that if the relevant event referred to in (c), (d) and (e) above relates to only one Originator (the "Affected Originator"), this clause shall only operate in relation to those Mortgages originated by that Affected Originator.

4.4.3 The Administrators shall forthwith upon demand by the Trustee procure that the Affected Originator shall execute, or failing that, shall itself as attorney for and on behalf of the Affected Originator, execute Transfers of the Mortgages, submit for registration at the Land Registry or the Land Registry of Northern Ireland or the Registry of Deeds, Belfast or for registration or recording at the Registers of Scotland (as the case may require) the relevant Transfers and any relevant transfers, assignments, deeds and documents and the necessary notices, forms, requests and applications in respect of the transfers, assignments and the sub-charges referred to in clauses 4.4.1 and 4.4.2 above of any of the English Mortgages and Northern Irish Mortgages which comprise registered land and, in Northern Ireland, which comprise unregistered land, or land which is the subject of an application for first registration or of any of the Scottish Mortgages in circumstances where:

- (a) the obligation to make a Mandatory Further Advance to a Borrower under a Mortgage has not been complied with; or
- (b) a Mandatory Further Advance or Discretionary Further Advance is made in circumstances where the Administrators or the Affected Originator had notice that there had been a breach of the relevant Mortgage Conditions; or
- (c) it is necessary for the carrying into effect of any of the provisions of this Agreement and/or the enforcement of the security created by any of the Mortgages.

For the avoidance of doubt, save when section 30(3) of the Land Registration Act 1925 (in the case of registered land in England or Wales) or section 94(1)(c) of the Law of Property Act 1925 (the "LPA") (in the case of unregistered land in England or Wales) applies, the Administrators and the Affected Originator or, as the case may be, the Issuer shall take all necessary steps to ensure that no such Mandatory Further Advance is made to a Borrower after receipt of notice by any of them that the relevant Borrower has created a second charge or Standard Security over the Property subject always (in the case of unregistered land in England or Wales) to the provisions of section 94(2) of the LPA, unless such second charge or Standard Security has

been expressly postponed to all future Mandatory Further Advances to be made to such Borrower.

For the avoidance of doubt, (in the case of land, whether registered or unregistered, in Northern Ireland), the Administrators and Affected Originator or, as the case may be, the Issuer shall take all necessary steps to ensure that no such Mandatory Further Advance is made to a Borrower after receipt of notice by any of them that the relevant Borrower has created a second mortgage or Standard Security or charge over the Property unless such second mortgage or Standard Security or charge has been expressly postponed to all future Mandatory Further Advances to be made to such Borrower.

4.4.4 The Administrators shall within six months of the Closing Date confirm to the Trustee that the notices referred to in clause 4.4.1 have been duly given and the matters referred to in clause 7 of the Mortgage Sale Agreement have been duly dealt with in relation to the sale and purchase of Mortgages on each Purchase Date.

4.4.5 Subject to clause 4.4.2, the Administrators shall, at the reasonable request of the Issuer or the Trustee within 14 days of the request give notice in duplicate in a form approved by the Issuer or the Trustee of the interest of the Issuer or the Trustee in any other estate, right or interest comprised in the Mortgage Sale Agreement and/or the Deed of Charge and shall take all reasonable steps to ensure the return by the recipient, to the registered office of the Issuer of the duplicate notice of assignment by way of acknowledgement of such assignments.

4.4.6 Without prejudice to the foregoing clauses 4.4.1 to 4.4.5 (inclusive) and subject to applicable Land Registration Rules, the Administrators may at any time submit for registration at the Land Registry or the Land Registry of Northern Ireland or the Registry of Deeds, Belfast or for registration or recording at the Registers of Scotland (as the case may require) the relevant Transfers and any relevant transfers, assignations, deeds and documents and the necessary notices, forms, requests and applications in respect of the transfers, assignations and the sub-charges and Scottish Sub-Securities referred to in clauses 4.4.1(a) and (b) and clause 4.4.2 above but otherwise, unless necessary for the carrying into effect of any of the provisions of this Agreement and/or the enforcement of the security created by any of the Mortgages, shall not be obliged to do so.

4.5 Approvals and authorisations

The Administrators shall prepare and submit on behalf of the Issuer all necessary applications and requests for any approval, authorisation, consent or licence required in connection with the business of the Issuer which the Administrators have sought in connection with that part of their own business which is the same as that to be carried on by the Issuer and shall, so far as it reasonably can do so, perform the Services in

such a way as not to prejudice the continuation of any such approval, authorisation, consent or licence.

4.6 Note Redemptions

PFPLC, as Administrator, shall do such acts and things (other than being liable for the payment of principal or interest on any Note) that are required to be done by PFPLC, as Administrator, or by the Issuer pursuant to Condition 5.

4.7 Compliance with Agreements etc.

The Services shall include procuring (so far as the Administrators having used their reasonable endeavours are able so to do) compliance by the Issuer with all applicable legal requirements and with the terms of the Relevant Documents to which the Issuer is a party, provided always that the Administrators shall not be obliged to lend or provide any sum to the Issuer (other than as expressly required by this Agreement or the Services Letter), and that the Administrators shall have no liability whatsoever to the Issuer, the Trustee, the Noteholders or any other person for any failure by the Issuer to make any payment due by it under any of the Relevant Documents unless such failure by the Issuer results from a failure by the Administrators to perform any of their obligations under this Agreement and the Deed of Charge.

4.8 Notifications

The Administrators undertake promptly to notify the Issuer and the Trustee in writing of any matter or thing which becomes known to the Administrators and which is a material breach of any of the representations, warranties and undertakings of the relevant Seller contained in the Mortgage Sale Agreement and in such notice to advance proposals for the approval of the Issuer and the Trustee for remedying such breach (if it is capable of remedy).

4.9 Investment of Transaction Cash and Hedge Collateral Cash

4.9.1 The Issuer hereby authorises and directs PFPLC, as Administrator, for it and on its behalf and for so long as this Agreement remains in effect to invest, as soon as practicable following receipt thereof, the Transaction Cash, subject to clauses 6, 7 and 8 of the Deed of Charge, and Hedge Collateral Cash, subject to the relevant Hedge Agreement, in accordance with the following provisions:

- (a) the Transaction Cash shall be invested in Authorised Investments only or, in the case of Hedge Collateral Cash, Hedge Collateral Authorised Investments only;
- (b) any costs properly incurred in making and changing investments will be reimbursed to the Administrator by the Issuer in accordance with clause 12 (and upon such reimbursement shall be debited to the Revenue Ledger);

- (c) any income from, or proceeds of disposal or on maturity of, such Authorised Investments shall be credited to the Transaction Account forthwith on receipt thereof by the Administrator and any income from, or proceeds of disposal or on maturity of, such Hedge Collateral Authorised Investments shall be credited to the relevant Hedge Collateral Cash Account forthwith on receipt thereof (and a corresponding credit made to the appropriate Hedge Collateral Ledger) by the Administrators; and
- (d) PFPLC, as Administrator, may, subject to the provisions of this clause 4.9.1, invest the Transaction Cash in such Authorised Investments, and dispose of any Authorised Investments made, in each case in such manner as in its absolute discretion it deems appropriate and, in the case of Hedge Collateral, it may, subject to the provisions of this clause 4.9.1 and the relevant Hedge Agreement, invest the Hedge Collateral in such Hedge Collateral Authorised Investments, and dispose of any Hedge Collateral Authorised Investments made, in each case in such manner as in its absolute discretion it deems appropriate;

provided however that the first £50,000 in principal amount of the Transaction Cash or Authorised Investments shall comprise cash deposits repayable on demand without premium or penalty and/or investments which are capable of reconversion into cash on demand without premium or penalty and provided further that in no circumstances shall the Administrator invest in an Authorised Investment a sum which is greater in amount than the proceeds receivable in accordance with the terms of such Authorised Investment upon maturity of such Authorised Investment but so that nothing herein shall be construed as a guarantee of any Authorised Investment by the Administrator.

- 4.9.2 The Administrator shall make and maintain adequate records of all Authorised Investments acquired and disposed of pursuant to this clause 4.9.
- 4.9.3 Pursuant to clause 4.9.1, the administration and investment of the Transaction Cash by the Administrator shall be carried out for and on behalf of the Issuer (subject to the charges contained in the Deed of Charge) and each such Authorised Investment shall be taken in the name of the Issuer. In each case where an Authorised Investment comprises the deposit of the Transaction Cash in a deposit account with a third party, the Transaction Cash shall be deposited under instructions that it may not be paid out of such deposit account otherwise than by transferring the Transaction Cash, together with interest accrued thereon, directly to the Transaction Account which instructions may not be altered without the consent of the Issuer and the Trustee (such consent not to be unreasonably withheld).

4.9.4 The Administrator may use the Transaction Cash:

- (a) to ensure that Mandatory Further Advances are made to Borrowers in accordance with clause 8.3;
- (b) to make Discretionary Further Advances to Borrowers in accordance with clause 8.2.1; and
- (c) for any other purpose contemplated by, and in accordance with, the Relevant Documents.

The Administrator shall make and maintain adequate records of all use of the Transaction Cash pursuant to this clause 4.9.4.

4.10 Conversion of Mortgages

4.10.1 The relevant Administrator may (but shall not be obliged to) agree or elect to convert a Mortgage from an Interest-only Mortgage into a Repayment Mortgage (but not any other type of Mortgage) or from a Repayment Mortgage into an Interest-only Mortgage or to a combination of an Interest-only Mortgage and Repayment Mortgage (but not any other type of Mortgage) and take steps to effect such conversion. All costs arising in relation to the taking of such steps shall, to the extent not paid by the Borrower, be paid by the relevant Administrator and recovered from the Issuer in accordance with clause 12. If the relevant Administrator receives a request from a Borrower to convert his Interest-only Mortgage into a Repayment Mortgage, or his Repayment Mortgage into an Interest-only Mortgage, or to a combination of an Interest-only Mortgage and Repayment Mortgage, the relevant Administrator shall not consent to such conversion if the effect of such conversion would be to extend the final maturity date of such Mortgage beyond 31 October 2039.

4.10.2 Notwithstanding and without prejudice to the provisions of clause 4.10.1, the relevant Administrator may (but shall not be obliged to) convert a Borrower's Mortgage to any other type (or to any combination of types) of Mortgage (the "Converted Mortgage"), provided that the following conditions are satisfied with respect to the Converted Mortgages:

- (a) no Enforcement Notice or Protection Notice has been given by the Trustee which remains in effect at the date of the relevant conversion;
- (b) the relevant conversion would not adversely affect the then current ratings of the Notes;
- (c) if, and to the extent that, Mortgages are converted into Mortgages which are Fixed Rate Mortgages or Capped Rate Mortgages, the Issuer will on or before the date of the relevant conversion (if not to do so would adversely affect any of the ratings then applicable to the Notes) have

entered into Caps or other hedging arrangements under each Basis Hedge Agreement or under a Permitted Basis Hedge Agreement for such Converted Mortgages (with (where the rating of the long term or short term debt obligations of the provider of such Cap or other hedging arrangement is not sufficient to maintain the ratings then applicable to the Notes) a Cap Guarantee thereof unless other arrangements are entered into at the time which are sufficient to maintain such ratings) and shall have given notice to the Trustee of the entry into of any such Cap, Basis Hedge Agreement or Permitted Basis Hedge Agreement and shall have given notice to the provider of such Cap or other hedging arrangement and the Cap Guarantor therefor (if any) of the security created over the relevant Cap or other hedging arrangement and the Cap Guarantee therefor and such other notices as the Trustee may reasonably require provided that if the provider of such hedging arrangement is not the Basis Hedge Provider it shall be a bank or financial institution which has agreed that it will be bound by the terms of the Deed of Charge;

- (d) on the date of the relevant conversion, there has been no failure by the relevant Seller to repurchase or procure the repurchase of any Mortgage which it is required to repurchase under the terms of the Mortgage Sale Agreement in the event of there being a breach of warranty by that Seller in respect of that Mortgage;
- (e) if the relevant Administrator has reason to believe that any Converted Mortgage may result in a regulated agreement (as defined in the Consumer Credit Act 1974), the applicable provisions of the Consumer Credit Act 1974 relating to regulated agreements will be complied with and the relevant Administrator will not encourage any Borrower to request that his Mortgage be converted (other than as part of its arrears procedures) if such conversion may result in a regulated agreement (defined as aforesaid);
- (f) the Converted Mortgage will be on terms of the appropriate Mortgage Documentation which has not been varied in any material respect;
- (g) no Converted Mortgage will require the Issuer or the relevant Originator to make any further advance to the Borrower other than any part of the initial mortgage advance retained pending completion of construction or refurbishment required to be made to the Borrower in accordance with the relevant Mortgage Conditions;
- (h) no conversion must extend the final maturity date of the relevant Mortgage beyond 31 October 2039; and
- (i) on the date of and immediately following Conversion of a Mortgage, the Lending Guidelines in relation to that Converted Mortgage are satisfied

so far as applicable, subject to such waivers as might be within the discretion of a reasonably prudent lender.

- 4.10.3 The relevant Originator, the Issuer and the Trustee will be bound by a conversion. All costs arising in relation to the taking of such steps shall, to the extent not paid by the Borrower, be paid by the Administrators and recovered from the Issuer in accordance with clause 12.
- 4.11 Obligations relating to Swap Transactions and/or other hedging arrangements
- 4.11.1 If the aggregate principal amount received from Borrowers in respect of Mortgages which are Fixed Rate Mortgages or Capped Rate Mortgages (to the extent that any Mortgages have been converted into Capped Rate Mortgages) upon early redemption of such Mortgages (whether in full or in part) during any Collection Period is equal to or greater than £10,000,000, then the Administrators shall, on behalf of the Issuer (a) exercise the right of the Issuer to terminate in full or in part one or more swap or other hedging transactions entered into by the Issuer with the Basis Hedge Provider and/or any Permitted Basis Hedge Provider with effect from the Interest Payment Date immediately following the end of such Collection Period, or (b) execute such additional swap or other hedging transactions required to offset the fixed rate interest risk arising from the redemption of such mortgages, or (c) arrange for the sale or transfer of such swap or other hedging transactions to another PGC company. The notional amount of swap or hedging transactions to be so terminated, offset, transferred or sold and the selection of which swap or hedging transactions will be so terminated, offset, transferred or sold will be agreed by the Administrators, the Issuer and the relevant Basis Hedge Provider and/or Permitted Basis Hedge Provider at the relevant time.
- 4.11.2 The Issuer undertakes that it will not enter into, and the Administrators undertake that they will not arrange for the Issuer to enter into, any hedging arrangements with any Permitted Basis Hedge Provider unless the terms of the schedule applicable to the ISDA Master Agreement to be entered into with such Permitted Basis Hedge Provider are substantially the same (*mutatis mutandis*) as those of the schedule to each Basis Hedge Agreement.
- 4.11.3 Each of the Issuer and the Administrators agree that if on any Interest Payment Date the Issuer would not have sufficient funds available to it on such Interest Payment Date under and in accordance with Clauses 6, 7 and 8 of the Deed of Charge to pay in full any Hedge Provider Termination Amounts payable to the Basis Hedge Provider or any Permitted Basis Hedge Provider on such Interest Payment Date, the Administrators will on behalf of the Issuer draw down under the Subordinated Loan Agreement an amount or amounts equal to the unpaid portion of such Hedge Provider Termination Amounts which would otherwise not be paid. The Administrators will instruct the Subordinated Lenders to advance any such amounts directly to the relevant

Basis Hedge Provider or Permitted Basis Hedge Provider and not to pay such amounts to the Transaction Account.

4.12 Liability of each Administrator

For the avoidance of doubt, each Administrator shall not be liable in respect of any loss, liability, claim, expense or damage suffered or incurred by the Issuer and/or the Trustee as a result of the performance of the Services by the Administrators save where such loss, liability, claim, expense or damage is suffered or incurred as a result of any negligence or wilful default of the Administrators or any breach by it of the provisions of this Agreement or any other Relevant Document to which they are a party.

5. **MORTGAGE RATE**

5.1 Subject to clauses 5.3, 5.5 and 5.6, each Originator, the Issuer and the Trustee grant the Administrators full right, liberty and authority from time to time, in accordance with the relevant Mortgage Conditions, to determine and set the rate or rates of interest chargeable to Borrowers. Each of the Originators, the Issuer and the Trustee shall be bound by any rate or rates of interest set in accordance with this Agreement.

5.2 The Administrators shall take the steps rendered necessary by the relevant Mortgage Conditions to bring each change in such rate or rates of interest to the attention of the Borrowers in accordance with the Mortgage Conditions and shall take similar steps to bring each such change to the attention of any relevant guarantor. Information regarding any change in the rate or rates of interest chargeable to Borrowers, shall be made available to the Issuer and the Trustee in accordance with clause 13.10.1. All costs arising in relation to a notification of a change in such rate or rates of interest shall be paid by the Administrators and recovered from the Issuer in accordance with clause 12.

5.3

5.3.1 Each Administrator covenants with, and undertakes to, the Issuer and the Trustee that until all the Notes have been redeemed in full and all interest thereon has been paid, it will not either set such rate or rates of interest chargeable to Borrowers in respect of the Mortgages (in accordance with the applicable Mortgage Conditions) or permit them to remain in effect at any time, in each case, at such a level as would result in the weighted average yield on the Mortgages then owned by the Issuer whether or not administered by that Administrator, taking account of all hedging arrangements of the Issuer and income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and all amounts recovered in respect of early redemption amounts, calculated in accordance with Schedule 3, being less than the then current Minimum Mortgage Rate, unless, in each case, there is a credit balance in the Shortfall Fund (if any) (after deducting therefrom any prior provisions made pursuant to this clause 5.3 within the then current Interest Period) at least equal to the shortfall which

would arise at that time and a provision against the resulting shortfall is made in the Shortfall Ledger. Where there is more than one Administrator, each Administrator shall liaise with the other Administrator regarding the setting of such rates of interest chargeable to Borrowers in respect of the Mortgages administered by it to ensure compliance with this clause.

5.3.2 The shortfall referred to in clause 5.3.1 shall be determined in accordance with the provisions of paragraph 3 of Schedule 3.

5.3.3 For the purposes of this clause 5, clause 13.5 and Schedule 3:

(a) the rate or rates of interest chargeable to Borrowers in respect of the Mortgages shall be "set" on any day on which any change in the rate or rates charged to Borrowers becomes effective in accordance with the Mortgage Conditions; and

(b) the rate or rates of interest chargeable to Borrowers in respect of the Mortgages shall be "permitted to remain in effect" on each Interest Payment Date.

5.4 Any amount standing to the credit of the Shortfall Ledger on any Interest Payment Date, including in respect of which a provision has been made in connection with the setting or permitting to remain in effect of the rate or rates of interest chargeable to Borrowers in respect of the Mortgages in accordance with clause 5.3 shall be transferred to the Revenue Ledger (by debiting the Shortfall Ledger and crediting the Revenue Ledger with that amount) on such Interest Payment Date.

5.5

5.5.1 The Trustee may, in any of the circumstances described in clause 5.5.2 and without prejudice to the rights of the Trustee under clause 20.1, terminate the authority of the Administrators under clause 5.1 to determine and set the rate or rates of interest charged to Borrowers under clause 5.1 and the authority of the Administrators under clause 5.7 to calculate and notify the Monthly Payments on Repayment Mortgages and shall itself, or (if applicable) any substitute administrator shall, determine such rate or rates and Monthly Payments from time to time thereafter, provided that, unless the Trustee has exercised its rights under clause 20.1, the Trustee may reinstate such authority at any time and provided further that, in the case of the right to set the rate or rates of interest under clause 5.1, the Trustee or (if applicable) a substitute administrator shall, unless the authority of the Administrators has been reinstated under this clause 5.5.1, set such rate or rates at such a level as would result in the weighted average yield on the Mortgages, taking account of all hedging arrangements of the Issuer and income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and all amounts recovered in respect of early redemption amounts, calculated in accordance with Schedule 3, being not less than the then current Minimum

Mortgage Rate thereby avoiding the potential shortfalls referred to in clause 5.3.1. The Trustee shall give notice of any such termination or reinstatement to the Rating Agencies as soon as practicable thereafter.

5.5.2 The Trustee may terminate the authority of the Administrators to determine and set the rate or rates of interest chargeable to Borrowers in respect of the Mortgages and the authority of the Administrators under clause 5.7 on the occurrence of any of the following events:

- (a) there has occurred an Event of Default in respect of any of the Notes in accordance with Condition 9 or an event which, in accordance with such Conditions, with the giving of notice and/or lapse of time and/or certification and/or determination would constitute an Event of Default in respect of any of the Notes (as the case may be); or
- (b) there has occurred a Termination Event (as defined in clause 20.1).

5.6 The Administrators shall promptly submit to the Trustee details of all calculations made for the purpose of assessing compliance with the requirements of clause 5.3.

5.7 The Administrators shall calculate (and notify to the relevant Borrowers) the Monthly Payments in respect of the Repayment Mortgages, in accordance with the reasonable practices of a prudent mortgage lender and so as to result in all moneys secured by each Repayment Mortgage being fully repaid by its scheduled maturity.

6. PAYMENTS, ACCOUNTS, LEDGERS

6.1 Transaction Account

PFPLC, as Administrator, hereby confirms that the Transaction Account has been established on or before the date hereof and mandates substantially in the agreed forms will apply thereto prior to the Closing Date and that as at the Closing Date the Transaction Account will have a credit balance of not less than £1.00. PFPLC undertakes that at the Closing Date the Transaction Account will be operative and that PFPLC will not knowingly create or permit to subsist any Security Interest in relation to the Transaction Account, other than as created under the Deed of Charge.

6.2 Ledgers and Reserves

6.2.1 Without prejudice to Clause 6.2.3, PFPLC undertakes that it will open and maintain in the books of the Issuer ledgers, to be known as:

- (a) the Revenue Ledger;
- (b) the Principal Ledger;
- (c) the First Loss Ledger;
- (d) the Shortfall Ledger (referred to in clause 6.2.3);

- (e) the Pre-Funding Reserve Ledger; and
- (f) the Interest Shortfall Ledger;

which shall together reflect all amounts from time to time held by the Issuer or the Trustee, being the aggregate of all amounts which are for the time being either (i) standing to the credit of the Transaction Account or (ii) invested in Authorised Investments; and the Administrators shall record in the Revenue Ledger, the Principal Ledger, the First Loss Ledger, the Shortfall Ledger (referred to in clause 6.2.3), the Pre-Funding Reserve Ledger and the Interest Shortfall Ledger in accordance with the terms of this Agreement all amounts received by or on behalf of the Issuer or the Trustee and all payments made by or on behalf of the Issuer or the Trustee.

- 6.2.2 PFPLC shall also open and maintain in the books of the Issuer a further ledger, to be known as the Principal Deficiency Ledger. Where in the case of any Mortgage, after completion of the Enforcement Procedures and after all amounts have been received under any applicable assurance or insurance policies or under any Guarantee, an amount of principal of the relevant Mortgage remains outstanding PFPLC shall debit such amount of principal to the Principal Deficiency Ledger although if any amount is subsequently recovered in respect of that principal it shall be credited to the Principal Deficiency Ledger to the extent of the relevant debit. An amount equal to any amount debited to the Interest Shortfall Ledger and credited to the Revenue Ledger pursuant to clause 6.15 or debited to the Principal Ledger pursuant to clause 6.3 of the Deed of Charge shall also be debited to the Principal Deficiency Ledger. An amount required to increase the First Loss Fund up to the Liquidity Amount shall also be debited to the Principal Deficiency Ledger. Amounts may be credited to the Principal Deficiency Ledger in accordance with clause 6.1.2 of the Deed of Charge and from amounts drawn under the Subordinated Loan Agreement sufficient to restore the Principal Deficiency Ledger to zero. Amounts credited to the Principal Deficiency Ledger in accordance with clause 6.1.2 of the Deed of Charge or from drawings under the Subordinated Loan Agreement and credited to the Principal Ledger shall be deemed to be receipts of principal for the purposes of the definition of Available Redemption Funds. PFPLC shall also credit the Principal Deficiency Ledger on each occasion a Flexible Drawing Capitalised Advance is made in respect of a Flexible Mortgage, by the amount of such Flexible Drawing Capitalised Advance. If during the period immediately following an Interest Payment Date to (but excluding) the next Principal Determination Date there is a credit balance on the Principal Deficiency Ledger and during such period there are funds from time to time standing to the credit of the Principal Ledger which are not expected to be applied in making further advances, PFPLC shall transfer such funds and credit the Revenue Ledger and shall make corresponding debits to the Principal Ledger and the Principal

Deficiency Ledger until there is no longer any such credit balance on the Principal Deficiency Ledger.

- 6.2.3 If at any time the Issuer draws down an amount under the Subordinated Loan Agreement in order to establish a Shortfall Fund, PFPLC shall open and maintain in the books of the Issuer a Shortfall Ledger with an initial balance of the amount so drawn down. If the Issuer thereafter draws down further amounts under the Subordinated Loan Agreement to increase or establish the Shortfall Fund, PFPLC shall credit the Shortfall Ledger with each amount so drawn down.

6.3 Direct Debiting Scheme

- 6.3.1 For the purposes of collecting amounts due from Borrowers under the Mortgages in accordance with this Agreement, PFPLC will unless otherwise agreed with the Trustee and the Issuer:

- (a) remain a member of the Direct Debiting Scheme for so long as they act as Administrator under this Agreement;
- (b) procure upon the service of an Enforcement Notice (insofar as it is able) that the Issuer is admitted to the Direct Debiting Scheme, that the Issuer will remain a member of the Direct Debiting Scheme or any scheme which replaces the Direct Debiting Scheme during the remaining term of this Agreement and that in connection therewith the Issuer will give an indemnity in such form and to such effect as may be required from time to time in order that the Issuer is so admitted and may remain a member of such scheme;
- (c) subject to clauses 6.3.2 and 6.3.3, deliver to the relevant Collection Account Provider or BACS in sufficient time for BACS to process collection on each Mortgage Payment Date instructions for the debit of the account of each Borrower in respect of which there is a direct debit mandate with the Monthly Payment due from such Borrower, and for the amount of such Monthly Payment to be credited to the relevant Collection Account, on such Mortgage Payment Date;
- (d) subject to clauses 6.3.2 and 6.3.3, deliver to the relevant Collection Account Provider or BACS instructions for the debit of the account of each Borrower in respect of which there is a direct debit mandate with the Monthly Payment due and owing by such Borrower on the previous Mortgage Payment Date and which on the date of presentation of such instructions has not been received by the relevant Originator;
- (e) subject to clauses 6.3.2 and 6.3.3, deliver to the relevant Collection Account Provider or BACS such other instructions for the debit of the account of each Borrower in respect of which there is a direct debit

mandate in accordance with the Direct Debiting Scheme as may be appropriate for the recovery of sums due by such Borrower; and

- (f) comply in all material respects with the requirements from time to time of the Direct Debiting Scheme including "The Originators Guide and Rules to the Direct Debiting Scheme" as amended from time to time.

6.3.2 PFPLC may agree with a Borrower that the Direct Debiting Scheme shall not apply to Monthly Payments to be made by such Borrower, provided that, subject to clause 6.3.4:

- (a) alternative payment arrangements are made which are intended to ensure timely payment of Monthly Payments due by the Borrower to ultimately the Issuer; and
- (b) the change in arrangements was made at the instigation of the Borrower or with the approval of the Trustee.

6.3.3 PFPLC may, notwithstanding (a) and (b) of clause 6.3.2, agree procedures for the payment by a Borrower of (a) overdue amounts and (b) amounts payable on redemption of a Mortgage in whole or in part other than through the Direct Debiting Scheme.

6.3.4 Where a Borrower permits a direct debit to be made from his bank account, PFPLC will endeavour to procure that such Borrower maintains a valid and effective mandate relating to such direct debit in relation to each Monthly Payment due by that Borrower, provided that in any case where a Borrower will not permit a direct debit to be made from his bank account PFPLC will endeavour to make alternative arrangements so that such Borrower nevertheless pays each Monthly Payment on the due date.

6.4 Enforcement of Mortgages

6.4.1 The Administrators will, in relation to any default by a Borrower under or in connection with a Mortgage, comply with the Enforcement Procedures or, to the extent that the Enforcement Procedures are not applicable having regard to the nature of the default in question, take such action as would a reasonably prudent lender in respect of such default, provided that:

- (a) an Administrator shall only become obliged to comply with the Enforcement Procedures (to the extent applicable) or to take action as aforesaid after it has become aware of the default; and
- (b) it is acknowledged by the Issuer and the Trustee that mortgage lenders generally exercise discretion in pursuing their respective enforcement procedures and that the Administrators may exercise such discretion as would be exercised by a reasonably prudent lender in applying the Enforcement Procedures to any particular defaulting Borrower or taking

action as aforesaid or in enforcing any relevant Guarantee but without prejudice to the provisions of clause 14.

- 6.4.2 The Administrators may on behalf of the Issuer waive any Prepayment Charge provided that it may only do so if, prior to such waiver, the Subordinated Lenders or any Additional Subordinated Lenders has advanced such amount to the Issuer pursuant to the Subordinated Loan Agreement, crediting the Revenue Ledger.
- 6.4.3 MTL and MTS acknowledge to each of the other parties to this Agreement that the provisions of the Cross-collateral Mortgage Rights Deed entitle MTL and MTS to prevent any other Cross-collateral Party from exercising Cross-collateral Duplicate Rights in respect of any Mortgage (as defined in the Cross-collateral Mortgage Rights Deed) except in the circumstances and to the extent that such Cross-collateral Party is not prohibited by such provisions from exercising Cross-collateral Rights in respect of that Mortgage.
- 6.4.4 MTS covenants with the other parties to this Agreement that it will use its reasonable endeavours to prevent, and will not facilitate or otherwise permit, the enforcement of any Cross-collateral Rights by any other Cross-collateral Party in respect of any Mortgage (as defined in the Cross-collateral Mortgage Rights Deed) except in the circumstances and to the extent that such Cross-collateral Party is not prohibited by the provisions of the Cross-collateral Mortgage Rights Deed from exercising Cross-collateral Rights in respect of that Mortgage.

6.5 Application of Sums Received

6.5.1

- (a) PFPLC shall procure that all payments (other than in respect of Hedge Collateral) received by it on behalf of the Issuer or the Trustee shall as soon as practicable thereafter be credited to the Transaction Account.
- (b) Notwithstanding the generality of clause 6.5.1(a), PFPLC shall in respect of the Mortgages:
 - (i) procure that all payments by Borrowers to which clause 6.3 applies and all Cheque Payments, redemption moneys and money recovered on the sale of the relevant Properties following enforcement of any Mortgages are credited directly into the relevant Collection Account;
 - (ii) on the Business Day following that on which monies received on behalf of the Issuer or of the Trustee (together in this clause 6.5.1(b), the "Issuer's Monies") are credited to the relevant Collection Account or, failing which, as soon as practicable after

such Business Day, transfer such Issuer's Monies to result in a credit being made to the Transaction Account; and

- (iii) procure that all payments made by the Subordinated Lenders or any Additional Subordinated Lenders to the Issuer pursuant to the Subordinated Loan Agreement are credited to the Transaction Account.
- (c) PFPLC undertakes that it shall not credit, or procure the credit of, any payments received on behalf of the Issuer or the Trustee to any bank account other than:
 - (i) the Transaction Account in accordance with the provisions of clause 6.5.1(a); or
 - (ii) the relevant Collection Account and/or the Transaction Account all in accordance with the provisions of clause 6.5.1(b), or
 - (iii) any Hedge Collateral Account all in accordance with the provisions of clause 6.23,or permit the same to be paid to any other person.

6.5.2 Ledger Entries

PFPLC shall:

- (a) record all amounts received, held or paid out by the Issuer, or the Trustee in respect of the Mortgages and the issues of the Notes in the Revenue Ledger, the Principal Ledger, the First Loss Ledger, the Shortfall Ledger, the Interest Shortfall Ledger and the Pre-Funding Reserve Ledger and all amounts transferred between such Ledgers, in the manner set out below and/or as otherwise set out in this Agreement and the Deed of Charge:
 - (i) all Monthly Payments (except to the extent of any amounts representing principal repaid and (for the avoidance of doubt) Purchased Pre-Closing Accruals and Arrears), other interest received under the Mortgages, all Flexible Mortgage Commitment Fees received under the Flexible Mortgages, all Prepayment Charges and any other redemption fees, charges and penalties and any costs or other amounts received under the Mortgages (including in any such case amounts (other than principal amounts) recovered on enforcement of rights against any Borrower or guarantor or his property or assets (including interest recovered on enforcement of the Borrower's Mortgage or from a guarantor)) shall be credited to the Revenue Ledger;

- (ii) all repayments of principal under the Mortgages (including amounts representing principal repaid in accordance with the terms of the Repayment Mortgages and principal amounts recovered on enforcement of rights against any Borrower or his property or assets or on sale of the Property with the consent of the Borrower or under the power of sale contained in the Mortgage or any amount recovered under a Guarantee and, in each case, applied in reduction of principal) and all amounts representing Purchased Pre-Closing Accruals shall be credited to the Principal Ledger;
- (iii) all borrowings under the Subordinated Loan Agreement made:
 - (1) for the purpose of making Mandatory Further Advances or Discretionary Further Advances shall be credited to the Principal Ledger; and
 - (2) for the purpose of reducing the Principal Deficiency Ledger to zero shall be credited to the Principal Ledger;
- (iv) all payments of UCD Amounts made by the Subordinated Lenders or any Additional Subordinated Lenders to the Issuer pursuant to the Subordinated Loan Agreement shall be credited to the Principal Ledger;
- (v) all payments of Waived Prepayment Charge Amounts made by the Subordinated Lenders or any Additional Subordinated Lenders to the Issuer pursuant to the Subordinated Loan Agreement shall be credited to the Revenue Ledger;
- (vi) all Mandatory Further Advances and Discretionary Further Advances to Borrowers made from the Transaction Account shall be debited from the Principal Ledger;
- (vii) all payments set out in sub-paragraph (B)(i), (iii) and (iv) of the definition of Available Redemption Funds shall be debited from the Principal Ledger;
- (viii) if any amount is paid by a Seller to the Issuer pursuant to clause 9 of the Mortgage Sale Agreement, such portion thereof as corresponds to the principal amount of a Mortgage shall be credited to the Principal Ledger and the balance (if any) shall be credited to the Revenue Ledger;
- (ix) any borrowing for the purpose of establishing or increasing the First Loss Fund (including any amounts drawn down under the Subordinated Loan Agreement to replenish the First Loss Fund to the Required Amount) shall be credited to the First Loss Ledger;

- (x) on the Closing Date an amount equal to the amount by which the sum of:
 - (1) the GBP Equivalent Initial Principal Amount of the Notes on issue; and
 - (2) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement,exceeds the aggregate of:
 - (3) the amount paid to acquire the Mortgages acquired by the Issuer on the Closing Date and any related collateral security;
 - (4) the amount applied to establish the First Loss Fund on the Closing Date; and
 - (5) the Non-Verified Mortgage Amount,shall be credited to the Principal Ledger;
- (xi) all amounts debited from the Pre-Funding Reserve Ledger up to and including the first Principal Determination Date shall be credited to the Principal Ledger;
- (xii) on the Closing Date an amount equal to the Non-Verified Mortgage Amount shall be credited to the Pre-Funding Reserve Ledger;
- (xiii) all payments required to be made by PFPLC on behalf of the Issuer pursuant to clause 9 (other than any UCD Amounts) shall be debited from the Pre-Funding Reserve Ledger and:
 - (1) for the purpose of making Non-Verified Payments shall be credited to the Principal Ledger and all Non-Verified Payments made to PML and MTS and the Transaction Account, pursuant to clause 9 shall be debited from the Principal Ledger; and
 - (2) in accordance with the definition of Available Redemption Funds, on the first Principal Determination Date any remaining amount credited to the Pre-Funding Reserve Ledger (after taking into account any debits to be made from such ledger on such date) shall be debited from such ledger and credited to the Principal Ledger;
- (xiv) all payments required to be made to PFPLC under clause 12.2 shall be debited to the Revenue Ledger and all insurance

commissions received by the Issuer shall be credited to the Revenue Ledger;

- (xv) all net receipts under any hedging arrangements, including under any Cap Agreements, any Cap Guarantee and any Hedge Agreement shall be credited to the Revenue Ledger;
- (xvi) if any amount is received by or on behalf of the Issuer pursuant to any of the Insurance Contracts, such portion thereof as corresponds to the amounts (other than principal) then due and payable under the relevant Mortgage shall be credited to the Revenue Ledger and the balance (if any) shall be credited to the Principal Ledger;
- (xvii) where the proceeds of disposal or on maturity of any Authorised Investment invested by the Issuer exceed the original cost of such Authorised Investment, the amount of such excess shall be credited to the Revenue Ledger and any income on any Authorised Investment (including interest earned on the Transaction Account) shall also be credited to the Revenue Ledger;
- (xviii) any other amounts whatsoever received by or on behalf of the Issuer or the Trustee shall be credited, if clearly attributable to the principal amount of any Mortgage or an exchange of principal under any Currency Swap Agreement, to the Principal Ledger and, otherwise, to the Revenue Ledger;
- (xix) all amounts to be credited to the First Loss Ledger in accordance with clause 6.1.2 of the Deed of Charge shall be credited to such ledger and debited to the Revenue Ledger and all amounts released from the First Loss Fund in accordance with clause 6.4 of the Deed of Charge shall be debited to the First Loss Ledger; and
- (xx) all borrowings under the Subordinated Loan Agreement made for the purpose of purchasing Caps (and any related Cap Guarantees) or other hedging arrangements entered into in connection with Converted Mortgages or otherwise (other than as referred to in sub-clauses (iii), (iv), (ix) and (x) above and other than borrowings for the purpose of establishing or maintaining any Shortfall Fund which shall be credited to the Shortfall Ledger or for the purpose of paying any Hedge Provider Termination Amount) shall be credited to the Revenue Ledger and payments to purchase Caps and/or related Cap Guarantees or other hedging arrangements entered into in connection with Converted Mortgages shall be debited to the Revenue Ledger.

6.5.3 If PFPLC is at any time in any doubt as to which ledger a particular amount should be credited, it shall consult the Trustee.

6.5.4 PFPLC shall also record all amounts debited to the Transaction Account and/or debited or credited to any of the ledgers in accordance with the terms of this Agreement and/or the Deed of Charge.

6.5.5 If at any time an Originator has a second mortgage, charge or Standard Security over any Property in the manner envisaged by clause 8.1.2, each Originator agrees that it will take no action to encourage the relevant Borrower to make payments in respect of the second mortgage, charge or Standard Security in preference to the relevant Mortgage and if at any time an Originator receives moneys from a Borrower and it is unsure as to whether such moneys have been paid in respect of the Mortgage or a relevant second mortgage, charge or Standard Security, it will promptly pay such amount into the Transaction Account,

provided however that this clause 6.5.5 shall have effect only to the extent that it does not constitute or create and is not deemed to constitute or create any mortgage, Standard Security, charge or other security interest of any kind.

6.6 Rating and the Transaction Account and the Collection Accounts

6.6.1 The Transaction Account shall at all times be maintained with a bank (a) the long term unsecured and unguaranteed debt of which is rated AAA by Fitch, Aaa by Moody's and AAA by S&P or whose short-term debt is rated at least F1 by Fitch, at least P-1 by Moody's and at least A-1 by S&P (b) such that the then current ratings of the Class A Notes (or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes and no Class B Notes outstanding, the Class C Notes) would not be adversely affected and shall not be changed without the prior consent of the Trustee. If such criteria are no longer satisfied in relation to the Operating Bank, PFPLC will give notice thereof to the Rating Agencies and the Trustee and will, within 30 days of such downgrade or such longer period as the Trustee and the Rating Agencies may agree, procure the transfer of the Transaction Account to another clearing bank, approved in writing by the Trustee (such approval not to be unreasonably withheld or delayed) in respect of which such criteria are satisfied (and of which PFPLC shall give notice to the Rating Agencies). If at the time when a transfer of the Transaction Account would otherwise have to be made hereunder there is no other clearing bank which meets such criteria and if the Trustee and the Rating Agencies so agree, the Transaction Account need not be transferred until such time as there is a bank which meets such criteria, whereupon such transfer will be made to another bank meeting such criteria within 30 days of identification of such a bank or such longer period as the Trustee may agree (and of which PFPLC shall give notice to the Rating Agencies). Upon the transfer of the Transaction Account to another bank PFPLC will procure that (i) the new account is charged to the Trustee in the same manner as the Transaction Account is charged to the Trustee pursuant to the Deed of Charge and the bank shall be requested to acknowledge receipt of

notice of such charge; (ii) the provisions of this clause 6 shall apply to such bank account; (iii) the provisions of the Deed of Charge and this Agreement relating to payments from the Transaction Account shall apply to such new bank account; and (iv) the arrangements for operation of such bank account shall be the same as in relation to the Transaction Account, all to the satisfaction of the Trustee.

- 6.6.2 Each of PML, MTS and PFPLC agree that the Collection Accounts shall at all times be maintained with a bank (a) whose short-term debt is rated at least F1 by Fitch, at least P-1 by Moody's and at least A-1 by S&P or (b) such that the then current ratings of the Class A Notes (or, if there are no Class A Notes outstanding, the Class B Notes or, if there are no Class A Notes and no Class B Notes outstanding, the Class C Notes only) would not be adversely affected and shall not be changed without the prior consent of the Trustee. If such criteria are no longer satisfied in relation to the bank with which the relevant Collection Account is maintained, PFPLC will give notice thereof to the Rating Agencies and the Trustee and PFPLC and PML and/or MTS (as applicable) will use their reasonable endeavours to procure that, within 30 days of such occurrence or such longer period as the Trustee and the Rating Agencies may agree (a) all direct debit payments which would otherwise be made by borrowers under the Mortgages and all other moneys which would otherwise be paid in respect of the Mortgages purchased by the Issuer (including cheque payments, redemption moneys and moneys recovered on the sale of Properties following enforcement of any Mortgage) are made or paid into a Collection Account with another bank which does satisfy such criteria and (b) PML and/or MTS (as applicable) executes a declaration of trust in the same terms, *mutatis mutandis*, as the Collection Account Declarations of Trust in respect of such new Collection Account.

6.7 Withdrawals

PFPLC may, from time to time, make withdrawals on behalf of the Issuer from the Transaction Account as permitted by this Agreement or the Deed of Charge, but not otherwise.

6.8 Records

PFPLC shall keep and maintain records, on a Mortgage by Mortgage basis, for the purposes of identifying amounts paid by each Borrower, any amount due by a Borrower and the balance from time to time outstanding on a Borrower's account. PFPLC will provide such information to the Trustee or to its order at any time upon request, subject to the provisions of the Data Protection Acts 1984 and 1998 or other applicable legislation current from time to time. PFPLC shall also keep and maintain records on the VAT Account and each Collection Account.

6.9 Trust

6.9.1 If PFPLC receives (including in their capacity as agent for the Issuer or the Trustee) any money whatsoever arising from the Mortgages or any collateral security therefor or any contract of insurance, which money belongs to the Issuer or the Trustee or is to be paid to the Issuer or the Trustee or into the Transaction Account pursuant to this Agreement, the Mortgage Sale Agreement or otherwise, it will hold such money on trust for the Issuer or the Trustee, as the case may be, and shall keep such money separate from all other money belonging to the Administrators and shall forthwith upon receipt thereof pay the same in accordance with clause 6.5.1 into the Transaction Account.

6.10 First Loss Ledger

6.10.1 On the Closing Date a sum equal to the First Loss Fund Initial Amount on the Closing Date shall be drawn down under the Subordinated Loan Agreement and credited to the First Loss Ledger.

6.10.2 On each Interest Payment Date there shall be transferred to the First Loss Fund (crediting the First Loss Ledger), in accordance with the Deed of Charge, from amounts standing to the credit of the Revenue Ledger on that date (debiting the Revenue Ledger) an amount equal to any payments of the kind described in paragraphs (a) and (e) of clause 6.1.1 of the Deed of Charge which have been debited to the First Loss Ledger during the Interest Period in question and (if relevant) in respect of which the First Loss Fund has not been replenished on an earlier Mortgage Payment Date during the Interest Period in question in accordance with the provisions of clause 6.10.3, provided that the amount of the First Loss Fund shall not, on any Interest Payment Date, exceed the Required Amount applicable on that Interest Payment Date.

6.10.3 On each Mortgage Payment Date (other than an Interest Payment Date) there shall be transferred to the First Loss Fund (crediting the First Loss Ledger) from amounts standing to the credit of the Revenue Ledger on that date (debiting the Revenue Ledger) an amount equal to the lesser of (i) any payments of the kind described in paragraphs (a) and (e) of clause 6.1.1 of the Deed of Charge which have been debited to the First Loss Ledger since the immediately preceding Mortgage Payment Date and (ii) the amount which would result in the First Loss Fund being equal to the Required Amount applicable on the immediately preceding Interest Payment Date.

6.11 If on any Interest Payment Date a payment or provision of the kind described in paragraphs (a) to (i) (inclusive) of clause 6.1.2 of the Deed of Charge is to be made resulting in a debit to the Revenue Ledger and there are insufficient funds standing to the credit of the Revenue Ledger for that purpose having taken account of any amounts which may be transferred from the Shortfall Fund on such Interest Payment Date pursuant to clause 5.4, then an amount equal to the deficiency or, if less, an amount

equal to the First Loss Fund shall on that date be transferred to the Revenue Ledger (crediting the Revenue Ledger and debiting the First Loss Ledger) from the First Loss Fund.

- 6.12 Amounts may be credited and debited to the First Loss Ledger in accordance with clause 6.1.2 and clause 6.4 of the Deed of Charge.

Shortfall Ledger

- 6.13 The Shortfall Ledger shall be opened and maintained in accordance with clause 6.2.3, and shall be operated in accordance with clauses 5.3 and 5.4.

Interest Shortfall Ledger

- 6.14 On any Principal Determination Date while any Class A Note remains outstanding, an amount equal to the Potential Interest Shortfall Amount shall be debited to the Principal Ledger and credited to the Interest Shortfall Ledger.

- 6.15 If on any Interest Payment Date there are insufficient funds standing to the credit of the Revenue Ledger (after making any transfer on such Interest Payment Date referred to in clause 5.4) and the First Loss Ledger to pay amounts payable on that Interest Payment Date under paragraphs (a), (b) and (c) and the amounts referred to in paragraph (h) of clause 6.1.2 of the Deed of Charge (on the assumption that the amounts referred to in paragraph (h) of clause 6.1.2 of the Deed of Charge ranked immediately prior to the item referred to in paragraph (d) of such clause), the lesser of the shortfall and the balance standing to the credit of the Interest Shortfall Ledger will be transferred from the Interest Shortfall Ledger to the Revenue Ledger and debited to the Principal Deficiency Ledger in accordance with clause 6.2.2. Any credit balance on the Interest Shortfall Ledger after an Interest Payment Date will be transferred and credited to the Principal Ledger.

Value Added Tax

- 6.16 In the event of H.M. Revenue & Customs making a demand upon the Issuer to meet the VAT liability of the Paragon VAT Group, PFPLC shall on behalf of the Issuer and pursuant to clause 6.5 of the Deed of Charge give notice to PFPLC, as party to the VAT Declaration of Trust, and to Citicorp Trustee Company Limited (as successor to Morgan Guaranty Trust Company of New York (as it then was)) in its capacity as trustee under the VAT Declaration of Trust, (with a copy to the Trustee) of such VAT liability having arisen and provide evidence reasonably satisfactory to Citicorp Trustee Company Limited as trustee under the VAT Declaration of Trust, (with a copy to PFPLC), that such demand has been made and shall provide directions to PFPLC as to payment to satisfy such demand. PFPLC shall procure that Citicorp Trustee Company Limited, gives notice, pursuant to the provisions of the VAT Declaration of Trust, to the Operating Bank specifying that a withdrawal is to be permitted from the VAT Account to meet such demand and provides the Operating Bank with instructions as to payment.

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

Purchased Pre-Closing Accruals and Arrears

- 6.18 The relevant Seller shall notify to:
- 6.18.1 the Trustee and the Issuer on each Purchase Date the total aggregate amount of the Retained Pre-Closing Accruals and Arrears to be retained by that Seller on such Purchase Date; and
 - 6.18.2 the Trustee and the Issuer on each Purchase Date the total aggregate amount of the Purchased Pre-Closing Accruals and Arrears to be purchased by the Issuer on such Purchase Date.
- 6.19 PFPLC shall, in accordance with clause 13.10.1, notify:
- 6.19.1 the Trustee and the Issuer of the aggregate amount that in accordance with clause 6.21 has been received by the Issuer in respect of the Retained Pre-Closing Accruals and Arrears; and
 - 6.19.2 the Issuer of the aggregate amount that in accordance with clause 6.21 has been received by the Issuer in respect of the Purchased Pre-Closing Accruals and Arrears,
- all such notifications shall be binding and conclusive evidence of such Retained Pre-Closing Accruals and Arrears (and any receipt thereof) and of such Purchased Pre-Closing Accruals and Arrears (and any receipt thereof) and the Trustee and the Issuer shall be entitled to rely on the same.
- 6.20 Each Seller shall be entitled to be paid, and PFPLC shall pay to the relevant Seller, Retained Pre-Closing Accruals and Arrears forthwith upon receipt of monies by the Issuer under each Mortgage or its related security where such Retained Pre-Closing Accruals and Arrears are owed under that Mortgage.
- 6.21 For the purpose of determining whether any monies received:
- 6.21.1 by the Issuer are in respect of Retained Pre-Closing Accruals and Arrears; or
 - 6.21.2 by the Issuer are in respect of Purchased Pre-Closing Accruals and Arrears,
- monies (whether arising from payments received under a Mortgage or its related collateral security or pursuant to a claim under the buildings insurance policy, or from the sale of a Mortgage or the enforcement or calling up of the security thereof) will,

for the purposes of the Relevant Documents and in particular for the purpose of determining amounts due to the relevant Seller under the Mortgage Sale Agreement, be deemed to be applied in or towards satisfying:

- (a) first, Retained Pre-Closing Accruals and Arrears and Purchased Pre-Closing Accruals and Arrears in respect of such Mortgage;
- (b) secondly, interest accrued and unpaid in respect of such Mortgage (other than Retained Pre-Closing Accruals and Arrears and Purchased Pre-Closing Accruals and Arrears);
- (c) thirdly, any fees, costs or expenses in respect of such Mortgages (other than Retained Pre-Closing Accruals and Arrears and Purchased Pre-Closing Accruals and Arrears); and
- (d) fourthly, the principal amount outstanding under such Mortgage.

Monies received under any Mortgage shall not be applied to satisfy amounts (including Retained Pre-Closing Accruals and Arrears and Purchased Pre-Closing Accruals and Arrears) on any other Mortgage.

6.22 Hedge Collateral

6.22.1 In the event that pursuant to the terms of a Hedge Agreement a Hedge Provider pays or transfers Hedge Collateral to the Issuer, PFPLC shall:

- (a) create the Hedge Collateral Ledger, with such sub-ledgers as PFPLC considers appropriate, in the books of the Issuer if not already created so as to record the amount and type of such Hedge Collateral and identify the relevant Hedge Agreement in respect of which it has been posted;
- (b) upon receipt of such Hedge Collateral, credit it to and record the relevant details in the Hedge Collateral Ledger;
- (c) to the extent that such Hedge Collateral is in the form of cash, pay it into the relevant Hedge Collateral Cash Account; and
- (d) to the extent that such Hedge Collateral is in the form of securities, arrange for it to be credited to the relevant Hedge Collateral Securities Account.

6.22.2 If and when the terms of the relevant Hedge Agreement permit such Hedge Collateral to be applied in or towards satisfaction of the Hedge Provider's obligations under the relevant Hedge Agreement, and in the event that such Hedge Collateral is to be so applied, PFPLC shall:

- (a) where the relevant Hedge Collateral is in the form of cash, transfer the relevant amount of cash from the relevant Hedge Collateral Cash Account to the Transaction Account; and/or

- (b) where the relevant Hedge Collateral is in the form of securities, realise the Hedge Collateral and pay the amount of the net proceeds into the Transaction Account,

and, in each case, make the appropriate debits and credits to the Hedge Collateral Ledger, apply such amount as if it had been paid to the Issuer by the Hedge Provider under the relevant Hedge Agreement and make appropriate credits to the Principal Ledger (in so far as such amount relates to principal) and to the Revenue Ledger (for the remainder of such amount).

- 6.22.3 To the extent that pursuant to the terms of the relevant Hedge Agreement Hedge Collateral is to be transferred or paid to the Hedge Provider, PFPLC shall:

- (a) where the relevant Hedge Collateral is in the form of cash, pay the relevant amount of cash out of the relevant Hedge Collateral Cash Account to the Hedge Provider; and/or

- (b) where the relevant Hedge Collateral is in the form of securities, transfer and deliver the relevant Hedge Collateral to the Hedge Provider,

and, in each case, debit the Hedge Collateral Ledger as appropriate.

- 6.22.4 Where:

- (a) Hedge Collateral is to be applied in satisfaction of the Hedge Provider's obligations under the relevant Hedge Agreement; and

- (b) such Hedge Collateral or the proceeds of such Hedge Collateral are in a different currency to the currency (the "**Required Hedge Collateral Currency**") in which such obligations of the Hedge Provider are payable,

then, PFPLC shall arrange for such Hedge Collateral to be converted (by such person as PFPLC may reasonably select) at the prevailing spot rate of exchange into the Required Hedge Collateral Currency.

- 6.22.5 PFPLC may open and operate Hedge Collateral Accounts as they considers appropriate and shall deal with Hedge Collateral in accordance with each Hedge Agreement relating to such Hedge Collateral.

- 6.22.6 PFPLC and Issuer may enter into such Hedge Collateral Ancillary Documents as PFPLC and Issuer consider appropriate from time to time for the purposes of dealing with Hedge Collateral in accordance with each Hedge Agreement relating to such Hedge Collateral.

- 6.22.7 The terms of this Clause 6.22 shall prevail if and to the extent that they are inconsistent with the other paragraphs of this Administration Agreement and the Deed of Charge.

6.23 Spot Rate Conversions

In the event that any payment is to be made by or on behalf of the Issuer under any Relevant Document 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, PFPLC shall arrange if the relevant Currency Swap Agreement has terminated for any remaining amounts comprised the relevant available funds, as applicable, to be converted (by such person as PFPLC 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. **NO LIABILITY**

7.1 Each Administrator shall have no liability for any obligation of a Borrower under any Mortgage or any collateral security and nothing herein shall constitute a guarantee, or similar obligation, by each Administrator of any Mortgage, Guarantee or any Borrower.

7.2 Each Administrator shall have no liability for the obligations of the Issuer or the Trustee under any of the Relevant Documents or otherwise and nothing herein shall constitute a guarantee, or similar obligation, by each Administrator in respect of any thereof.

8. **ORIGINATOR FURTHER ADVANCES, DISCRETIONARY FURTHER ADVANCES AND MANDATORY FURTHER ADVANCES**

8.1 Further Advances

8.1.1 If a Borrower seeks a further advance (other than a Flexible Drawing Capitalised Advance), the Administrators shall promptly (and in any event within three Business Days of the receipt of such request) notify the Issuer and the relevant Originator of such request and provide them with all details of such request which are available to them.

8.1.2 If, pursuant to clause 8.1.1, the Administrators on behalf of the Issuer (or, in the case of a further advance relative to a Scottish Mortgage, on behalf of and as agent for the relevant Originator, in its capacity as trustee for the Issuer under the relevant Scottish Declaration of Trust) are not willing, or are unable, to make such further advance as a Discretionary Further Advance but the relevant Originator decides that it wishes to make a further advance to that Borrower (although it is not obliged to do so), that Originator may by notice to the Issuer and the Trustee (with a copy to the Administrators) only make the further advance to the Borrower on the basis that the advance will be secured by a second mortgage or charge of or Standard Security over the Property in question in favour of the relevant Originator ranking after the Mortgage in point of priority.

8.1.3 If an Originator makes a further advance on the security of a second mortgage, charge or Standard Security over the relevant Property, the Trustee

and the Issuer in accordance with their respective estates and interests shall be deemed to consent to the creation of any such second mortgage, charge or Standard Security made in accordance with paragraphs (a), (b) and (c) below pursuant to the Mortgage Conditions and the Trustee and the Issuer (and in the case of paragraph (c) below, the relevant Originator) shall at the expense of that Originator:

- (a) within 7 days of receipt from the relevant Originator of notice that it intends to make a further advance, execute and deliver or instruct and authorise the Administrators to execute and deliver to that Originator a letter of consent in such form as that Originator shall require;
- (b) promptly give, or authorise the Administrators to give, the relevant Originator access to the Mortgage Deeds or copies thereof to enable that Originator to make any investigations which it requires prior to making the further advance; and
- (c) promptly execute all documents and do all things reasonably considered necessary or desirable to facilitate the creation of such second mortgage, charge or Standard Security and to postpone all rights of the relevant Originator thereunder to those present and future rights of the Issuer and the Trustee in the Mortgage including, for the avoidance of doubt, future Mandatory Further Advances and Discretionary Further Advances.

8.2 Discretionary Further Advances

8.2.1 Subject to 8.3.3(b) below, if the Administrators, pursuant to clause 8.1.1, on behalf of the Issuer (or, in the case of a further advance relative to a Scottish Mortgage, on behalf of and as agent for the relevant Originator, in its capacity as trustee for the Issuer under the relevant Scottish Declaration of Trust) decide to make the further advance requested by the Borrower they may only make such Discretionary Further Advance to the Borrower on the basis that the advance will be secured on the relevant Property and if the following conditions are satisfied:

- (a) upon the making of any such Discretionary Further Advance, the Lending Guidelines will be satisfied so far as applicable subject to such waivers as might be within the discretion of a reasonably prudent lender;
- (b) to the extent that the Administrators on behalf of the Issuer have reason to believe that any such Discretionary Further Advance to be made to a Borrower may result in a regulated agreement (as defined in the Consumer Credit Act 1974), the applicable provisions of the Consumer Credit Act 1974 relating to regulated agreements will be complied with;
- (c) in the period between a Principal Determination Date and an Interest Payment Date no such Discretionary Further Advance may be made out of funds notified by the Administrators on behalf of the Issuer to the

Trustee as being available to redeem Notes on that Interest Payment Date pursuant to Condition 5(a);

- (d) prior to making the Discretionary Further Advance the Administrators shall ask the Borrower to confirm that no second charge or Standard Security has been created over the relevant Property; if the Administrators have received notice (actual or constructive) that the relevant Borrower has created a second charge or Standard Security over the relevant Property, the Administrators shall ensure that such Discretionary Further Advance is not made to such Borrower unless such second charge or Standard Security has been expressly postponed to the charge or Standard Security securing such Discretionary Further Advance or unless the second charge or Standard Security is to be, and is, redeemed out of the proceeds of the Discretionary Further Advance simultaneously with the making of the Discretionary Further Advance;
- (e) the Discretionary Further Advance must not result in clause 8.6 being contravened;
- (f) no Discretionary Further Advance (other than by way of capitalisation of interest unless that would amount to a further advance under the terms of the relevant Mortgage) may be made to a Borrower whose obligations are guaranteed by another person without the prior written consent of that person;
- (g) no Discretionary Further Advance may be made to the Borrower if as a result the principal amount secured by the relevant Investment Home Mortgage (excluding insurance premia and fees) when added to any Mandatory Further Advances which may fall to be made would exceed 85 per cent. of the most recent valuation of the relevant Property. "**Principal amount secured**" in the case of a Mortgage which is a second or subsequent mortgage, charge or Standard Security includes the principal amount outstanding (and any Mandatory Further Advances which may fall to be made in respect thereof) under any Mortgage secured on the relevant Property having priority to it; and
- (h) the Administrators may not agree to make any Discretionary Further Advance unless the Administrators are satisfied that the Issuer has funds available for this purpose in the Principal Ledger to do so or the Subordinated Lenders has agreed to advance sufficient funds to the Issuer pursuant to the Subordinated Loan Agreement.

8.2.2 If the Administrators decide to make a Discretionary Further Advance pursuant to and in accordance with clause 8.2.1, they shall:

- (a) execute and deliver on behalf of the Issuer a letter of consent to the Borrower and promptly execute all documents and do all things

reasonably considered necessary or desirable to facilitate the making of the Discretionary Further Advance; and

- (b) in relation to a Discretionary Further Advance made to a Borrower where a second charge or Standard Security has been expressly postponed to such Discretionary Further Advance in accordance with clause 8.2.1(d):
 - (i) where title to the Property in relation to the relevant Mortgage (being Property located in England or Wales or Northern Ireland) is registered at the Land Registry or the Land Registry of Northern Ireland, as applicable, make an application for registration of the deed by which such second charge has been expressly postponed to such Discretionary Further Advance to the Land Registry or the Land Registry of Northern Ireland, as applicable and use its reasonable efforts to procure that such deed is registered;
 - (ii) where the title to the Property in relation to the relevant Mortgage (being Property located in England or Wales) is unregistered, endorse a note of such deed of postponement on the relevant Mortgage and keep the deed of postponement with the Mortgage Deeds; and
 - (iii) where the Property in relation to the relevant Mortgage is located in Scotland, make an application for registration or recording of the deed by which such second Standard Security has been expressly postponed to such Discretionary Further Advance to the Registers of Scotland and use its reasonable efforts to procure that such deed is registered or recorded (as the case may require).
- (c) where title to the Property in relation to the relevant Mortgage (being Property located in England or Wales or Northern Ireland) is registered at the Land Registry or the Land Registry of Northern Ireland (as applicable), make an application for registration of the deed by which such second charge has been expressly postponed to such Discretionary Further Advance to the Land Registry or the Land Registry of Northern Ireland (as applicable) and use its reasonable efforts to procure that such deed is registered;
- (d) where the title to the Property in relation to the relevant Mortgage (being Property located in England or Wales) is unregistered, endorse a note of such deed of postponement on the relevant Mortgage and keep the deed of postponement with the Mortgage Deeds;
- (e) where the Property in relation to the relevant Mortgage is located in Scotland, make an application for registration or recording of the deed by which such second Standard Security has been expressly postponed to

such Discretionary Further Advance to the Registers of Scotland and use its reasonable efforts to procure that such deed is registered or recorded (as the case may require); and

- (f) where the Property in relation to the relevant Mortgage (being Property located in Northern Ireland) consists of unregistered land, to make an application for registration of the deed by which such second mortgage has been expressly postponed to such Discretionary Further Advance to the Registry of Deeds in Northern Ireland and to use its reasonable efforts to procure that such deed is registered.

8.2.3 In addition to any Discretionary Further Advances made by the Issuer pursuant to clauses 8.2.1 and 8.2.2 above, the Administrators on behalf of the Issuer may make a Discretionary Further Advance to a Borrower as part of its arrears and defaults policy by capitalising, in relation to any particular Borrower, any sums due and payable under the Mortgage provided that in doing so it is exercising such discretion as would be exercised by a reasonably prudent lender.

8.2.4 No Discretionary Further Advance shall be made pursuant to clause 8.2.1 or clause 8.2.3 if the effect thereof would be to extend the final maturity date of the relevant Mortgage beyond 17 October 2039 and, subject to the provisions of clause 8.2.1 and clause 8.6, any Discretionary Further Advance may be made if it will not cause this limit to be exceeded.

8.2.5 Discretionary Further Advances will be advanced in the same manner as Mandatory Further Advances and accordingly clauses 8.3.1, 8.3.2 and 8.3.3 (so far as is applicable) shall apply to Discretionary Further Advances as it applies to Mandatory Further Advances, *mutatis mutandis*.

8.3 Mandatory Further Advances

8.3.1 If a Mandatory Further Advance is to be made to a Borrower and if the Mortgage pursuant to which such Mandatory Further Advance is to be made is secured on Property which comprises registered land in England or Wales or Northern Ireland or which comprises land in England or Wales or Northern Ireland which is the subject of an application for first registration or which comprises unregistered land in Northern Ireland or which comprises land in Scotland, each Originator agrees to make such Mandatory Further Advance in accordance with the relevant Mortgage Conditions provided that, subject to the provisions of clause 8.4, if at any time the Issuer has become the registered proprietor, registered owner or heritable creditor of such Mortgage (or, in the case of unregistered land in England and Wales, if at any time the unregistered land Transfer has taken effect) the relevant Originator will make such Mandatory Further Advance as agent for the Issuer and as the creditor (in relation to the Borrower) for the purposes of the Consumer Credit Act 1974.

- 8.3.2 The Issuer hereby agrees that, in all cases where the relevant Originator makes a Mandatory Further Advance, but subject always to clause 8.4, the funds for the making of each such Mandatory Further Advance will be made available by it to that Originator or to its order in the manner specified in clause 8.3.3.
- 8.3.3 The funds for the making of any Mandatory Further Advance will be made available to the relevant Originator or to its order by the Issuer in the following manner. The Administrators shall, on behalf of the Issuer:
- (a) draw funds from the Transaction Account (debiting the Principal Ledger); or
 - (b) if at any time when the relevant Mandatory Further Advance is to be made there are insufficient funds standing to the credit of the Principal Ledger draw funds under the Subordinated Loan Agreement (crediting the Principal Ledger and then debiting the Principal Ledger) in the amount required to make up such deficiency; or
 - (c) without prejudice to (b) above, draw funds under the Subordinated Loan Agreement (such funds being available at the discretion of the Subordinated Lenders) if the Issuer so opts instead of using the funds standing to the credit of the Principal Ledger;

and, in the case of each of (a), (b) or (c) above, pay the funds so drawn to the relevant Originator so that such Originator is put in funds in order to enable it to make the relevant Mandatory Further Advance and each Originator hereby agrees with all other parties hereto to apply any such funds so received by it solely for such purposes and pending such application to hold such funds on trust for the Issuer.

- 8.3.4 For the avoidance of doubt, no Mandatory Further Advance shall be made to a Borrower nor shall any drawings as contemplated in clause 8.3.3 be made by the Administrators to provide funds to the relevant Originator for the making of any Mandatory Further Advance if that Originator or the Administrators have notice that the relevant Borrower was or is in breach of the relevant Mortgage Conditions.
- 8.3.5 In the event that an Originator fails to make any Mandatory Further Advance to a Borrower in circumstances where it had agreed to make such advance by virtue of the provisions of clause 8.3.1 and where it had been put in funds by the Administrators to make such advance pursuant to clause 8.3.3, the relevant Originator shall indemnify the Issuer and the Trustee against any loss resulting from that failure. Full satisfaction by an Originator of its obligations under such indemnity by way of a payment to the Issuer or the Trustee shall constitute a full discharge and release of that Originator from any claim which

the Issuer or the Trustee may have against that Originator arising from such failure to make any Mandatory Further Advance.

8.4 Notwithstanding the provisions of clause 8.3, no Mandatory Further Advance shall be made in relation to any Individual Mortgage, by the Issuer or by any Originator or the Administrators, in each case as agent for or otherwise on behalf of the Issuer, if the making of such Mandatory Further Advance will involve the Issuer in carrying on a regulated activity in the United Kingdom in breach of section 19 of the Financial Services and Markets Act 2000.

8.5 Flexible Mortgages

The Administrators shall administer each Flexible Mortgage in accordance with the then applicable Mortgage Conditions relating to such Flexible Mortgages.

8.6 Neither the Issuer nor the Administrators on behalf of the Issuer (or, in the case of a further advance relative to a Scottish Mortgage, on behalf of and as agent for the relevant Originator, in its capacity as trustee for the Issuer under the relevant Scottish Declaration of Trust) shall advance, or agree to advance, to a Borrower a Discretionary Further Advance if:

8.6.1 the sum of:

- (a) all Discretionary Further Advances (other than any Discretionary Further Advance made by way of capitalisation of arrears) which have been made since the Closing Date or which are proposed to be made on or before the date on which that Discretionary Further Advance is proposed to be made;
- (b) all Mandatory Further Advances excluding any Flexible Drawing Cash Advances which have been made since the Closing Date or which are to be made or before the date on which that Discretionary Further Advance is proposed to be made;

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

- (c) all Mandatory Further Advances (excluding any Flexible Drawing Cash Advance) which may be required to be made after the making of that Discretionary Further Advance,

would at the date of that Discretionary Further Advance exceed a combined aggregate cumulative limit of 16% of the GBP Equivalent Initial Principal Amount of the Notes;

- 8.6.2 at the last Principal Determination Date, 2 per cent. or more of the Mortgages, by Current Balance, are more than three months in arrears (as such term is defined in the Trust Deed);
- 8.6.3 on the immediately preceding Interest Payment Date there is a balance of less than zero on the Principal Deficiency Ledger unless an amount has been or is drawn down under the Subordinated Loan Agreement prior to the making of that Discretionary Further Advance which has reduced or reduces to zero any such debit balance on the Principal Deficiency Ledger;
- 8.6.4 on the immediately preceding Interest Payment Date the First Loss Fund was not at least equal to the Required Amount unless an amount has been or is drawn down under the Subordinated Loan Agreement prior to the making of that Discretionary Further Advance which has replenished or replenishes the First Loss Fund to the Required Amount;
- 8.6.5 the relevant Originator or the Administrators have notice that the relevant Borrower was or is in breach of the relevant Mortgage Conditions; or
- 8.6.6 the making of that Discretionary Further Advance (including any Discretionary Further Advance by way of capitalisation of arrears) will not cause the weighted average for all of the Mortgages of the ratio of:
- (a) the principal amount advanced under each Mortgage (including the amount of any further advance advanced under that Mortgage) together with any further advance due to be made under that Mortgage (including any mortgage indemnity insurance premium and fees or other amounts added to that advance); to
 - (b) the most recent valuation received by the relevant Originator of the Property to which that Mortgage relates for security purposes in the opinion of a valuer approved by that Originator,

(such ratio to be expressed as a percentage) to be increased by more than one percentage point (or such higher number of percentage points or parts thereof as the Issuer and the Rating Agencies may from time to time agree) from the level at which such weighted average stood on the first Principal Determination Date after the Closing Date.

UNLESS, with regard to the conditions outlined in clauses 8.6.2 to 8.6.6, the Rating Agencies have otherwise agreed with the Administrators and the Issuer to the making of such Discretionary Further Advance or, in the case of clauses 8.6.1, 8.6.2, 8.6.3, 8.6.4 and 8.6.6, the Subordinated Lenders or any Additional Subordinated Lenders have agreed to make an advance under the Subordinated Loan Agreement to fund such Discretionary Further Advance and to the extent that any such Discretionary Further Advance is funded by such an advance under the Subordinated Loan Agreement, the restrictions in clauses 8.6.1, 8.6.2, 8.6.3, 8.6.4 and 8.6.6 shall not apply.

9. NON-VERIFIED MORTGAGES

- 9.1 The Administrators shall, on behalf of the Issuer and following a Non-Verified Mortgage request arrange for the Issuer to purchase from PML and/or MTS, in accordance with the Mortgage Sale Agreement, such Non-Verified Mortgages as mentioned in the Non-Verified Mortgage Request and pay from the Transaction Account the Non-Verified Payment to PML and/or MTS and in accordance with clause 6.5.2 debit or, as the case may be, credit the appropriate ledgers.
- 9.2 The Administrators shall only arrange for the purchase of Non-Verified Mortgages in accordance with clause 9.1 above if the aggregate, following such purchase, of all Non-Verified Payments (excluding all UCD Amounts) does not exceed the Non-Verified Mortgage Amount and provided that such Non-Verified Mortgage Requests are delivered to the Administrators from PFPLC, PML or MTS on or before the first Principal Determination Date and only if the conditions to further purchases of Non-Verified Mortgages in the Mortgage Sale Agreement are satisfied.
- 9.3 If a Non-Verified Mortgage to be purchased by the Issuer includes any unamortised cashbacks or discounts the Issuer shall draw down, in accordance with the provisions of the Subordinated Loan Agreement, the UCD Amount and such UCD Amount shall be credited to the Transaction Account. For the avoidance of doubt, no UCD Amount shall ever be debited from the Pre-Funding Reserve Ledger.

10. REDEMPTION OF MORTGAGES

- 10.1 Upon repayment in full of all sums secured by a Mortgage the relevant Originator, or, failing which, the Administrators, shall (subject, in the case of the Administrators, to the continued existence of all necessary powers of attorney) execute on behalf of the Issuer and the Trustee, a reconveyance, receipt or discharge of the Mortgage and of the collateral security. The Issuer and the Trustee shall forthwith upon payment in full as aforesaid release, or authorise the Administrators to release, the relevant Mortgage Deeds to the person or persons entitled thereto. In order to enable the Administrators to take such action on their behalf as is referred to above, the Issuer shall deliver to the Administrators on or before the Closing Date a power of attorney in the form set out in Schedule 5 and the Trustee shall deliver to the Administrators on or before the Closing Date a power of attorney in the form set out in Schedule 6 together with evidence of due execution and its authority to grant the same. The Issuer and the Trustee shall in addition give such further or other authority as may be reasonably requested by the Administrators for the purpose of discharging any Mortgage which has been paid in full and any collateral security therefor.
- 10.2 The Administrators undertake that prior to any actual release by them of, or receipt of authorisation to them to release, the relevant Mortgage Deeds they will obtain a letter from a solicitor, licensed or qualified conveyancer or authorised practitioner addressed to themselves and the Trustee confirming that the relevant Mortgage Deeds are being released to the person or persons entitled thereto. In the event that such solicitor or licensed or qualified conveyancer requires possession of the relevant Mortgage Deeds

for the purposes of giving such confirmation, the Administrators shall be entitled to release the relevant Mortgage Deeds to such solicitor or licensed or qualified conveyancer to be held to the order of the Administrators pending receipt of such confirmation and repayment in full of all sums secured by such Mortgage whereupon the Administrators shall be entitled to authorise the relevant solicitor or licensed or qualified conveyancer to release the relevant Mortgage Deeds to the person or persons entitled thereto.

11. REMUNERATION

11.1 The Issuer shall pay to the Administrators for their services hereunder an administration fee which:

(A) shall be paid to each Administrator in arrear on each Interest Payment Date calculated as at the Principal Determination Date immediately preceding such Interest Payment Date and paid as specified in accordance with the applicable priority of payments; and

(B) shall, for so long as PFPLC and/or MTS are Administrators, be calculated on the basis of actual days elapsed from the Closing Date (in respect of the calculation on the first Principal Determination Date) and from the previous Principal Determination Date (in respect of the calculations on all Principal Determination Dates except the first) and a 365 day year (or 366 day year in the case of a leap year) (i) at the rate of not more than 0.15 per cent. per annum (the "Administration Senior Fee") and (ii) at the rate of not more than 0.15 per cent. per annum (the "Administration Subordinated Fee") (in each case inclusive of any amounts in respect of VAT) of the aggregate Interest Charging Balances of the outstanding Mortgages administered by the relevant Administrator on the first day of the Collection Period which ends on the relevant Principal Determination Date (or, in the case of the payment due on the first Interest Payment Date, on the then aggregate Interest Charging Balances on the Closing Date).

11.2 For the avoidance of doubt it is hereby declared that each Originator or Administrator, as the case may be, shall continue to be entitled to receive and retain in full for its own account the aggregate of all commissions paid by any insurance companies as a result of the placing with them by it of buildings insurance in relation to any of the Properties. If the receipt of such commissions is held to be part of the consideration for any supply for VAT purposes by the relevant Originator or Administrator, as the case may be, to the Issuer, the Issuer shall not be obliged to pay any amount in respect of such VAT liability of that Originator or Administrator.

11.3 Each payment by the Issuer to the Administrators under this clause 11 shall be subject to clauses 6, 7 and 8 of the Deed of Charge.

12. COSTS AND EXPENSES

- 12.1 The Issuer will reimburse the Administrators for all out-of-pocket costs, expenses and charges (not being costs, expenses and liabilities of the Issuer falling within clause 12.2 but including, without limitation, the proportion of any premium paid by the Administrator under the Fidelity Insurance Policy (or other policies providing equivalent cover) referred to in clause 14.12) properly incurred by the Administrators in the performance of the Services on the Interest Payment Date falling at the end of the Interest Period during which they are incurred, subject to and in accordance with clauses 6, 7 and 8 of the Deed of Charge, but the Issuer shall only be obliged to reimburse the Administrators in respect of any VAT incurred by the Administrators on such costs and expenses to the extent that such VAT is not recoverable by the Administrators by way of repayment, credit or set off.
- 12.2 The Issuer authorises the Administrators on its behalf to incur those costs, expenses and liabilities to third parties which must necessarily be incurred in the enforcement of any Mortgage or the rights and remedies in relation thereto of the Issuer and/or the Trustee. For the avoidance of doubt it shall solely be the obligation of the Issuer to reimburse the Administrators, on the Interest Payment Date falling at the end of the Interest Period during which they are incurred, such costs, expenses and liabilities subject to and in accordance with clauses 6, 7 and 8 of the Deed of Charge.

13. INFORMATION

13.1 Maintenance of Records

- 13.1.1 PFPLC, as Administrator, shall keep the Loan Files in a secure place and shall maintain in an adequate form such records as are necessary to enforce each Mortgage and, where relevant, the collateral security therefor.
- 13.1.2 PFPLC shall keep the Loan Files in relation to the Mortgages in such a way that they can be clearly distinguished from the loan files relating to other mortgages, Standard Securities or charges in respect of which any Administrator is a mortgagee, heritable creditor, chargee or administrator. PFPLC shall keep the Trustee informed of the location of such Loan Files and duplicate computer tapes.

13.2 Annual Budget

Not later than 30 June 2006 and thereafter no later than the date falling 90 days after each accounting reference period of the Issuer, PFPLC shall, on behalf of the Issuer, deliver to the Trustee an annual budget for the Issuer, each annual budget to be based on an accounting reference period ending on the next following 30 September. Each annual budget shall contain without limitation:

- 13.2.1 an estimate, identified by category, of all the expenses and liabilities expected to arise during that accounting reference period;

13.2.2 an estimate of all the income, identified by category, expected to arise during that accounting reference period;

13.2.3 in respect of the Issuer's annual budget, assumptions in relation to the Rate of Interest applicable to each class of Notes during that accounting reference period; and

13.2.4 such other information as the Trustee or the Issuer may reasonably require, such budget to be divided into three-monthly periods.

13.3 Budget Updates

If at any time in the opinion of PFPLC there has been a material adverse change in the financial circumstances of the Issuer since the preparation of the last annual budget delivered pursuant to clause 13.2, PFPLC shall on behalf of the Issuer prepare and deliver to the Trustee and the Issuer within 45 days of such determination that there has been such a material adverse change, a revised annual budget report for the Issuer adjusted to take into account actual circumstances and all further relevant known information.

13.4 Quarterly Management Accounts

PFPLC shall on behalf of the Issuer prepare a management account for each Collection Period, the first such accounts being for the period from the Closing Date to the Principal Determination Date falling in June 2006 in the form of the agreed draft, and PFPLC shall deliver such quarterly management account to the Issuer and the Trustee not later than the first day of the second month of the next following Collection Period.

13.5 Minimum Mortgage Rate

During the period in which both PFPLC and MTS are the providers of the Services, PFPLC shall calculate the Minimum Mortgage Rate on the first Business Day of each Interest Period in accordance with the provisions of Schedule 3 and any shortfall in accordance with the provisions of that Schedule, and shall give notice of such rate and any shortfall to MTS; and at any other time, PFPLC shall do so.

13.6 Bank Account Statements

PFPLC shall take all reasonable steps to ensure that the Operating Bank furnishes a monthly statement in relation to the Transaction Account to the Issuer. PFPLC shall submit quarterly reconciliations of the Transaction Account to the Issuer.

13.7 Statutory Accounts

13.7.1 PFPLC shall prepare, on behalf of the Issuer, a profit and loss account, balance sheet and directors' report and any other reports or information required by English law to be attached thereto or incorporated therein for the Issuer in respect of each accounting reference period of the Issuer and shall

cause such accounts to be audited by auditors approved by the Issuer and the Trustee and shall procure so far as it is able so to do that the auditors of the Issuer shall make a report thereon as required by relevant law and copies of all such documents shall be delivered to the Trustee as soon as practicable after the end of each accounting reference period of the Issuer. The auditors to the Issuer shall also confirm to the Trustee that the statutory accounts of the Issuer prepared pursuant to this clause 13.7.1 have been audited in accordance with generally accepted auditing practices of the United Kingdom and that the amount redeemed on the Class A Notes, the Class B Notes and/or the Class C Notes during the accounting reference period was, in their opinion, properly stated in aggregate. For these purposes the Issuer and the Trustee approve Deloitte & Touche LLP as the auditors of the Issuer.

- 13.7.2 PFPLC will, at the same time as they are despatched to the shareholders of PGC, deliver to the Trustee a copy of the annual audited consolidated balance sheet and profit and loss account and directors' report of PGC together with any other documents annexed thereto and any interim statement of results for PGC prepared on a consolidated basis.

13.8 Access to Books and Records

The Administrators shall subject to all applicable laws permit the auditors of the Issuer and any other person nominated by the Trustee at any time upon reasonable notice to have access to all books of record and account relating to the administration of the Mortgages and related matters in accordance with this Agreement.

13.9 Statutory Obligations

The Administrators will use their reasonable endeavours, on behalf of the Issuer, to prepare, assist or procure the preparation of and file all reports, annual returns, statutory forms and other returns which the Issuer is required by relevant law to prepare and file.

13.10 Further Information

- 13.10.1 PFPLC shall prepare and deliver or otherwise make available to the Issuer and/or the Trustee and/or the Rating Agencies such further information and/or reports whether in writing or otherwise as the Issuer and/or the Trustee and/or the Rating Agencies may reasonably require including, without limitation, information and/or reports in respect of each Collection Period on the matters set out in Schedule 7, such information and reports to be delivered or otherwise made available no later than 30 days following the end of the relevant Collection Period.

- 13.10.2 Not later than 15 Business Days after the end of each Interest Period PFPLC shall deliver to the Trustee a certificate signed by a duly authorised executive of the Administrators to the effect that the Administrators have during such Interest Period fulfilled all its obligations under this Agreement or if there has

been any breach of any such obligation, specifying such breach and its nature and status and the action, if any, which the Administrators are taking or proposes to take in order to remedy such breach.

13.10.3 Not later than the eighth Business Day, or as soon as practicable thereafter, after the Principal Determination Date immediately preceding each Interest Period, PFPLC will in accordance with the Conditions publish on the Relevant Screen (as defined in the Conditions) the Principal Amount Outstanding and the Pool Factor for each Note of a particular class.

13.10.4

- (a) If, prior to the giving of an Enforcement Notice, whilst any Class A Note remains outstanding, on any Interest Payment Date, the full amount of interest due on the Class A Notes then outstanding is not paid or if on any Interest Payment Date the full amount of interest due on the Class B Notes or the Class C Notes, or, if there are no Class A Notes outstanding but whilst any Class B Note remains outstanding, on any Interest Payment Date, the full amount of interest due on the Class C Notes is not paid:
- (i) PFPLC shall on behalf of the Issuer prepare and deliver to the Trustee by close of business on the second Business Day following such Interest Payment Date a report signed by a duly authorised officer of the Administrators and by a duly authorised officer of the Issuer and addressed to the Trustee setting out:
- (1) the cash balances on the Transaction Account at opening of business on such Interest Payment Date;
 - (2) the balances shown on each ledger maintained in the books of the Issuer at the opening of business on such Interest Payment Date;
 - (3) all cash payments or transfers which took place on such Interest Payment Date; and
 - (4) all movements between ledgers in the books of the Issuer on such Interest Payment Date.
- (b) If, prior to the giving of an Enforcement Notice, when no Class A Notes are outstanding, on any Interest Payment Date payment of interest due on the Class B Notes or the Class C Notes, or, when no Class A Notes and Class B Notes are outstanding, on any Interest Payment Date payment of interest due on the Class C Notes is not made in full, then a certificate *mutatis mutandis* in terms set out in (a) above shall be delivered by PFPLC within two Business Days of such date to the Trustee.

- (c) The Trustee, in the case of paragraph (a) and (b), may make such enquiries regarding such figures and ask for such clarification and further details as it may request, and the answers to such enquiries and such clarification and details shall be provided within one Business Day of being requested.
- (d) PFPLC on behalf of the Issuer shall, at the same time as the report or certificate referred to in (a) or (b) above is provided, provide to the Trustee confirmation from the Operating Bank confirming the amount of the Transaction Account balance on the relevant date or dates.
- (e) If having received such reports and such further information as it may request and such confirmation of amounts standing to bank accounts, the Trustee shall conclude that there were indeed insufficient funds to make the relevant payment, the Trustee shall be under no obligation to make any further enquiry or calculation or take any other further steps and the Trustee's conclusion shall be conclusive for all purposes. If the Trustee does not so conclude then the Trustee may without further enquiry or any further steps give such certificate to the Issuer, as is referred to in Condition 9 and such certificate shall be conclusive for all purposes.

14. INSURANCES

- 14.1 The Administrators will administer the arrangements for insurance to which the Issuer and/or the Trustee is a party to or in which any of the aforementioned has an interest in and which relate to the Mortgages or the businesses of the Issuer.
- 14.2 The Administrators shall use their reasonable endeavours to obtain the consent of the insurer under each such insurance to the Substitute Administrator (or any other person with the insurer's consent) administering the Mortgages.

Block Buildings Insurance

- 14.3 The Administrators shall not knowingly take any action or omit to take any action which would result in the avoidance or termination of any applicable Block Buildings Policy or would reduce the amount payable on any claim thereunder. The Administrators shall use reasonable endeavours to keep in full force and effect each Block Buildings Policy (or another policy providing equivalent cover) in relation to any Mortgage and associated Property to which it applies other than assuming any liability for the premium thereon.
- 14.4 The Administrators shall take such action as the Issuer and/or the Trustee shall reasonably direct and in the absence of such direction may on behalf of the Issuer pay premiums due and payable under any applicable Block Buildings Policy in order that the cover provided by such Block Buildings Policy shall not lapse.
- 14.5 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 permit to be paid direct to borrowers) (the "**Maximum Amount**") the proceeds of such claim will be sent directly to the Borrower. The Administrators may procure the preparation and submission on behalf of the Issuer and the Trustee of any claim under any Block Buildings Policy in excess of the Maximum Amount. In such a case the Administrators 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 Administrators 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 Administrators have satisfied themselves that all amounts due and owing from the Borrower under his Mortgage have been paid and subject to clauses 6, 7 and 8 of the Deed of Charge.

- 14.6 The Administrators shall manage the arrangements for collection and payment by Borrowers of premiums in relation to Block Buildings Policies (whether collected as part of a Monthly Payment or otherwise) in accordance with the relevant Mortgage Conditions, and the payment thereof to the relevant insurance company subject to clauses 6, 7 and 8 of the Deed of Charge.
- 14.7 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 Administrators will to the extent it is able and at the cost of the Issuer arrange such insurance in accordance with the terms of each Mortgage.
- 14.8 Upon receipt by the Administrators of a notice from an insurance company stating that a Property of a Borrower is no longer insured the Administrators, as agent of the Issuer shall to the extent they are able procure that the Property the subject of the notice is insured under a Block Buildings Policy.
- 14.9 The Administrators shall not permit any Property to cease to be insured under a Block Buildings Policy, unless such property qualifies for cover under the Mortgage Impairment Insurance for Financial Institutions Policy.

Mortgage Impairment Insurance for Financial Institutions Policy

- 14.10 The Administrators shall not knowingly take any action or omit to take any action which would result in the avoidance or termination of the Mortgage Impairment Insurance for Financial Institutions Policy or such other policy or policies of insurance providing similar cover of which the Issuer has the benefit or which would reduce the amount payable on any claim under any of the foregoing. The Administrators shall use reasonable endeavours to keep the Mortgage Impairment Insurance for Financial Institutions Policy (or, in each case, such other policy or policies providing equivalent cover) in full force and effect other than assuming any liability for the premium thereon.

- 14.11 The Administrators shall prepare and submit on behalf of the Issuer and the Trustee any claim under the Mortgage Impairment Insurance for Financial Institutions Policy or such other policy or policies of insurance aforesaid.

Fidelity Insurance Policy

- 14.12 The Administrators shall use their reasonable endeavours to maintain the Fidelity Insurance Policy (or other policies providing equivalent cover) in respect of the performance by the Administrators of the Services.
- 14.13 The Issuer shall reimburse to the Administrators on demand on any Interest Payment Date the proportion of the premium paid by the Administrators which is attributable to the cover extended to the Issuer subject to and in accordance with clauses 6, 7 and 8 of the Deed of Charge as a cost or expense incurred by the Administrators falling within clause 12.1.
- 14.14 The Administrators shall not knowingly take any action or omit to take any action which would result in the avoidance or termination of the Fidelity Insurance Policy or reduce the amount payable on any claim thereunder.
- 14.15 The Administrators shall prepare and submit on behalf of the Issuer and the Trustee any claim under the Fidelity Insurance Policy.

15. MORTGAGE DEEDS

- 15.1 Each Administrator shall keep the Mortgage Deeds and the Insurance Contracts in safe custody to the order of the Issuer and the Trustee and shall not without the prior written consent of the Trustee and the Issuer part with possession, custody or control of them otherwise than to a sub-contractor or delegate appointed pursuant to clause 4.3 or to a solicitor, licensed or qualified conveyancer or authorised practitioner subject to the usual undertaking or to the Land Registry or the Land Registry of Northern Ireland or Registry of Deeds, Belfast or the Registers of Scotland or for the purposes of the redemption of Mortgages subject to the conditions of clause 10.
- 15.2 The Mortgage Deeds and the Insurance Contracts shall be kept in such manner so that they are readily identifiable and distinguishable from the title deeds, life policies and insurance contracts of other properties and mortgages and charges which are held by or on behalf of each Administrator.
- 15.3 Each Administrator shall deliver such Mortgage Deeds to or to the order of the Trustee upon written request made by or on behalf of the Trustee at any time and shall provide access to the Mortgage Deeds to the Trustee and its agents at all reasonable times. Each Administrator acknowledges that the Mortgage Deeds in its possession, custody or control will be, after execution of the Deed of Charge, held to the order of the Issuer and the Trustee and that it has no beneficial interest therein whatsoever and irrevocably waives any rights or lien which it might have therein or to which it might at any time be entitled.

- 15.4 Each Administrator shall use all reasonable endeavours to ensure that within six months from the Closing Date all Mortgage Deeds together with the relevant Mortgage are in the possession or custody, or under the control, of the relevant Administrator. Where, for any reason, all such Mortgage Deeds, together with the relevant Mortgage are not in the possession or custody, or under the control of, each Administrator within such six month period, then the relevant Administrator shall deliver to the Issuer and the Trustee within one month of such date a schedule detailing the missing Mortgage Deeds and other such documents and their whereabouts (if then known to the relevant Administrator).

16. DATA PROTECTION

The Administrators will endeavour to procure that each of them, the Issuer, the Warehouse, each Seller and each Originator have all appropriate registrations, licences and authorities required under the Data Protection Act 1998 to enable each of them to perform their respective obligations under this Agreement and the Mortgage Sale Agreement.

17. SOFTWARE

- 17.1 PFPLC will use all reasonable endeavours to negotiate with the relevant parties so that any intellectual property rights not owned by it but used by it in connection with the performance of its obligations under this Agreement and in particular all software programs used in connection with the Mortgages and their administration are licensed or sub-licensed to the Issuer, the Trustee and, if appointed, any substitute administrator so as to permit the Issuer, the Trustee and, if appointed, any substitute administrator to use such intellectual property rights only in connection with the administration of the Mortgages free of charge for so long as any of the Mortgages are outstanding or, in relation to any substitute administrator, for such period as contemplated by Clause 17.3.2. For the avoidance of doubt, the Administrators shall not be in breach of its obligations under this Agreement if such rights and/or software programs are not so licensed or sub-licensed to the Issuer, the Trustee and, if appointed, any substitute administrator at any time after the relevant Administrator has ceased to be the Administrator.

- 17.2 As regards any such intellectual property rights which are owned by the PFPLC or granted by PFPLC to MTS, each Administrator grants to the Issuer, the Trustee and, if appointed, any substitute administrator a licence to use such intellectual property rights only in connection with the administration of the Mortgages free of charge for so long as any of the Mortgages are outstanding, or in relation to any substitute administrator, for such period as contemplated by Clause 17.3.2.

17.3

- 17.3.1 The Administrators will, not later than 5 days after the end of each Collection Period, deposit with the Trustee an up-to-date duplicate set of all computer records containing information on the Borrowers and the Mortgages and will,

on demand by the Trustee, supply the Trustee with a hard copy of the information contained on such computer tapes.

17.3.2 If this Agreement is terminated then:

- (a) the licence under clause 17.2 shall continue in force for a period of six months from the date of termination of this Agreement, when it shall immediately terminate; and
- (b) during such three month period the Administrators shall use reasonable endeavours to assist the Issuer and/or any substitute administrator, to
 - (i) establish and implement a computer system for administering the Mortgages and to load the data held by the Administrators in relation to Borrowers and the Mortgages onto that system, and (ii) make available the software licenses referred to in Clause 17.2 above.

17.4 Each Administrator covenants that it will take no action and will not omit to take any action the effect or likely effect of which will be to terminate any existing licence agreement in relation to any such intellectual property rights or bring to an end its right to grant the licence contained in clause 17.2, provided always that a licence agreement may be terminated if it is replaced by a substitute arrangement under which the intellectual property rights, including rights to computer software, are such that the services resulting therefrom are at least as good as under the previous arrangement.

18. COVENANTS OF ADMINISTRATORS

18.1 Each Administrator hereby covenants with and undertakes to each of the Issuer and the Trustee that without prejudice to any of its specific obligations hereunder:

- (a) it will devote the same amount of time and attention to and will exercise the same level of skill, care and diligence in, the performance of the Services as it would if it were administering mortgages, Standard Securities or charges of a similar type in respect of which it is the mortgagee, chargee or heritable creditor;
- (b) it will comply with any proper written directions, orders and instructions which the Issuer or the Trustee may from time to time give to it in accordance with the provisions of this Agreement (and in the event of any conflict those of the Trustee shall prevail);
- (c) it will use its reasonable endeavours to obtain and keep in force all licences, approvals, authorisations and consents which may be necessary in connection with the performance of the Services and in particular any applicable licences under the Consumer Credit Act 1974, and will use its reasonable endeavours to procure that the Issuer applies for and obtains a licence under the Consumer Credit Act 1974;

- (d) save as otherwise agreed with the Issuer and the Trustee it will provide free of charge to the Issuer office space, facilities, equipment and staff sufficient to fulfil the obligations of the Issuer under this Agreement;
- (e) it will not knowingly fail to comply with any legal requirements in the performance of the Services;
- (f) it will make all payments required to be made by it pursuant to this Agreement on the due date for payment thereof in sterling for value on such day without set off or counterclaim;
- (g) it will not amend or terminate any of the Relevant Documents, without in any case the prior written consent of the Trustee;
- (h) it will take all reasonable steps to enforce the obligations of each Hedge Provider under each Hedge Agreement and of any Cap Provider and Cap Guarantor under any Cap Agreement and Cap Guarantee and of any other provider or guarantor of any other hedging arrangements entered into by the Issuer;
- (i) it will administer the Mortgages and any related collateral security with due and proper regard to the principles and procedures set out in the Administration Manual or in such other manner as would a reasonably prudent mortgage lender administering its own mortgages, Standard Securities and charges of a similar type;
- (j) without prejudice to the provisions of the Subordinated Loan Agreement, it will, on behalf of the Issuer, request a drawing under the Subordinated Loan Agreement in the amount required pursuant to clause 8.3 to fund a Mandatory Further Advance (or a part thereof) or a Discretionary Further Advance (or a part thereof), as the case may be or, where relevant, in order to reduce the balance of the Principal Deficiency Ledger to zero or to replenish the First Loss Fund to the Required Amount;
- (k) to the extent that carrying out the Services in accordance with the provisions of this Agreement or the carrying on by the Issuer of its business as contemplated by the Relevant Documents requires the Administrators or the Issuer to obtain any authorisation, licence, approval or consent under the Financial Services and Markets Act 2000 (a "FSMA authorisation"), the Administrators will obtain, and will use their reasonable endeavours to keep in force, in each case in respect of itself, any such FSMA authorisation; and
- (l) in its capacity as Administrators for the Issuer, they shall not (a) engage in any activities in the United States (directly or through agents), (b) derive any income from sources within the United States as determined under U.S. federal income tax principles, and (c) hold any mortgaged property, located in the United States, in each case if doing so would cause the Issuer to be

engaged in or deemed to be engaged in a trade or business in the United States as determined under the U.S. federal income tax principles;

18.2 The covenants and undertakings of the Administrators in clause 18.1 shall remain in force until this Agreement is terminated but without prejudice to any right or remedy of the Issuer and/or the Trustee arising from breach of any such covenant prior to the date of termination of this Agreement.

18.3 Each Administrator also covenants with and undertakes to each of the Issuer and the Trustee to ensure that no Non-Verified Mortgages shall be sold to or purchased by the Issuer unless each of the following conditions is satisfied on the relevant Purchase Date:

- (a) each of the Rating Agencies have confirmed that the proposed purchase of Non-Verified Mortgages on such Purchase Date will not adversely affect any of the then current ratings of the Notes;
- (b) the party being the relevant seller of that Mortgage shall have delivered to the Trustee on the relevant Purchase Date:-
 - (i) a solvency certificate dated such Purchase Date and signed by a director or an authorised officer of that company;
 - (ii) a certificate confirming that each of the Non-Verified Mortgages to be purchased on such Purchase Date was originated on the same Lending Guidelines as those which applied to similar Mortgages purchased on the Closing Date; and
 - (iii) a satisfactory audit on the Non-Verified Mortgages being purchased, in accordance with the relevant terms agreed at that time with the Rating Agencies;
- (c) no Enforcement Notice has been served and there is no existing event of default under Condition 9.
- (d) Non-Verified Mortgages which have a maturity beyond 17 October 2039 may not be purchased; and
- (e) Such other conditions as are specified in the Mortgage Sale Agreement are satisfied.

The Administrators will deliver to the Trustee within 5 Business Days of the relevant Purchase Date a certificate that all the above conditions have been satisfied.

18.4 Each Administrator hereby covenants with and undertakes to the other Administrator to provide the other Administrator with all such information relating to the Mortgages administered by it as the other Administrator may reasonably request.

19. SERVICES NON-EXCLUSIVE

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

20. TERMINATION

20.1 If any of the following events (each, together with the event specified in clause 20.2, a "Termination Event") shall occur:

20.1.1 default is made by an Administrator in the payment on the due date of any payment due and payable by it under this Agreement and such default continues unremedied for a period of two Business Days after the earlier of the relevant Administrator becoming aware of such default and receipt by that Administrator of written notice from the Trustee requiring the same to be remedied;

20.1.2 default is made by any Administrator in the performance or observance of any of its other covenants and obligations under this Agreement, which in the opinion of the Trustee is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders and the Class C Noteholders or, if the Class A Notes and the Class B Notes have been redeemed in full, the Class C Noteholders and (except where in the reasonable opinion of the Trustee, such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned will be required) such default continues unremedied for a period of 14 days after the earlier of any Administrator becoming aware of such default and receipt by any Administrator of written notice from the Trustee requiring the same to be remedied, provided however that where the relevant default occurs as a result of a default by any person to whom any Administrator has sub-contracted or delegated part of its obligations hereunder such default shall not constitute a Termination Event if within such 14 day period any Administrator terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Trustee may reasonably specify to remedy such default or to indemnify the Issuer against the consequences of such default;

20.1.3 an order is made or an effective resolution passed for winding up of any Administrator;

20.1.4 any Administrator ceases or threatens to cease to carry on its business or a substantial part of its business or stops payment or threatens to stop payment of its debts or any Administrator is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities

(taking into account for both these purposes its contingent and prospective liabilities) or otherwise becomes insolvent; or

- 20.1.5 proceedings are initiated against any Administrator under any applicable liquidation, administration, insolvency, composition, reorganisation (other than a reorganisation the terms of which have been approved by the Trustee and where any Administrator is solvent) or other similar laws, save where such proceedings are being contested in good faith by any Administrator, or an administrative or other receiver, administrator or other similar official is appointed in relation to any Administrator or in relation to the whole or any substantial part of the undertaking or assets of any Administrator or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of any Administrator, or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of any Administrator and in any of the foregoing cases it shall not be discharged within 15 days; or if any Administrator shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally,

then the Trustee may at once or at any time thereafter while such default continues by notice in writing to each Administrator terminate the appointment of each Administrator with effect from a date (not earlier than the date of the notice) specified in the notice provided that if during the period on which PFPLC and MTS are the providers of the Services, the relevant event has occurred in relation to only one of the Administrators (the "**Defaulting Administrator**"), and the other Administrator gives notice under clause 9.4 of the Deed of Charge, the event shall be deemed to be remedied (and for all purposes under the Relevant Documents no Termination Event shall have occurred) and shall only entitle the appointment of the Defaulting Administrator to be terminated. For the avoidance of doubt, the cessation and release of the rights and obligations of the Defaulting Administrator and the corresponding assumption by the Assuming Administrator (as that term is defined in paragraph (B) of the definition of "**Administrator**" in this Agreement) of all such rights and obligations pursuant to, and upon the giving of notice by the Assuming Administrator in accordance with, clause 9.4 of the Deed of Charge shall not constitute termination of the appointment of the Defaulting Administrator for the purposes of this clause 20.

- 20.2 If at any time an Administrator does not have any FSMA authorisation which it is required to have in order to enable it to perform the Services without it or the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of the Financial Services and Markets Act 2000 in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised, the appointment of that Administrator will, unless that Administrator, the Trustee and the Issuer agree otherwise in writing, or the other Administrator gives notice under clause 9.4 of the Deed of Charge, terminate with immediate effect.

- 20.3 On and after termination of the appointment of any Administrator pursuant to clause 20.1 or clause 20.2, all authority and power of that Administrator under this Agreement shall be terminated and of no further effect and the relevant Administrator shall not thereafter hold itself out in any way as the agent of the Issuer or the Trustee.
- 20.4 Upon termination of the appointment of any Administrator pursuant to clause 20.1 or clause 20.2, the relevant Administrator shall forthwith deliver (and in the meantime hold on trust for, and to the order of the Trustee) to the Trustee or as it shall direct the relevant Loan Files, the Mortgage Deeds, the Insurance Contracts, all books of account, papers, records, registers, correspondence and documents in its possession or under its control relating to the affairs of or belonging to the Issuer and the Trustee and the Mortgages and any other security therefor, any moneys then held by that Administrator on behalf of the Issuer and/or the Trustee and any other assets of the Issuer or the Trustee and shall take such further action as the Trustee may reasonably direct.

The relevant Administrator will, in addition, provide all relevant information contained on computer records in the form of computer disks, together with details of the layout of the files encoded on such computer disks. The relevant Administrator shall co-operate and consult with and assist the Trustee or its nominees for the purposes of explaining the file layouts and the format of the computer disks generally. Upon termination of the appointment of any Administrator pursuant to clause 20.1 or clause 20.2, a substitute administrator may be appointed only by the Trustee, and provided that such substitute administrator shall enter into an agreement with the Trustee substantially on the terms of this Agreement (in particular, but without limitation, taking account of the provisions of clause 5.5.1), subject to clause 9.1 of the Deed of Charge. The Issuer shall, promptly following the execution of such agreement, execute a charge of its interest in such agreement in favour of the Trustee in the terms of the Deed of Charge (and in particular, but without limitation, clause 3.8 of the Deed of Charge), *mutatis mutandis*, to the satisfaction of the Trustee.

- 20.5 This appointment of each Administrator may be terminated upon the expiry of not less than 12 months' notice of termination given by each Administrator to the Issuer and the Trustee, provided that:
- (a) the Trustee and the Substitute Administrator consent in writing to such termination;
 - (b) a substitute administrator (which can include the Substitute Administrator in which case the terms of clause 20.12 shall apply) shall be appointed, such appointment to be effective not later than the date of termination of the appointment of any Administrator (and the Administrator shall notify the Rating Agencies in writing of the identity of such substitute administrator), and such substitute administrator (if other than the Substitute Administrator) enters into an agreement substantially on the terms of this Agreement (in particular, but without limitation, taking account of the provisions of clause 5.5.1) but subject to clause 8.1 of the Deed of Charge and any

Administrator shall not be released from its obligations under this Agreement until such substitute administrator (if other than the Substitute Administrator) has entered into such new agreement;

- (c) such substitute administrator has experience of administering mortgages and charges of residential property in England and Wales, Northern Ireland and Scotland and (if other than the Substitute Administrator) is approved by the Trustee; and
 - (d) the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes by the Rating Agencies are not affected as a result thereof unless otherwise agreed by an extraordinary resolution of the Class A Noteholders, the Class B Noteholders or the Class C Noteholders respectively.
- 20.6 The Administrator shall deliver to the Issuer and the Trustee as soon as reasonably practicable but in any event within five days of becoming aware thereof a notice of any Termination Event or any Event of Default (as defined in Condition 9) or any event which with the giving of notice or lapse of time or certification would constitute the same.
- 20.7 Termination of the appointment of any Administrator, or termination of this Agreement, shall be without prejudice to liabilities of the Issuer or the Trustee due to the Administrator incurred before the date of such termination or vice versa. The Administrator shall have no right of set off or any lien in respect of such amounts against amounts held by it on behalf of the Issuer.
- 20.8 This Agreement shall terminate at such time as neither the Issuer nor the Trustee has any further interest in any of the Mortgages or, if later, upon discharge of all Secured Amounts other than the PFPLC Secured Amounts and the Seller Secured Amounts.
- 20.9 On termination of the appointment of any Administrator under the provisions of this clause 20, the relevant Administrator shall be entitled to receive all fees and other moneys accrued up to the date of termination but shall not be entitled to any other or further compensation. Such moneys so receivable by that Administrator shall be paid solely by the Issuer on the dates on which they would otherwise have fallen due hereunder. For the avoidance of doubt, such termination shall not affect the relevant Administrator's rights to receive payment of all amounts due to it by the Issuer other than under this Agreement, including but without limitation, all amounts due under the Services Letter and the Deed of Charge.
- 20.10 Prior to termination of this Agreement, the Administrator, each Originator, the Trustee and any substitute administrator shall if the Trustee requires co-operate to obtain the agreement of the Borrowers to a new bank mandate permitting the Issuer, the Trustee or such substitute administrator to operate the Direct Debiting Scheme.
- 20.11 Any provision of this Agreement which is stated to continue after termination of the Agreement shall remain in full force and effect notwithstanding termination.

- 20.12 If the Trustee is unable to appoint a substitute administrator pursuant to the terms of this clause 20, the Substitute Administrator has agreed under the Substitute Administrator Agreement that it will act as such substitute administrator pursuant to, and in accordance with, the terms of the Substitute Administrator Agreement.

21. THE TRUSTEE

- 21.1 In the event that there is any change in the identity of the Trustee in accordance with the Trust Deed, the retiring Trustee, the Administrators, each Originator, each Seller and the Issuer shall execute such documents and take such actions as such new Trustee may reasonably require for the purpose of vesting in such Trustee the rights of the Trustee under this Agreement and the Deed of Charge and, if so determined by the new Trustee, releasing the retiring Trustee from further obligations thereunder and, while any Note remains outstanding, shall give notice thereof to the Rating Agencies.
- 21.2 Nothing herein contained shall impose any obligation or liability on the Trustee to assume or perform any of the obligations of the Issuer, each Originator, each Seller or the Administrators hereunder or render it liable for any breach thereof.

22. FURTHER ASSURANCE

- 22.1 The parties hereto agree that they will co-operate fully to do all such further acts and things and execute any further documents as may be necessary or desirable to give full effect to the arrangements contemplated by this Agreement.
- 22.2 Without prejudice to the generality of clause 22.1, the Issuer, the Trustee, each Seller and each Originator shall upon request by the Administrators forthwith give to the Administrator such further powers of attorney or other written authorisations or mandates and instruments as are necessary to enable the Administrators to perform the Services.

23. CONFIDENTIALITY

None of the parties hereto shall during the continuance of this Agreement or after its termination disclose to any person, firm or company whatsoever any information relating to the business, finances or other matters of a confidential nature of any other party hereto of which it may in the course of its duties hereunder or otherwise have become possessed and all the parties hereto shall use all reasonable endeavours to prevent any such disclosure as aforesaid, provided however that the provisions of this clause 23 shall not apply:

- (a) to any information already known to the recipient otherwise than as a result of entering into any of the Relevant Documents;
- (b) to any information subsequently received by the recipient which it would otherwise be free to disclose;
- (c) to any information which is or becomes public knowledge otherwise than as a result of the conduct of the recipient;

- (d) to any extent that the recipient is required to disclose the same pursuant to any law or order of any court or pursuant to any direction, request or requirement (whether or not having the force of law) of any central bank or any governmental or other authority (including, without limitation, any official bank examiners or regulators);
- (e) to the extent that the recipient needs to disclose the same for the protection or enforcement of any of its rights under any of the Relevant Documents or in connection herewith or therewith or, in the case of the Trustee, for the purpose of discharging, in such manner as it thinks fit, its duties under or in connection with such agreements in each case to such persons as require to be informed of such information for such purposes; or
- (f) to any information which the Rating Agencies may require to be disclosed to them.

Notwithstanding any provision herein, any person (and each employee, representative, or other agent of such person) may disclose to any and all other persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of the transaction and all materials of any kind (including opinions or other tax analyses) that are provided to such person relating to such U.S. tax treatment and U.S. tax structure.

24. NOTICES

24.1 Any notices to be given pursuant to this Agreement to any of the parties hereto or to the Rating Agencies shall be sufficiently served if delivered by hand or sent by prepaid post or by facsimile transmission or by email transmission and shall be deemed to be given upon receipt and shall be delivered or sent:

- (a) in the case of the Issuer, to the address appearing at the beginning of this Agreement (facsimile number: 0121 712 2072, for the attention of The Company Secretary or email to Company_Secretary@Paragon-group.co.uk for the attention of The Company Secretary);
- (b) in the case of PFPLC, to the address appearing at the beginning of this Agreement (facsimile number: 0121 712 2072, for the attention of The Company Secretary or email to Company_Secretary@Paragon-group.co.uk for the attention of The Company Secretary);
- (c) in the case of PML, to the address appearing at the beginning of this Agreement (facsimile number: 0121 712 2072, for the attention of the Company Secretary or email to Company_Secretary@Paragon-group.co.uk for the attention of The Company Secretary);
- (d) in the case of the Trustee, to the address appearing at the beginning of this Agreement (facsimile number: 020 7500 5248, for the attention of: Agency & Trust);

- (e) in the case of Moody's, to 2 Minster Court, Mincing Lane, London EC3R 7XB (facsimile number: 020 7772 5400, for the attention of Structured Finance Monitoring; and
- (f) in the case of S&P, to 20 Canada Square, Canary Wharf, London E14 5LH (facsimile number: 020 7826 3598, for the attention of: Structured Finance Ratings);
- (g) in the case of Fitch to Eldon House, 2 Eldon Street, London EC2M 7UA (facsimile number: 020 7417 6262, for the attention of: Structured Finance Ratings);
- (h) in the case of MTS to the address appearing at the beginning of this Agreement (facsimile number: 0121 712 2072, for the attention of The Company Secretary or email to Company_Secretary@Paragon-group.co.uk for the attention of The Company Secretary); and
- (i) in the case of MTL to the address appearing at the beginning of this Agreement (facsimile number: 0121 712 2072, for the attention of The Company Secretary or email to Company_Secretary@Paragon-group.co.uk for the attention of The Company Secretary);

or to such other address or facsimile number or email address or for the attention of such other person or entity as may from time to time be notified by any party to the others by written notice in accordance with the provisions of this clause 24.

24.2 The Trustee shall endeavour to contact a director of the Issuer by telephone as soon as possible after becoming aware of any default in respect of which a notice is to be given pursuant to clauses 20.1.1 and 20.1.2 of this Agreement but failure by the Trustee to make such contact despite the use of such endeavours shall not affect the Trustee's rights under clause 20.1.

24.3

- 24.3.1 The Administrators shall, while any Note remains outstanding, give notice to the Rating Agencies of:
- (a) any amendment which the Trustee considers material to any of the Relevant Documents;
 - (b) the Class A Notes (or any class thereof) being repaid in full, the Class B Notes being repaid in full or the Class C Notes being repaid in full;
 - (c) any repurchase by any Seller of a Mortgage pursuant to clause 8 of the Mortgage Sale Agreement; and
 - (d) any Event of Default under the Notes.

24.3.2 The Administrators shall within 30 days of the end of each Collection Period give or otherwise make available to the Rating Agencies in accordance with clause 13.10.1 information on or a report in respect of:

- (a) the number and aggregate or principal amount of all Mortgages respectively 30, 60 and 90 days in arrears at the end of such Interest Period;
- (b) the number of Mortgages in respect of which orders for possession were granted during the preceding Interest Period;
- (c) the number of Mortgages in respect of which orders for possession were pending during the preceding Interest Period; and
- (d) the gross and net losses incurred in respect of Mortgages in respect of which Enforcement Procedures have been completed during such preceding Interest Period.

24.3.3 The Administrators shall give notice to the Rating Agencies (with a copy to the Trustee) if at any time it is intended that the loan relationships of the Issuer will not be brought into account for the purposes of (i) accounts required to be prepared under the Companies Act 1985 and (ii) Part IV Chapter II Finance Act 1996 in accordance with an authorised accruals basis or accounting within section 85 Finance Act 1996 or, in relation to periods of account beginning on or after 1 January 2005, the amortised cost basis of accounting.

25. NO VARIATION AND WAIVER

No variation or waiver of this Agreement shall be effective unless it is in writing and signed by (or by some person duly authorised by) each of the parties. No single or partial exercise of, or failure or delay in exercising, any right under this Agreement shall constitute a waiver or preclude any other or further exercise of that or any other right.

26. ASSIGNMENT

26.1 The Issuer may not assign or transfer any of its rights and obligations under this Agreement without the prior written consent of the Trustee and the Administrators except that the Issuer may assign its rights hereunder without such consent only by way of the Deed of Charge.

26.2 Subject to clause 26.3 below, the Administrators may not assign or transfer any of its rights and obligations under this Agreement to any other person without the prior written consent of the Issuer and the Trustee.

26.3 Each of PFPLC and MTS may assign or transfer any of their rights and obligations under this Agreement to each other without the prior written consent of the Issuer and the Trustee.

27. EXCLUSION OF THIRD PARTY RIGHTS

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

28. GOVERNING LAW

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

Administration Agreement

IN WITNESS whereof the parties have caused this Agreement to be executed as a deed the day and year first before written at London.

Executed by:
as its deed as follows:
Signed for and on its behalf by one of its
duly authorised attorneys

Paragon Finance PLC

By JOHN ALEXANDER HARVEY

Name John Alexander Harvey

Signature MARTIN CORRIGAN

Name Martin Corrigan
Occupation Trainee Solicitor
Address Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Executed by:
as its deed as follows:
Signed for and on its behalf by one of its
duly authorised attorneys

Paragon Mortgages (No. 11) PLC

By JOHN ALEXANDER HARVEY

Name John Alexander Harvey

Signature MARTIN CORRIGAN

Name Martin Corrigan
Occupation Trainee Solicitor
Address Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Executed by:
as its deed as follows:
Signed for and on its behalf by one of its
duly authorised attorneys

Paragon Mortgages Limited

By JOHN ALEXANDER HARVEY

Name John Alexander Harvey

Signature MARTIN CORRIGAN

Name Martin Corrigan
Occupation Trainee Solicitor
Address Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Executed by:
as its deed as follows:
Signed for and on its behalf by one of its
duly authorised attorneys

Mortgage Trust Services plc

By JOHN ALEXANDER HARVEY

Name John Alexander Harvey

Signature MARTIN CORRIGAN

Name Martin Corrigan
Occupation Trainee Solicitor
Address Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

Executed by:
as its deed as follows:
Signed for and on its behalf by one of its
duly authorised attorneys

Mortgage Trust Limited

By JOHN ALEXANDER HARVEY

Name John Alexander Harvey

Signature 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

By DAVID MARES

Name David Mares

SCHEDULE 1
THE SERVICES

1. The Mortgage and Loan Administration Services

The Administrators shall:

- (a) operate the Transaction Account and ensure that payments are made into and from each such account in accordance with this Agreement; provided however that nothing herein shall require the Administrators to make funds available to the Issuer to enable such payments to be made other than as expressly required by the provisions of this Agreement;
- (b) keep records/books of account/documents for the Issuer and in relation to the Mortgages;
- (c) keep records for all taxation purposes including VAT;
- (d) notify Borrowers of any change in their Monthly Payment;
- (e) assist the auditors of the Issuer and provide information to them upon reasonable request;
- (f) ensure that the Issuer adopts the authorised accrual basis of accounting in relation to its loan relationships or, in relation to periods of account beginning on or after 1 January 2005, the amortised cost basis of accounting;
- (g) prepare and send an annual statement to Borrowers in its usual form;
- (h) provide a redemption statement upon the request of a Borrower's solicitor or licensed or qualified conveyancer;
- (i) notify Borrowers of any change in the premium payable on any Block Buildings Policy arising from such policy being index-linked and the cover increasing as a result thereof and of changes generally in the premium payable under any Block Buildings Policy;
- (j) from time to time on behalf of the Issuer calculate in accordance with and in the manner provided in the Fee Letter the amounts payable under the Fee Letter;
- (k) from time to time on behalf of the Issuer calculate in accordance with and in the manner provided in the Services Letter the amounts payable under the Services Letter; and
- (l) from time to time on behalf of the Issuer calculate in accordance with and in the manner provided in the Subordinated Loan Agreement (and promptly notify the parties thereto) the interest rate and amount of principal and interest payable by the Issuer on, or in respect of, the Subordinated Loan Agreement.

2. General Services

The Administrators shall:

- (a) make all filings, give all notices and make all registrations and other notifications required in the day-to-day operation of the business of the Issuer;
- (b) arrange for all payments due to be made by the Issuer under any of the Relevant Documents to be made, provided that such moneys are at the relevant time available to the Issuer and provided further that nothing herein shall constitute a guarantee by the Administrators of all or any of the obligations of the Issuer under any of the Relevant Documents;
- (c) keep general books of account and records of the Issuer and provide accounting services, including reviewing receipts and payments, supervising and assisting in the preparation of interim statements and final accounts, and supervising and assisting in the preparation of tax returns of the Issuer;
- (d) make all returns and filings required to be made by the Issuer;
- (e) provide company secretarial and administration services to the Issuer including the keeping of all registers and the making of all returns required by English, Northern Irish or Scots law or by U.K. regulatory authorities (as applicable), co-operate in the convening of board and general meetings and provide registered office facilities for the Issuer;
- (f) itself on behalf of the Issuer pay, or procure the payment in accordance with the Deed of Charge of, all the out-of-pocket expenses of the Issuer incurred in the performance of the Administrators' duties hereunder including without limitation:
 - (i) all taxes which may be due or payable by the Issuer;
 - (ii) all registration, recording, transfer, filing and other fees, stamp duty and other charges payable in respect of the purchase by the Issuer of the Mortgages from the relevant Sellers;
 - (iii) all necessary filing and other fees in compliance with regulatory requirements;
 - (iv) all legal and audit fees and other professional advisory fees;
 - (v) all communication expenses including postage, telephone and telex charges;
 - (vi) fees payable to The London Stock Exchange plc and/or the UK Listing Authority; and
 - (vii) all premiums payable by the Issuer in respect of the Insurance Contracts;

Administration Agreement

- (g) subject to the provisions of this Agreement (including, but without limitation, clause 6.4) take all reasonable steps to recover all sums due to the Issuer;
- (h) determine the Principal Amount Outstanding and the Pool Factor for each Note for each Interest Period and determine the Available Redemption Funds, the Class A Available Redemption Funds and the Subordinated Available Redemption Funds on each Principal Determination Date and the Principal Payment in respect of each Note to be made on the Interest Payment Date to which such Principal Determination Date relates;
- (i) take all other action and do all other things which it would be reasonable to expect a reasonably prudent mortgage lender to do in administering its mortgages and charges; and
- (j) provide services in relation to Hedge Collateral held by or on behalf of the Issuer from time to time (including, without limitation, in connection with the transfer, receipt, administration and/or holding of Hedge Collateral, the making of calculations, determinations, communications or valuations, the opening and maintenance of the Hedge Collateral Accounts and the Hedge Collateral Ledger; and the entering into of Hedge Collateral Ancillary Documents).

SCHEDULE 2

INSURANCES

Part A

Buildings Policies

1. **Block Buildings Policies (to the extent that such policies relate to the Properties)**

Berkshire Hathaway International
Insurance Limited : 1014803BC and 1400099

2. **Other Buildings Policies**

Those building insurance policies on the Properties (not being any of the Block Buildings Policies) where, among others, the relevant Originator, the Issuer or the Trustee, or one or more of them is a named insured or where any of their respective interests are noted.

Part B

Other insurance contracts

1. The Fidelity Insurance Policy.
2. The Mortgage Impairment Insurance for Financial Institutions Policy to the extent that such policy relates to the Mortgages.

SCHEDULE 3
MINIMUM MORTGAGE RATE AND SHORTFALL

1. Minimum Mortgage Rate on a date shall mean the aggregate of:

- (i) GBP LIBOR; and
- (ii) 1.6 per cent. per annum (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until (and including) the Interest Payment Date falling in April 2011, and thereafter 2.0 per cent. per annum (or such higher percentage as the Issuer may from time to time select and notify to the Trustee).

2. The average yield on the PML Mortgages and MTL Mortgages on a date shall be calculated as follows:

$$A = \frac{(M_0 \times MR_0 + M_1 \times MR_1 + M_2 \times MR_2 \dots + M_x \times MR_x) + (C \times \frac{365^*}{X})}{M_0 + M_1 + M_2 \dots + M_x}$$

where:

M_0 to M_x are the aggregate principal amounts outstanding (including further advances made, which include Flexible Drawing Capitalised Advances) on the immediately preceding Principal Determination Date of the Mortgages then owned by the Issuer on which interest is payable at the same rate;

MR_0 to MR_x are the various rates of interest payable on different Mortgages expressed as a per annum percentage rate;

C is the aggregate of all amounts expected to be received by the Issuer under all Cap Agreements and Cap Guarantees or any other hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account and all amounts recovered in respect of early redemption amounts or guarantees relating thereto and the net amount expected to be received (expressed as a positive number) or paid (expressed as a negative number) by the Issuer under each Basis Hedge Agreement or such other hedging arrangements in each case during the Interest Period in which the date of calculation falls;

X is the number of days in that Interest Period;

and expressed as a percentage.

3. The shortfall is:

$$(M - A) \times (M_0 + M_1 + M_2 \dots + M_x) \times \frac{X}{365}$$

365*

where M is the Minimum Mortgage Rate referred to above provided that if the result of the foregoing calculation would be a negative number the shortfall shall be zero; and

where the other symbols are as indicated in paragraph 2 above.

* or 366 in a leap year

SCHEDULE 4

POTENTIAL INTEREST SHORTFALL AMOUNT

The Potential Interest Shortfall Amount on any Principal Determination Date shall be calculated as follows (unless the result of such calculation would be a negative number in which event the Potential Interest Shortfall Amount on such Principal Determination Date shall be zero):

$$P = A + B + C - (D + E + F + G + H)$$

where:

- P is the Potential Interest Shortfall Amount;
- A is the GBP Equivalent amount of interest due and overdue on the Class A Notes on the next Interest Payment Date;
- B is the aggregate of all amounts (not included within A above) which are referred to in clauses 6.1.2(a), (b) and (c) of the Deed of Charge and which are payable on the next Interest Payment Date together with any amount which is referred to in clause 6.1.2(h) of the Deed of Charge and which is payable on such next Interest Payment Date;
- C is the aggregate amount (not included within A and B above) of any payments to third parties expected to be made debiting the Revenue Ledger (in priority to any of the amounts referred to in A and B above) pursuant to clause 6.1.1 of the Deed of Charge on or before the next Interest Payment Date;
- D is the balance standing to the credit of the Revenue Ledger on such Principal Determination Date;
- E is the amount of income expected to arise from any Authorised Investments on or before the next Interest Payment Date;
- F is the amount then standing to the credit of the Shortfall Fund and the First Loss Fund;
- G is the aggregate amount of interest payable on or before the next Interest Payment Date by those Borrowers who paid the amount due from them on the most recent Mortgage Payment Date; and
- H is the aggregate of the amount receivable by the Issuer under all Cap Agreements and Cap Guarantees or any other hedging arrangements entered into by the Issuer or guarantees relating thereto plus the amount receivable (expressed as a positive number) under each Basis Hedge Agreement or such other hedging arrangement in each case on or before the next Interest Payment Date.

SCHEDULE 5
FORM OF POWER OF ATTORNEY OF THE ISSUER

THIS DEED OF POWER OF ATTORNEY is made and given on 23 March 2006 whereby **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**") **HEREBY APPOINTS** each Attorney severally and separately to be the true and lawful attorney of the Issuer for the purposes and on the terms hereinafter set forth. In this Deed, "**Attorney**" means each of **PARAGON FINANCE PLC** whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE and **MORTGAGE TRUST SERVICES PLC** whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE.

NOW THIS DEED WITNESSETH

1. The Issuer **HEREBY APPOINTS** each Attorney severally and separately as its true and lawful Attorney:

- (A) to execute under hand or seal any instrument necessary or expedient to discharge, vacate or release:
 - (i) any and every mortgage, charge or Standard Security assigned or transferred to the Issuer by Paragon Mortgages Limited and Mortgage Trust Services PLC (each a "**Seller**") under a mortgage sale agreement dated the same date as this Power of Attorney (the "**Mortgage Sale Agreement**") between each Seller, each Originator, the Warehouser, the Issuer and Citicorp Trustee Company Limited (the "**Trustee**"); and
 - (ii) any and every mortgage, Standard Security or charge over real or heritable or personal or moveable property assigned or transferred to the Issuer by each Seller

(such mortgages, Standard Securities, charges, sub-mortgages or sub-charges to be known together as the "**Charges**"), in such form as the relevant Attorney shall consider appropriate;

- (B) to execute under hand or under seal or otherwise perfect any deed, assurance, agreement, instrument or act which may be required by a mortgagor, registered proprietor or registered owner of land charged by way of legal mortgage, charge or Standard Security to the Issuer or which properly should be re-transferred by the Issuer to the relevant Originator or which may be reasonably required by the relevant Originator in respect of any Cap Agreement or Cap Guarantee or each Basis Hedge Agreement (each as defined in the administration agreement dated the same date as this Power of Attorney (the "**Administration Agreement**") between, among others, each Attorney, the Issuer, the Sellers, the Originators and the Trustee) or any other hedging

arrangement to be transferred by the Issuer to each Originator, in each case as the Attorney shall consider necessary and proper;

- (C) during any period while no application for registration or recording at the Land Registry or the Land Registry of Northern Ireland or the Registry of Deeds, Belfast or the Registers of Scotland (as the case may require) of the Trustee as proprietor, owner or heritable creditor of a Charge is outstanding following the valid service of a Protection Notice on the Issuer:
- (i) to exercise its rights, powers and discretions under the Charge (including the right to fix the rate of interest payable under the Charge and to calculate the Monthly Payments or Monthly Payments (as the case may be) of interest and principal payable by Borrowers in respect of Repayment Mortgages) and any collateral security therefor and any related rights;
 - (ii) to make further advances to Borrowers in circumstances where a Borrower is entitled to receive a further advance under the Mortgage Conditions;
 - (iii) to demand, sue for and receive all moneys due or payable under the Charge or any such collateral security or related rights (including rights under the Insurance Contracts); and
 - (iv) upon payment of such moneys or of any part thereof to give good receipts and discharges for the same and to execute such receipts releases re-assignments surrenders instruments and deeds as may be requisite or advisable.

2. The Issuer **DECLARES THAT:**

- (A) this Power of Attorney shall continue in force until notice of the revocation of such Power shall have been received by each Attorney; and
- (B) it will ratify and confirm any act done by each Attorney in exercise of this Power of Attorney,

provided however that save in respect of the power contained in paragraph 1(C) hereof, for the avoidance of doubt, this Power of Attorney shall not authorise the Attorney to sell any of the Charges.

Words and expressions not otherwise defined in this Power of Attorney shall bear the meaning ascribed to them in the Mortgage Sale Agreement and the Administration Agreement.

This Power of Attorney is governed by, and shall be construed in accordance with, English law.

IN WITNESS WHEREOF these presents have been executed as a deed the day and year first before written.

Executed by:
as its deed as follows:
Signed for and on its behalf by one of its
duly authorised attorneys

Paragon Mortgages (No. 11) PLC

By _____
Attorney

Name

Signature _____
Witness

Name

Occupation

Address

SCHEDULE 6
FORM OF TRUSTEE'S POWER OF ATTORNEY

THIS DEED OF POWER OF ATTORNEY is given on 23 March 2006 by **CITICORP TRUSTEE COMPANY LIMITED** whose registered office is at Citigroup Centre, 14th Floor, Canada Square, Canary Wharf, London E14 5LB (the "**Trustee**") in favour of each Attorney severally and separately. In this Deed, "**Attorney**" means each of **PARAGON FINANCE PLC** and **MORTGAGE TRUST SERVICES PLC** whose registered offices are at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE.

- (A) By a mortgage sale agreement (the "**Mortgage Sale Agreement**") dated the same date as this Power of Attorney and made between, among others, Paragon Mortgages Limited, ("PML"), Mortgage Trust Services plc. ("MTS") (together with PML, the "**Sellers**") Paragon Mortgages (No. 11) PLC (the "**Issuer**") and the Trustee the Issuer agreed to purchase certain Mortgages beneficially owned by the Sellers in accordance with the terms of the Mortgage Sale Agreement.
- (B) By an administration agreement (the "**Administration Agreement**") dated the same date as this Power of Attorney and made between each Attorney, the Issuer, the Sellers, the Originators and the Trustee, the Trustee and the Issuer each agreed (according to their respective estates and interests) to appoint each Attorney as its lawful agent in its name and on its behalf to provide administration services to the Issuer in relation to the Mortgages and, where relevant, collateral security therefor, and to exercise the rights, powers and discretions and to perform the duties and obligations of the Issuer in respect of the Mortgages and, where relevant, the collateral security.
- (C) Pursuant to the Mortgage Sale Agreement and for the better performance of its obligations under the Administration Agreement, the Trust Deed and the Deed of Charge (each as defined in the Administration Agreement) and at the request of the Attorney the Trustee has agreed to enter into these presents for the purposes hereinafter appearing.

NOW THIS DEED WITNESSETH that the Trustee **HEREBY APPOINTS** each Attorney severally and separately to be its true and lawful attorney for it and in its name to do any of the following acts, deeds and things or any of them as may be within the power of the Trustee under or pursuant to the Trust Deed and the Deed of Charge:

1. To exercise its rights powers and discretions in respect of the Mortgages, including without limitation any right to fix the rate or rates of interest payable under the said Mortgages and to calculate the Monthly Payments of interest and principal payable by Borrowers in respect of Repayment Mortgages, and, where relevant, in respect of the collateral security therefor and any related rights.
2. To exercise all the powers exercisable by the Trustee by reason of it being the registered sub-proprietor or sub-creditor of a sub-charge or sub-security of any of the Mortgages over the grantee's interest under any Mortgage.

3. To demand, sue for and receive all moneys due or payable under or in respect of the Mortgages or any collateral security therefor or under or in respect of any Cap Agreement or Cap Guarantee or any Hedge Agreement (each as defined in the Administration Agreement) or any other hedging arrangement in which it has an interest or in respect of any rights related to any of the aforesaid (including rights under the Insurance Contracts).
4. Upon payment of such moneys as are referred to in paragraph 3 above or of any part thereof to give good receipts and discharges for the same and to execute such receipts, releases, re-assignments, retrocessions, surrenders, instruments and deeds as may be requisite or advisable.
5. From time to time and with the consent of the Trustee to substitute and appoint severally one or more attorneys (the "Substitute Attorneys") for all or any of the purposes aforesaid,

provided however that for the avoidance of doubt this Power of Attorney shall not authorise each Attorney or any Substitute Attorney to sell, transfer, assign, sub-charge or create any security interest over any of the Mortgages or collateral security or any Cap Agreement or Cap Guarantee or any Hedge Agreement or any other hedging arrangement other than as contemplated by the Mortgage Sale Agreement, the Trust Deed and the Deed of Charge

AND the Trustee hereby agrees at all times hereafter to ratify and confirm any act, matter or deed whatsoever each Attorney or any Substitute Attorney shall lawfully do or cause to be done under or concerning these presents to the extent that such act or acts and execution are within the power of the Trustee and within the contemplation of this Power of Attorney.

Words and expressions not otherwise defined in this Power of Attorney shall bear the meaning ascribed to them in the Mortgage Sale Agreement and the Administration Agreement.

This Power of Attorney is governed by, and shall be construed in accordance with, English law.

Administration Agreement

IN WITNESS whereof these presents have been executed as a deed this day and year first before written.

Executed as a deed by:
acting by:

Citicorp Trustee Company Limited

By _____
Director
Name

By _____
Director/Secretary
Name

SCHEDULE 7
CONTENTS OF INVESTOR REPORT

1. Any changes in rate or rates of interest chargeable to Borrowers.
2. Retained Pre-Closing Accounts and Arrears that have been paid to the relevant Seller during the Collection Period.
3. The aggregate amount that has been received by the Issuer in respect of the Purchased Pre-Closing Accruals and Arrears.
4. The aggregate amount of principal received in connection with the Mortgages redeemed in whole or in part during the Collection Period.
5. Mandatory Further Advances made in aggregate between the Closing Date and the end of the Collection Period.
6. Discretionary Further Advances made in aggregate between the Closing Date and the end of the Collection Period.
7. Discretionary Further Advances made during the Collection Period.
8. Enforcement Procedures in progress as at the end of the Collection Period.
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10. Mortgages repurchased by the relevant Seller pursuant to Clauses 8.6 or 8.7 of the Mortgage Sale Agreement.
11. Balance of the Principal Deficiency Ledger.
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13. Non-Verified Mortgages sold into the Pool.
14. Quarterly redemption rate for the Collection Period and the lifetime redemption rate.
15. Expenses paid in the Interest Period.
16. Number and aggregate or principal amount of all Mortgages respectively 30, 60 and 90 days in arrears at the end of each Collection Period.
17. Gross and new losses incurred in respect of Mortgages in respect of which Enforcement Procedures have been completed during such preceding Collection Period.