

30 January 2013

PARAGON MORTGAGES (NO.11) PLC
as the Issuer

and

CITICORP TRUSTEE COMPANY LIMITED
as the Trustee

FIRST SUPPLEMENTAL TRUST DEED TO THE
TRUST DEED DATED 23 MARCH 2006 IN RESPECT
OF THE

\$985,000,000 Class A1 Notes due 2041
£149,500,000 Class A2a Notes due 2041
€219,700,000 Class A2b Notes due 2041
£16,000,000 Class B1a Notes due 2041
€82,400,000 Class B1b Notes due 2041
€87,500,000 Class C1b Notes due 2041

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THIS FIRST SUPPLEMENTAL TRUST DEED is made on 30 January 2013

BETWEEN

- (1) **PARAGON MORTGAGES (NO.11) PLC**, a company incorporated with limited liability in England and Wales with registered number 4513183 whose registered office is at 51 Homer Road, Solihull, West Midlands B91 3QJ (the "**Issuer**"); and
- (2) **CITICORP TRUSTEE COMPANY LIMITED**, whose principal London office is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (the "**Trustee**", which expression shall, wherever the context so admits, include such company and all other persons or companies for the time being the trustee or trustees of these presents).

INTRODUCTION:

- (A) The Issuer and the Trustee entered into a trust deed (the "**Principal Trust Deed**") dated 23 March 2006 constituting the Notes.
- (B) Pursuant to Extraordinary Resolutions of the holders of each class of Notes duly passed on or about the date hereof, the Trustee has agreed to amend the Principal Trust Deed by entering into this first supplemental trust deed (the "**First Supplemental Trust Deed**").

NOW THIS DEED WITNESSETH and it is hereby agreed and declared as follows:

1. DEFINITIONS AND INTERPRETATION

- 1.1 All words and expressions defined in the Principal Trust Deed shall, where the context so requires and admits, have the same meaning in this First Supplemental Trust Deed, and the principles of interpretation specified in Clause 1.1 of the Principal Trust Deed shall, where the context so requires and admits, also apply to this First Supplemental Trust Deed.

2. AMENDMENTS TO THE PRINCIPAL TRUST DEED AND GLOBAL NOTES

- 2.1 The parties agree that Schedule 4 (*Terms and Conditions of the Notes*) of the Principal Trust Deed be deleted and be replaced by Schedule 1 (*Terms and Conditions of the Notes*) of this First Supplemental Trust Deed and the Global Notes shall be amended accordingly to refer to such replaced schedule.
- 2.2 In clause 1.1 of the Principal Trust Deed, in the definition of Basis Hedge Provider, the words "ABN AMRO Bank N.V., London branch" will be replaced by the words "The Royal Bank of Scotland plc (formerly ABN AMRO Bank N.V, London branch)".

3. COSTS, EXPENSES AND INDEMNIFICATION

- 3.1 The Issuer shall, on demand of the Trustee, reimburse the Trustee for all properly incurred costs and expenses (including legal fees) incurred by it in connection with the negotiation, preparation and execution or purported execution of this First Supplemental Trust Deed and the completion of the matters herein contemplated and

in connection with the holding of the meetings at which the Extraordinary Resolutions referred to above were passed and the matters contemplated by such resolutions.

- 3.2 The Issuer shall on demand indemnify the Trustee and every attorney, manager, agent, delegate or other person properly appointed by it hereunder against any and all losses, liabilities, costs, claims, actions or demands incurred by it or him or which may be made against it or him as a result of or in connection with the execution or purported execution of this First Supplemental Trust Deed and the amendments hereby effected.

4. **FURTHER ASSURANCE**

The Issuer undertakes to the Trustee to execute all such other documents and comply with all such other requirements to effect the amendments contemplated hereby and any other matter incidental thereto as the Trustee may direct.

5. **TRUST DEED**

This First Supplemental Trust Deed is supplemental to the Principal Trust Deed and subject to the amendments to be effected to the Principal Trust Deed hereunder, the Principal Trust Deed and the Notes shall remain in full force and effect and the Principal Trust Deed and this First Supplemental Trust Deed shall be read and construed together as one deed.

6. **ENDORSEMENT ON PRINCIPAL TRUST DEED**

A memorandum of this First Supplemental Trust Deed shall be endorsed on the original of the Principal Trust Deed by the Trustee and on the duplicate thereof by the Issuer.

7. **COUNTERPARTS**

This First Supplemental Trust Deed may be executed in any number of counterparts, each of which is original and all of which together evidence the same agreement. This First Supplemental Trust Deed shall not come into effect until each party has executed and delivered at least one counterpart.

8. **GOVERNING LAW AND JURISDICTION**

This First Supplemental Trust Deed and any non-contractual obligations arising out of or in connection with it are governed by, and shall be construed in accordance with, the laws of England.

9. **THIRD PARTY RIGHTS**

A person who is not a party to this First Supplemental Trust Deed may not enforce any terms of this First Supplemental Trust Deed under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any third party which exists or is available apart from that Act.

IN WITNESS WHEREOF this First Supplemental Trust Deed has been executed as a deed by the parties hereto and is intended to be and is hereby delivered on the day first before written.

SCHEDULE 1
TERMS AND CONDITIONS OF THE NOTES

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions (subject to completion and amendment, the "**Conditions**") which apply to the Notes and, if Definitive Notes were to be issued, will be endorsed on the Notes. While any Notes remain in global form the Conditions govern them, except to the extent that they are appropriate only to Notes in definitive form.

1. Issue, Form, Denomination and Title

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

Paragon Mortgages (No.11) plc (the "**Issuer**") has issued the "**Notes**" (which comprise:

- (i) the "**Class A Notes**" which comprise:
 - (A) the "**Class A1 Notes**" which comprise the \$985,000,000 Class A1 Notes (the "**Class A1 Notes**"); and
 - (B) the "**Class A2 Notes**" which comprise the £149,500,000 Class A2a Notes (the "**Class A2a Notes**") and the €219,700,000 Class A2b Notes (the "**Class A2b Notes**"); and
- (ii) the "**Class B Notes**" which comprise the £16,000,000 Class B1a Notes (the "**Class B1a Notes**") and the €82,400,000 Class B1b Notes (the "**Class B1b Notes**"); and
- (iii) the "**Class C Notes**" which comprise the €87,500,000 Class C1b Notes (the "**Class C1b Notes**"),

pursuant to a trust deed (the "**Trust Deed**") dated on or about 23 March 2006 or such later date agreed between the Issuer and the Lead Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the Holders (as defined in Condition 1(d)) for the time being of the Class A Notes (together the "**Class A Noteholders**"), the Holders for the time being of the Class B Notes (together the "**Class B Noteholders**") and the Holders for the time being of the Class C Notes (together the "**Class C Noteholders**" and, together with the Class A Noteholders and the Class B Noteholders, the "**Noteholders**"). The Class A Notes, the Class B Notes and the Class C Notes each constitute a separate series of Notes (each a "**Series**").

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

(b) *Form of the Notes*

Notes ("**Reg S Notes**") sold to non-U.S. Persons outside the United States in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as

amended (the "**Securities Act**") will be represented by one or more permanent global notes in fully registered form without interest coupons (each such global note in relation to a class of those Notes being a "**Global Reg S Note**").

Notes ("**Rule 144A Notes**") sold to persons who are qualified institutional buyers in reliance on Rule 144A of the Securities Act ("**Rule 144A**") will be represented by one or more permanent global notes in fully registered form without interest coupons (each such global note in relation to a class of those Notes being a "**Global Rule 144A Note**").

The Global Rule 144A Notes together with the Global Reg S Notes are the "**Global Notes**".

Each Global Rule 144A Note is expected to be deposited with Citibank, N.A., London Branch as custodian (the "**Custodian**") for The Depository Trust Company ("**DTC**") and registered in the name of DTC or its nominee, in each case, on the Closing Date.

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

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

(c) *Denomination of the Notes*

The "**USD Notes**" (being the Class A1 Notes) are issued in minimum denominations of \$100,000, the "**GBP Notes**" (being the Class A2a Notes and the Class B1a Notes) are issued in minimum denominations of £50,000, and the "**EUR Notes**" (being the Class A2b Notes, the Class B1b Notes and the Class C1b Notes) are issued in minimum denominations of €50,000. Each holding of Notes must be an integral multiple of \$1,000 in the case of USD Notes, £1,000 in the case of GBP Notes and €1,000 in the case of EUR Notes and, in each case, for not less than the relevant minimum denomination.

The "**Note Currency**" in relation to a Note is the currency in which that Note is denominated and the "**Note Currency Unit**" in relation to a Note is £0.01 for a GBP Note, \$0.01 for a USD Note and €0.01 for a EUR Note. In these Conditions "**GBP Equivalent**" in relation to an amount means (i) where that amount is expressed in GBP, that amount at the Expected Exchange Time; and (ii) where that amount is expressed in any currency other than GBP, the GBP equivalent of that amount ascertained using (A) if that amount relates to a Note other than a GBP Note and the Currency Swap Agreement relating to that Note has not or is not expected to have terminated early on or before the Expected Exchange Time, the exchange rate

specified in that Currency Swap Agreement; or (B) in any other case, the applicable spot rate of exchange at (or as expected to be at) the Expected Exchange Time as determined by the Administrator (prior to the Security (as defined below) becoming enforceable) or the Trustee (from or after the Security becoming enforceable); and "**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.

(d) *Title to the Notes*

The Issuer will cause to be kept at the specified office of Citibank, N.A., London Branch as registrar (the "**Registrar**" which expression shall include its successors as registrar under the Agency Agreement) a register (the "**Register**") on which shall be entered the names and addresses of the holders of the Notes and the particulars of such Notes held by them and all transfers and redemptions of such Notes. In these Conditions, the "**Holder**" of a Note at any time means the person in whose name such Note is registered at that time in the Register (or, in the case of a joint holding, the first named person).

In relation to each Note, the Holder will, to the fullest extent permitted by applicable law, be deemed and treated at all times, by all persons and for all purposes (including the making of payments), as the absolute owner of such Note regardless of any notice to the contrary, any notice of ownership, theft or loss, or of any trust or other interest in that Note or of any writing on that Note (other than the endorsed form of transfer).

No transfer of a Note will be valid unless and until entered on the Register. Transfers and exchanges of beneficial interests in the Global Notes and entries on the Register relating to the Notes will be made subject to any restrictions on transfers set forth on such Notes and the detailed regulations concerning transfers of such Notes contained in the Agency Agreement, the Trust Deed and the relevant legends appearing on the face of the Notes (such regulations and legends being the "**Transfer Regulations**"). Each transfer or purported transfer of a beneficial interest in a Global Note or a Definitive Note made in violation of the Transfer Regulations shall be void ab initio and will not be honoured by the Issuer or the Trustee. The Transfer Regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current Transfer Regulations will be sent by the Registrar to any Holder of a Note who so requests and by the Principal Paying Agent to any Holder of a Note who so requests.

For so long as any Note is represented by a Global Note, transfers and exchanges of beneficial interests in that Global Note and entitlement to payments under that Global Note will be effected subject to and in accordance with the rules and procedures from time to time of DTC, in the case of the Global Rule 144A Note, and Euroclear and/or Clearstream, Luxembourg in the case of the Global Reg S Notes.

Beneficial interests in a Global Reg S Note may be held only through Euroclear or Clearstream, Luxembourg at any time. Prior to the expiry of the Distribution Compliance Period beneficial interests in a Global Reg S Note may not be held by a "**U.S. Person**" (as defined in Regulation S under the Securities Act). Beneficial interests in a Global Rule 144A Note may be held only through DTC at any time.

2. **Status and Relationship between the Classes of Notes**

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

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

If, in the Trustee's opinion, there is a conflict between the interests of the holders of different classes of Notes in the same Series, the Trust Deed contains provisions that the Trustee shall be entitled to act or refrain from acting upon directions given by a specified percentage of the Noteholders of the Notes of that Series, irrespective of class.

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

3. Covenants of the Issuer

- (a) So long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents or with the prior written consent of the Trustee:
 - (i) carry on any business other than as described in the Offering Circular dated 17 March 2006 relating to the issue of the Notes (and then only in relation to the

Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:

- (A) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;
- (B) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Notes, the Subscription Agreement, the AI Note Conditional Purchase Agreement, the Remarketing Agreement and the other agreements relating to the issue of the Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Substitute Administrator Facilitator Agreement, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declarations of Trust, each Currency Swap Agreement, each Basis Hedge Agreement, any Caps, any Permitted Basis Hedge Agreement, the Fee Letter, any other hedging arrangements entered into by the Issuer from time to time, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, each Scottish Declaration of Trust, the Cross-collateral Mortgage Rights Deed and all other agreements and documents comprised in the Security for the Notes (all as defined in the Trust Deed, the Deed of Charge or the Mortgage Sale Agreement) (together the "**Relevant Documents**");
- (C) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, among other things, make claims, payments and surrenders in respect of certain tax reliefs;
- (D) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem Notes in accordance with their respective terms and conditions;
- (E) negotiate and conclude settlements with unsecured claimants of amounts in full and final settlement of a claim that is due and payable and remains unpaid and not exceeding the amount prescribed as the "prescribed part" in The Insolvency Act (Prescribed Part) Order 2003 (as amended, varied or supplemented from time to time) were the Issuer to be declared insolvent. For the avoidance of doubt, such settlements may be concluded without the need for consent from the Trustee; and
- (F) perform any act incidental to or necessary in connection with (A), (B), (C), (D) or (E) above;

- (ii) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Deed of Charge, the Trust Deed, the Notes, the Fee Letter, the Services Letter, each Currency Swap Agreement, each Basis Hedge Agreement, the Substitute Administrator Agreement, the Substitute Administrator Facilitator Agreement, any Permitted Basis Hedge Agreement and the VAT Declaration of Trust and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;
- (iii) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;
- (iv) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:
 - (A) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Notes and the performance and observance of every covenant in the Trust Deed and in these Conditions on the part of the Issuer to be performed or observed;
 - (B) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;
 - (C) the Trustee is satisfied that the interests of the Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
 - (D) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and
 - (E) the then current ratings of the Notes are not adversely affected;
- (v) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the Security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;
- (vi) in a manner which adversely affects the then current ratings of the Notes, have any employees or premises or have any subsidiary;
- (vii) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Accounts (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it; or

- (viii) engage, or permit any of its affiliates to engage, in any activities in the United States (directly or through agents), derive, or permit any of its affiliates to derive, any income from sources within the United States as determined under U.S. federal income tax principles, and hold, or permit any of its affiliates to hold, any mortgaged property that would cause it or any of its affiliates to be engaged or deemed to be engaged in a trade or business within the United States as determined under U.S. federal income tax principles.
- (b) So long as any of the Notes remains outstanding the Issuer will procure that there will at all times be one or more persons appointed as administrator of the Mortgages (each an "**Administrator**"). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales, Northern Ireland and Scotland. An Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of any Administrator may be terminated by the Trustee if, among other things, such Administrator is in breach of its obligations under the Administration Agreement, which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class A Notes and the Class B Notes have been redeemed in full, the Class C Noteholders and such breach is not remedied or deemed to be remedied in accordance with the terms of the Administration Agreement. Upon the termination of the appointment of any Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement, but will have no liability under the Mortgage Sale Agreement.

4. Interest

(a) Interest Payment Dates

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

Subject to Condition 4(b), such accrued interest in respect of each Note (excepting the Class A1 Notes unless and until they are purchased by the A1 Note Conditional Purchasers in accordance with the A1 Note Mandatory Transfer Arrangements) ("**Normal Interest**") is due and payable in arrear on 15 July 2006 and thereafter quarterly on each subsequent 15 October, 15 January, 15 April and 15 July, or if any such day is not a Business Day (as defined below), the next succeeding Business day (each such day an "**Interest Payment Date**").

Subject to Condition 4(b), such accrued interest in respect of the Class A1 Notes ("**A1 Normal Interest**") is due and payable in accordance with the Currency Swap A1 Agreement in arrear on 15 April 2006 and thereafter on the fifteenth day of each subsequent month, or if any such day is not a Business Day (as defined below), the next succeeding Business Day (each such day an "**A1 Interest Payment Date**"). However, if the Class A1 Notes are purchased by the A1 Note Conditional Purchasers in accordance with the A1 Note Mandatory Transfer Arrangements then Normal Interest in respect of the Class A1 Notes is due and payable on each Interest Payment Date.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date relating to a Note (which, in respect of a

Class A1 Note, shall be the first A1 Interest Payment Date) and each successive period beginning on (and including) an Interest Payment Date relating to that Note (which, in respect of a Class A1 Note, shall be an A1 Interest Payment Date) and ending on (but excluding) the next Interest Payment Date (or, in relation to a Class A1 Note, the next A1 Interest Payment Date) is called an "**Interest Period**".

Normal Interest or A1 Normal Interest, as the case may be, shall cease to accrue on any part of the Principal Amount Outstanding of a Note as from (and including) the due date for redemption of such part unless payment of principal due is improperly withheld or refused, whereupon Normal Interest shall continue to accrue on such principal at the Rate of Interest (as defined below) from time to time applicable to the Notes of that class until the moneys in respect thereof have been received by the Trustee or the Principal Paying Agent (as defined in the Trust Deed) and notice to that effect is given in accordance with Condition 12.

In these Conditions, "**Business Day**" means a day which is a London Business Day, a New York Business Day and a TARGET Business Day; "**London Business Day**" means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London; "**New York Business Day**" means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in New York, New York; and "**TARGET Business Day**" means a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) System is open.

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

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

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

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

Interest remains outstanding but has not yet become due and payable (excluding the amount, if any, of Deferred Interest which is paid or discharged on that day and excluding each day, if any, where Deferred Interest is paid on a later date in accordance with Condition 6 because the due date is not a Local Business Day) at the same Rate of Interest applicable to that Class C Note during the Interest Period in which that day falls.

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

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

- (iv) Interest shall accrue on the aggregate outstanding amount of Normal Interest or A1 Normal Interest, as applicable, Deferred Interest and Additional Interest in respect of a Note (being the "**Overdue Interest**") on each day that Overdue Interest in relation to that Note is due and payable but remains outstanding (excluding the amount, if any, of Overdue Interest which is paid or discharged on that day and excluding each day, if any, where Overdue Interest is paid on a later date in accordance with Condition 6 because the due date is not a Local Business Day) at the same Rate of Interest applicable to that Note during the Interest Period relating to that Note in which that day falls.

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

The full amount of Default Interest in relation to a Note shall be due and payable on the first date upon which the whole Principal Liability Outstanding in respect of that Note becomes due for redemption and, prior to that date, shall be due and payable on each Interest Payment Date or A1 Interest Payment Date, as applicable, relating to that Note only to the extent of the amount to be applied in payment of such Default Interest on that Interest Payment Date or A1 Interest Payment Date, as applicable, in accordance with paragraph (v)(B) below or (vi)(D) below (as applicable).

- (v) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class A Notes will be applied as follows:
 - (A) first, in or towards the payment of any Normal Interest or A1 Normal Interest, as applicable, then due in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Normal Interest or A1 Normal Interest, as applicable, then due on each of those Notes; and

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

(c) *Rate of Interest*

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

(i) In these Conditions:

"Eurozone" means the region comprised of the member states of the European Union that adopt the single currency in accordance with the Treaty of Rome of 25 March 1957, establishing the European Community, as amended from time to time;

"Interest Determination Date" means in relation to an Interest Period for which the applicable Rate of Interest shall apply (a) in respect of GBP Notes, the first day of the Interest Period; (b) in respect of USD Notes, two London Business Days before the first day of the Interest Period; and (c) in respect of EUR Notes, two TARGET Business Days before the first day of the Interest Period;

"Note Interest Rate Margin" means in relation to:

- (A) each Class A1 Note, minus 0.01 per cent. per annum up to and including the first A1 Note Mandatory Transfer Date in 2007 and thereafter either (i) the Reset Margin or (ii) the Maximum Reset Margin will apply;
- (B) each Class A2a Note, 0.12 per cent. per annum up to and including the Interest Period relating to that Note ending in April 2011 and thereafter 0.24 per cent. per annum;
- (C) each Class A2b Note, 0.12 per cent. per annum up to and including the Interest Period relating to that Note ending in April 2011 and thereafter 0.24 per cent. per annum;
- (D) each Class B1a Note 0.24 per cent. per annum up to and including the Interest Period relating to that Note ending in April 2011 and thereafter 0.48 per cent. per annum;
- (E) each Class B1b Note 0.24 per cent. per annum up to and including the Interest Period relating to that Note ending in April 2011 and thereafter 0.48 per cent. per annum; and
- (F) each Class C1b Note, 0.45 per cent. per annum up to and including the Interest Period relating to that Note ending in April 2011 and thereafter 0.90 per cent. per annum.

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

"Reference Rate" means:

- (A) in respect of the first Interest Period for each Class A1 Note, the linear interpolation of:
 - (1) the arithmetic mean of the Reference Quotations for two week Quotation Deposits; and
 - (2) the arithmetic mean of the Reference Quotations for one month Quotation Deposits;
- (B) in respect of subsequent Interest Periods for each Class A1 Note, the arithmetic mean of the Reference Quotations for one month Quotation

Deposits (unless and until the Class A1 Notes are purchased by the A1 Note Conditional Purchasers in accordance with the A1 Note Mandatory Transfer Arrangements);

- (C) in respect of the first Interest Period for each Note (except the Class A1 Notes), the linear interpolation of:
 - (1) the arithmetic mean of the Reference Quotations for three month Quotation Deposits; and
 - (2) the arithmetic mean of the Reference Quotations for four month Quotation Deposits; and
- (D) in respect of subsequent Interest Periods for each Note (and the Class A1 Notes if they are purchased by the Class A1 Note Conditional Purchasers in accordance with the A1 Note Mandatory Transfer Arrangements), the arithmetic mean of the Reference Quotations for three month Quotation Deposits,

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

"Reference Quotations" means:

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

"Reference Screen" means (a) in respect of EUR Notes, page number 248; and (b) in respect of other Notes, page number 3750, in each case displayed on the Dow-Jones/Telerate Monitor (or such replacement page on that service which displays the relevant information) or, if that service ceases to display the information, such other screen service as may be determined by the Issuer (with the approval of the Trustee, in its sole discretion);

"Reset Margin" means the percentage margin at which the Remarketing Agent is able to on sell all of the Class A1 Notes in the market on an A1 Mandatory Transfer Date;

"Quotation Deposits" means (a) in respect of GBP Notes or the Class A1 Notes in the event that they are purchased by the A1 Note Conditional Purchasers, deposits of £10,000,000; (b) in respect of USD Notes, deposits of \$10,000,000; and (c) in respect of EUR Notes, deposits of €10,000,000;

"Quotation Market" means (a) in respect of EUR Notes, the Eurozone inter-bank market, and (b) in respect of other Notes, the London inter-bank market; and

"Quotation Time" means (a) in respect of EUR Notes, 11.00 a.m. Brussels time on the relevant Interest Determination Date relating to those EUR Notes,

and (b) in respect of other Notes, 11.00 a.m. London time on the relevant Interest Determination Date relating to those other Notes.

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

(d) *Determination of Rate of Interest and Calculation of Interest Payments and Other Interest Amounts*

- (i) Where a paragraph of these Conditions indicates that an amount is to be calculated in accordance with this Condition 4(d)(i), that amount shall be the product of the following formula (using the figures indicated in that paragraph) rounded to the nearest Note Currency Unit (0.005 being rounded upwards):

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

where the Calculation Reference Period shall be:

- (A) 365 where the Calculation Amount relates to GBP Notes (or the Class A1 Notes, in the case that the Class A1 Notes have been purchased by the A1 Note Conditional Purchasers); and
- (B) 360 where the Calculation Amount relates to EUR Notes and USD Notes.

- (ii) The Reference Agent will, as soon as practicable after the Quotation Time on each Interest Determination Date relating to a Note:

- (A) first determine the Rate of Interest applicable to that Note under Condition 4(c) for the Interest Period relating to that Interest Determination Date; and

- (B) then, separately for each class of Notes to which that Interest Determination Date relates, calculate an amount in respect of that class in accordance with Condition 4(d)(i) using that Rate of Interest as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period and:

- (1) in the case of the first Interest Determination Date for that class, using the aggregate Initial Principal Amount (as defined in Condition 5(b)) of that class of Notes as the Calculation Amount, and

- (2) in the case of each other Interest Determination Date for that class, using as the Calculation Amount the aggregate Principal Liability Outstanding which will remain in respect of that class of Notes after the application of any Available Redemption Funds on the first day of the Interest Period to which that Interest Determination Date relates; and

- (C) then, in relation to each such class, calculate the aggregate amount of Normal Interest or A1 Normal Interest, as applicable, which will accrue on each Note in that class during that Interest Period by apportioning the amount calculated in relation to that class under paragraph (B) above between the Notes in that class *pro rata* to the Principal Amount Outstanding which will remain in respect of each Note in that class after the application of any Available Redemption Funds on the first day of the Interest Period to which that Interest Determination Date relates, rounding each amount so apportioned down to the nearest Note Currency Unit.

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

- (iii) On (or as soon as practicable after) the last Business Day of the month preceding the month in which an Interest Payment Date or, in the case of the Class A1 Notes, an A1 Interest Payment Date falls, the Issuer shall determine (or cause the Administrator to determine) in respect of each Note to which that Interest Payment Date or A1 Interest Payment Date, as applicable, relates:
 - (A) the amount, if any, of Normal Interest or A1 Normal Interest which will be paid on each Note on that Interest Payment Date or that A1 Interest Payment Date, as the case may be;
 - (B) the amount, if any, of Deferred Interest which will be paid on each Class B Note and Class C Note on that Interest Payment Date;
 - (C) the amount, if any, of Deferred Interest which will have accrued and remain outstanding on each Class B Note and Class C Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date);
 - (D) the amount, if any, of Additional Interest which will have accrued on each Class B Note and Class C Note during the Interest Period ending on (but excluding) that Interest Payment Date by:
 - (1) separately calculating for each class of Class B Notes and Class C Notes an amount in respect of that class in accordance with Condition 4(d)(i) using the Rate of Interest applicable to Additional Interest in respect of that Interest Period as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period, and using the aggregate amount of Deferred Interest outstanding in respect of that class of Notes as at the end of the first day of that Interest Period as the Calculation Amount; and
 - (2) then apportioning the amount calculated in relation to that class under paragraph (1) above between the Notes in that class *pro rata* to the aggregate amount of Deferred Interest outstanding in relation to each Note in that class, rounding each amount so apportioned down to the nearest Note Currency Unit;
 - (E) the amount, if any, of Additional Interest which will be paid on each Class B Note and Class C Note on that Interest Payment Date;
 - (F) the amount, if any, of Additional Interest which will have accrued and remain outstanding on each Class B Note and Class C Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date);
 - (G) the amount, if any, of Default Interest which will have accrued on each Note during the Interest Period ending on (but excluding) that Interest Payment Date by:
 - (1) separately calculating for each class of Notes an amount in respect of that class in accordance with Condition 4(d)(i) using

the Rate of Interest applicable to Default Interest in respect of that Interest Period as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period, and using the aggregate amount of Overdue Interest outstanding in respect of that class of Notes as at the end of the first day of that Interest Period as the Calculation Amount; and

(2) then apportioning the amount calculated in relation to that class under paragraph (1) above between the Notes in that class *pro rata* to the aggregate amount of Overdue Interest outstanding in relation to each Note in that class, rounding each amount so apportioned down to the nearest Note Currency Unit;

(H) the amount, if any, of Default Interest which will be paid on each Note on that Interest Payment Date; and

(I) the amount, if any, of Default Interest which will have accrued and remain outstanding on each Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date).

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

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to each class of Notes for each Interest Period and the relevant Interest Payment Date or A1 Interest Payment Date, as applicable, to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as any Notes are listed by the U.K. Listing Authority and admitted to trading on the Gilt Edged and Fixed Interest Market of the London Stock Exchange plc (the "**London Stock Exchange**"), the London Stock Exchange, and will cause the same to be published in accordance with Condition 12 on or as soon as possible after the date of commencement of the relevant Interest Period.

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

The Interest Payment, A1 Interest Payment Date, Deferred Interest, Additional Interest, Default Interest and Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a shortening of the relevant Interest Period.

(f) *Determination or Calculation by Trustee*

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

Notes in accordance with paragraph (d) above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

(g) *Reference Banks and Reference Agent*

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

(h) *Determinations and Reconciliation*

- (i) In the event that an Administrator Report is not prepared with respect to a Collection Period (the "**Determination Period**"), then the Administrator shall use the Administrator Reports in respect of the three preceding Collection Periods (or, where such Administrator Reports are not available, all previous Administrator Reports) for the purposes of calculating the amounts available to the Issuer to make payments, as set out in this Condition 4(h) (*Determinations and Reconciliation*). If the Administrator Report relating to the Determination Period is subsequently received, the Administrator will make the reconciliation calculations and reconciliation payments as set out in Condition 4(h)(iii). Any: (i) calculations properly done on the basis of such previous Administrator Reports; (ii) payments made under any of the Notes and Relevant Documents in accordance with such calculations; (iii) reconciliation calculations; and (iv) reconciliation payments made as a result of such reconciliation calculations, each in accordance with Condition 4(h)(ii), 4(h)(iii) and/or 4(h)(iv), shall be deemed to be done in accordance with the provisions of the Relevant Documents and will not in themselves lead to an Event of Default and no liability will attach to the Administrator in connection with the exercise by it of its powers, duties and discretion for such purposes.
- (ii) In respect of any Determination Period, the Administrator shall:
- (A) determine the Interest Determination Ratio by reference to the Administrator Reports in respect of the three preceding Collection Periods (or, where such Administrator Reports are not available, all previous Administrator Reports received in the preceding Collection Periods);
 - (B) calculate the Revenue Receipts for such Determination Period as the product of: (i) the Interest Determination Ratio; and (ii) all payments received by the Issuer during such Determination Period; and
 - (C) calculate the Principal Receipts for such Determination Period as the product of: (i) 1 minus the Interest Determination Ratio; and (ii) all payments received by the Issuer during such Determination Period.

- (iii) Following any Determination Period, upon delivery of the Administrator Reports in respect of such Determination Period, the Administrator shall reconcile the calculations made in accordance with this Condition 4(h) above to the actual collections set out in the Administrator Reports as follows:
 - (A) if the Reconciliation Amount is a positive number, the Administrator shall on the immediately following Interest Payment Date pay or provide for such amount by allocating amounts standing to the credit of the Revenue Ledger as Available Principal; and
 - (B) if the Reconciliation Amount is a negative number, the Administrator shall on the immediately following Interest Payment Date pay or provide for such amount by allocating amounts standing to the credit of the Principal Ledger as Available Revenue.
- (iv) If amounts standing to credit of the Revenue Ledger or Principal Ledger, as the case may be, are insufficient to pay or provide for the applicable Reconciliation Amount in full on the relevant Interest Payment Date the Administrator shall reallocate amounts standing to the credit of the Revenue Ledger or Principal Ledger (as applicable) in accordance with Condition 4(h)(iii)(A) or 4(h)(iii)(B) respectively in respect of each subsequent Collection Period (such Reconciliation Amounts to be applied accordingly on the immediately following Interest Payment Date) until such Reconciliation Amount is paid or provided for in full.
- (v) If the Administrator is required to provide for a Reconciliation Amount in determining Available Revenue and Available Principal in respect of any Interest Payment Date, the Administrator shall pay or provide for such Reconciliation Amount in accordance with the terms of the Administration Agreement and the Administrator shall promptly notify the Issuer and the Trustee of such Reconciliation Amount.

In this Condition 4(h):

"Available Principal" means the moneys standing to the credit of the Transaction Account and representing the credit balance on the Principal Ledger;

"Administrator Report" means a report to be provided by PFPLC in respect of each Collection Period in accordance with the terms of the Administration Agreement;

"Available Revenue" means the moneys standing to the credit of the Transaction Account and representing the credit balance on the Revenue Ledger;

"Interest Determination Ratio" means: (i) the aggregate Revenue Receipts calculated in the three preceding Administrator Reports (or such smaller number of preceding Administrator Reports as may be available on the date the Interest Determination Ratio is calculated); divided by (ii) the aggregate of the Revenue Receipts and the Principal Receipts calculated in such Administrator Reports;

"Principal Receipts" means, in relation to a Collection Period, the amount credited (or in relation to a Determination Period, the actual amount that should have been credited) to the Principal Ledger for such Collection Period;

"Reconciliation Amount" means in respect of a Determination Period: (i) the actual Principal Receipts as determined in accordance with the available Administrator Reports; less (ii) the Principal Receipts in respect of such Determination Period, determined in accordance with Condition 4(h)(ii)(C); and

"Revenue Receipts" means, in relation to a Collection Period, the amount credited (or in relation to a Determination Period, the actual amount that should have been credited) to the Revenue Ledger for such Collection Period.

5. Redemption and Purchase

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

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

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

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

Notes *pro rata* to the aggregate GBP Equivalent Principal Liability Outstanding of each such class as at that Principal Determination Date provided that the amount so allocated to any such class shall not exceed the aggregate GBP Equivalent Principal Liability Outstanding of that class;

- (ii) then for each class which does not comprise GBP Notes, the equivalent amount in the relevant Note Currency of the amount allocated, if any, to that class under paragraph (i) above shall be determined using the exchange rate specified in the relevant Currency Swap Agreement relating to that class or, if that Currency Swap Agreement has terminated early or is expected to terminate early on or before the next Interest Payment Date, the applicable spot rate of exchange expected to be used at that Interest Payment Date as determined by the Administrator (prior to the Security (as defined below) becoming enforceable) or the Trustee (from or after the Security becoming enforceable); and
- (iii) then in respect of each class of Notes:
 - (A) the amount, if any, so allocated to that class under paragraph (i) above (where that class comprises GBP Notes), or
 - (B) the equivalent amount in respect of that class determined under paragraph (ii) above (where that class does not comprise GBP Notes),shall be allocated to each Note in that class *pro rata* to the GBP Equivalent Principal Liability Outstanding of each such Note in that class, provided always that the amount so allocated shall not exceed the Principal Liability Outstanding of the relevant Note.

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

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

- (i) in respect of the GBP Notes (and the Class A1 Notes in the case that the Class A1 Notes have been purchased by the A1 Note Conditional Purchasers), in redemption of each of those Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of those Notes; and
- (ii) in respect of each of the other Notes:
 - (A) if the Currency Swap Agreement relating to any class of those other Notes has not terminated early on or before that Interest Payment Date, in payment to the relevant Currency Swap Provider of an amount equal to the GBP Equivalent of the aggregate of the Principal Payments allocated on that Principal Determination Date to such other Notes; and
 - (B) if the Currency Swap Agreement relating to any class of those other Notes has terminated early on or before that Interest Payment Date, in payment of an amount equal to the GBP Equivalent of the aggregate of

the Principal Payments allocated on that Principal Determination Date to those other Notes in exchange for receipt of an amount in the relevant Note Currency of such other Notes at the applicable spot rate;

- (C) and the amount received in exchange for such payments (as applicable) shall be applied in redemption of each of those other Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of such Notes.

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

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

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

- (D) any part of the amount deducted pursuant to paragraphs (ii)(A), (B) and (C) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making the relevant payments in respect of which such amount was so deducted;

less

(ii) the aggregate of:

- (A) the amount estimated by the Issuer to be the likely shortfall, on the Interest Payment Date which will occur before the next Principal Determination Date, of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer payable on each such Interest Payment Date;
- (B) the amount estimated by the Issuer to be, on the immediately succeeding Interest Payment Date, the extent to which the First Loss Fund will be less than the Liquidity Amount following the application of the priority of payments set out in clause 6.1.2 of the Deed of Charge (such principal amounts being used to increase the First Loss Fund up to the Liquidity Amount and a corresponding debit being made to the Principal Deficiency Ledger);
- (C) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;
- (D) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) to the extent that such principal amount has been funded using amounts falling within (i)(A) above; and
- (E) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages,

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

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

The "**Class A Available Redemption Funds**" shall equal:

- (i) on any Principal Determination Date falling up to and including the occurrence of the "**Determination Event**" being the first Interest Payment Date on which the ratio of (I) the aggregate GBP Equivalent Principal Amount Outstanding of the Class B Notes and the Class C Notes to (II) the sum of the aggregate GBP Equivalent Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes is 0.266:1 or more (in each case after the application of Available Redemption Funds on that Interest Payment Date)), all of the Available Redemption Funds determined as at such Principal Determination up to the aggregate GBP Equivalent Principal Amount Outstanding of the Class A Notes; and
- (ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

The "**Subordinated Available Redemption Funds**" shall equal:

- (i) (A) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls up to and including the occurrence of the Determination Event; or
- (B) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls after the occurrence of the Determination Event and Class A Notes remain outstanding and will not be redeemed in full on the next Interest Payment Date and either of the following tests is not satisfied:
 - (I) on the Interest Payment Date immediately following the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that Interest Payment Date, there is any credit balance of zero or greater on the Principal Deficiency Ledger; or
 - (II) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed)

represent less than 7.5 per cent. of the then Current Balances of all of the Mortgages (paragraphs (I) and (II) together being the "**Redemption Tests**"),

nil;

- (ii) on each Principal Determination Date which falls after the occurrence of the Determination Event and on which Class A Notes remain outstanding and will not be redeemed in full on the next following Interest Payment Date, provided that both the Redemption Tests are satisfied that amount of the Available Redemption Funds (*pro rata* to the amount of the Class B Notes and the Class C Notes) determined as at such date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the aggregate GBP Equivalent Principal Liability Outstanding of the Class B Notes and the aggregate GBP Equivalent Principal Liability Outstanding of the Class C Notes to (II) the sum of the aggregate GBP Equivalent Principal Liability Outstanding of the Class A Notes and the aggregate GBP Equivalent Principal Liability Outstanding of the Class B Notes and the aggregate GBP Equivalent Principal Liability Outstanding of the Class C Notes after such application to become as nearly as possible equal to 0.266:1 provided that the aggregate GBP Equivalent Principal Liability Outstanding of the Class B Notes and the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below 4.76 per cent. of the GBP Equivalent Initial Principal Amount; and
- (iii) on any Principal Determination Date which is immediately prior to an Interest Payment Date on which no Class A Note remains outstanding, the total amount of the Available Redemption Funds and on the Principal Determination Date immediately prior to the Interest Payment Date on which the Class A Notes are to be redeemed in full, the amount of Available Redemption Funds in excess of the aggregate GBP Equivalent Principal Liability Outstanding of the Class A Notes on such Principal Determination Date.

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

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

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

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

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

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

- (ii) The Issuer, by not later than the seventh Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date, will cause each determination of a Principal Payment, Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor to be notified to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the relevant Notes are listed by the U.K. Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange and will cause details of each determination of a Principal Payment, Principal Liability Outstanding, Principal Amount Outstanding and Pool Factor to be published in accordance with Condition 12 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Notes of a particular class on any Interest Payment Date a notice to this effect will be given to the Noteholders of that class.
- (iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding, the Principal Liability Outstanding or the Pool Factor applicable to Notes of a particular class in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph (b) and paragraph (a) above (but based on the information in its possession as to the Available Redemption

Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) *Redemption for Taxation or Other Reasons*

Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either:

- (i) on the next Interest Payment Date:
 - (A) the Issuer or any Paying Agent would be required to deduct or withhold from any payment of principal or interest in respect of any Notes; or
 - (B) the Issuer or any Hedge Provider would be required to deduct or withhold from amounts payable by it under any Hedge Agreement, any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any other jurisdiction or any political sub-division thereof or any authority thereof or therein; or
- (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period; or
- (iii) the Issuer would, by virtue of a change in tax law applicable in the Issuer's jurisdiction, not be entitled to relief for the purposes of such tax law for any material amount which it is obliged to pay, or against tax arising as a result of any payment the Issuer is treated as receiving for the purposes of such tax law under the Relevant Documents,

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

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

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

(d) *Optional Redemption in Full*

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

- (i) the Issuer has given written notice in accordance with Condition 12 not more than 90 days and not less than 20 days before that Interest Payment Date to the Trustee and the Noteholders in that class of its intention to redeem that class under this Condition 5(d); and
- (ii) if an Event of Default has occurred or occurs on or before that Interest Payment Date, no Enforcement Notice has been served; and
- (iii) the Issuer will be in a position on that Interest Payment Date to discharge (and so certifies to the Trustee):
 - (A) all its liabilities in respect of that class of Notes and each other class of Notes to be redeemed by the Issuer on that Interest Payment Date (including, in each case, all accrued Normal Interest, Deferred Interest, Additional Interest and Default Interest outstanding); and
 - (B) all amounts required under the Deed of Charge to be paid in priority to or *pari passu* with those liabilities; and
- (iv) if that Interest Payment Date will fall prior to April 2010, then:
 - (A) on that Interest Payment Date the aggregate GBP Equivalent Principal Liability Outstanding of all of the Notes is less than 20 per cent. of the GBP Equivalent Initial Principal Amount; and
 - (B) the Issuer also duly gives notice under and in accordance with this Condition 5(d) of its intention to redeem each other class of Notes then outstanding on that Interest Payment Date; and
- (v) if that Interest Payment Date will fall in or after April 2010, then each of the following is satisfied:
 - (A) if that class comprises all or some of the Class A Notes, all (but not some only) of the other Class A Notes (irrespective of class) have been redeemed, together with all accrued interest, in full on or before that Interest Payment Date;
 - (B) if that class comprises all or some of the Class B Notes, all (but not some only) of the other Class B Notes (irrespective of class) have been redeemed, together with all accrued interest, in full on or before that Interest Payment Date; and

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

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

(e) *Redemption on Maturity*

If not otherwise redeemed:

- (i) the Class A1 Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in October 2041;
- (ii) the Class A2a Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in October 2041;
- (iii) the Class A2b Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in October 2041;
- (iv) the Class B1a Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in October 2041;
- (v) the Class B1b Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in October 2041; and
- (vi) the Class C1b Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in October 2041.

(f) *Purchases*

The Class A1 Notes may be purchased by the A1 Note Conditional Purchasers in accordance with the A1 Note Mandatory Transfer Arrangements. The Issuer may not purchase any Notes.

(g) *Cancellation*

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

(h) *Certification*

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

(i) *A1 Note Mandatory Transfer Arrangements*

- (i) All the Class A1 Notes shall be transferred in accordance with paragraph (iii) below on any A1 Note Mandatory Transfer Date in exchange for payment of the A1 Note Mandatory Transfer Price, provided that the Issuer shall not be liable for the failure to make payment of the A1 Note Mandatory Transfer Price to the extent that such failure is a result of the failure of the Remarketing Agent or the A1 Note Conditional Purchasers to perform their respective obligations under the relevant Documents.

- (ii) There shall be no Mandatory Transfer on an A1 Note Mandatory Transfer Date if: (a) the Class A1 Notes are fully redeemed or a notice has been given to the A1 Noteholders in accordance with Condition 5(d) on or prior to such A1 Note Mandatory Transfer Date; (b) an Enforcement Notice has been served on the Issuer pursuant to Condition 9 prior to such A1 Note Mandatory Transfer Date, or (c) an A1 Note Mandatory Transfer Termination Event has occurred (as confirmed by the Remarketing Agent or Tender Agent by the provision of an A1 Note Conditional Purchaser Confirmation) prior to such A1 Note Mandatory Transfer Date.
- (iii) Subject to (i) and (ii) above, all of the Class A1 Noteholders' interests in the Class A1 Notes shall be transferred on the relevant A1 Note Mandatory Transfer Date either as directed by the Remarketing Agent or to the A1 Note Conditional Purchasers, or, if Definitive A1 Notes are then issued, the Class A1 Notes will be registered by the Registrar as notified by or on behalf of the Remarketing Agent and the Register will be amended accordingly with effect from the relevant A1 Note Mandatory Transfer Date.
- (iv) Once the A1 Note Conditional Purchasers have purchased all the Class A1 Notes outstanding on a particular A1 Note Mandatory Transfer Date, the Class A1 Notes will be transferred only in accordance with the terms of the A1 Note Conditional Purchase Agreement. All principal monies and interest due in respect of the Class A1 Notes after such purchase will be made in GBP on each Interest Payment Date.

In these Conditions:

"A1 Note Conditional Purchase Agreement" means any agreement between either or both of the A1 Note Conditional Purchasers, the Issuer and others under which each A1 Note Conditional Purchaser purchases half the Class A1 Notes on an A1 Note Mandatory Transfer Date;

"A1 Note Conditional Purchasers" means RBS and Deutsche Bank;

"A1 Note Mandatory Transfer Arrangements" means the arrangements for Mandatory Transfer set forth in the A1 Note Conditional Purchase Agreement, the Remarketing Agreement and the Trust Deed;

"A1 Note Mandatory Transfer Date" means the Interest Payment Date falling in January annually and commencing on 15 January 2007;

"A1 Note Mandatory Transfer Price" means the amount of the payment to the A1 Noteholders on the relevant A1 Note Mandatory Transfer Date constituting the Principal Amount Outstanding on the Class A1 Notes on that date (following application of Available Redemption Funds on that date and without prejudice to the Issuer's obligations to make payments on the Class A1 Notes on that date) (except to the extent that the Class A1 Notes are purchased by the A1 Note Conditional Purchasers, where the A1 Note Mandatory Transfer Price shall be the GBP Equivalent of such amount calculated, for the avoidance of doubt, at the exchange rate specified in the Currency Swap A1 Agreement);

"A1 Note Mandatory Transfer Termination Event" means the A1 Note Conditional Purchasers have purchased all the Class A1 Notes under the terms of the A1 Note Mandatory Transfer Arrangements and an A1 Note Conditional Purchaser Confirmation has been given that the interests in the Class A1 Notes have been

transferred to the names or accounts of, or on behalf of, the A1 Note Conditional Purchasers;

"**Deutsche Bank**" means Deutsche Bank AG, London Branch;

"**Mandatory Transfer**" means the obligation on the Issuer to procure the purchase of (and the then Class A1 Noteholders' obligation to transfer) the Class A1 Notes on each A1 Note Mandatory Transfer Date;

"**Principal Ledger**" means the ledger in which the Administrator records all amounts in the nature of principal received by or on behalf of the Issuer;

"**RBS**" means The Royal Bank of Scotland plc;

"**Remarketing Agent**" means initially RBS acting as agent on behalf of the Issuer, or such other agent appointed to act as remarketing agent under the terms of the Remarketing Agreement;

"**Remarketing Agreement**" means an agreement dated on or about the Closing Date between, amongst others, the Issuer and the Remarketing Agent; and

"**Revenue Ledger**" means the ledger in which the Administrator records all amounts in the nature of revenue received by or on behalf of the Issuer.

6. Payments

(a) *Definitions relating to payments*

In these Conditions:

"**Cheque**" means in the case of a payment in relation to a GBP Note, a GBP cheque drawn upon a Permitted Account; in the case of a payment in relation to a USD Note, a USD cheque drawn upon a Permitted Account; and in the case of a payment in relation to a EUR Note, an EUR cheque drawn upon a Permitted Account;

"**Local Business Day**" means in relation to payment to be made by a Paying Agent, a day which (1) is a Business Day; and (2) is a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in the place where the Specified Office of that Paying Agent is situated; and (3) if the payment is made in relation to a Global Note, is a day on which the relevant Clearing System is open for business;

"**Payee**" means the person listed at the close of business on the Record Date in the Register as the holder of that Note (or, if two or more persons are so listed, the person appearing first in the list);

"**Payment Date**" means in relation to any payment, the due date of that payment or if that due date is not a Local Business Day, the next succeeding Local Business Day;

"**Permitted Account**" means in the case of a payment in relation to a GBP Note, a GBP account maintained by the payee with a bank in London; in the case of a payment in relation to a USD Note which is a Rule 144A Note, a USD account maintained by the payee with a bank in New York City; in the case of a payment in relation to a USD Note which is a Reg S Note, a USD account outside the United States and its possessions maintained by the payee with a bank as specified by the payee; and in the case of a payment in relation to the EUR Notes, a EUR account outside the United States and its possessions maintained by the payee with a bank as specified by the payee;

"Record Address" means in connection with any payment, the address shown as the address of the Payee in the Register at the close of business on the relevant Record Date; and

"Record Date" means in connection with any payment, the 15th day before the due date for the relevant payment.

(b) Means of making payments

Interest Payments and Principal Payments in respect of each Note:

- (i) will be made to the relevant Payee; and
- (ii) will be made by Cheque or, upon written application (together with appropriate details of a Permitted Account) by that person received at the Specified Office of the Principal Paying Agent on or before the Record Date, shall be made by transfer to that Permitted Account;

(in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note at the Specified Office of the Paying Agent relating to that Note.

Where payment in respect of a Note is to be made by Cheque, the Cheque will be mailed to the Record Address.

(c) Time of payment

Where payment is to be made by transfer to a Permitted Account, payment instructions (for value the Payment Date) will be initiated and, where payment is to be made by Cheque, the Cheque will be mailed:

- (i) (in the case of payments of principal and interest payable on redemption) on the later of the Payment Date and the day on which the relevant Note is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent; and
- (ii) (in the case of payments of interest payable other than on redemption) on the Payment Date.

(d) Delays in making payments

A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from:

- (i) a payment not being made, a transfer not being initiated or a Cheque not being mailed on the due date for a payment as a result of that due date not being a Local Business Day;
- (ii) a Cheque mailed in accordance with this Condition 6 arriving after the due date for payment or being lost in the mail;
- (iii) (in relation to a payment to be made by Cheque in relation to a Reg S Note) the relevant Paying Agent having not received before the relevant Record Date written notice of a valid mailing address outside the United States and its possessions for the Payee; and
- (iv) (in relation to a payment to be made by transfer in relation to a Reg S Note) the relevant Paying Agent having not received before the relevant Record Date written notice of a Permitted Account for the Payee.

(e) *Fiscal and other laws; no commission or expenses*

All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(f) *Partial payments*

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure and the Registrar will ensure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and date of such payment is endorsed on the relevant Note.

(g) *Duty to maintain a Paying Agent*

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

7. Taxation

All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any Paying Agent is required by applicable law, including any Directive of the European Union, to make any payment in respect of the Notes subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature. In that event the Issuer or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor the Paying Agents will be obliged to make any additional payments to holders of Notes in respect of such withholding or deduction.

8. Prescription

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

As used in these Conditions, the "**Relevant Date**" means the date on which a payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such date, it

means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given in accordance with Condition 12.

9. Events of Default

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

- (i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Notes or any of them, or for a period of 15 days or more in the payment on the due date of any interest upon the Notes or any of them, or default is made for a period of 15 days in the payment of any A1 Note Mandatory Transfer Price on any Class A1 Note when and as the same ought to be paid in accordance with these Conditions provided that for the avoidance of doubt a failure to make or procure any payment required under Condition 5(i) by reason of any failure on the part of the Remarketing Agent or the A1 Note Conditional Purchasers to perform their respective obligations under the Relevant Documents shall not constitute a default for the purposes of this Condition 9; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class A Noteholders or, if there are no Class A Notes then outstanding, by an Extraordinary Resolution of the Class B Noteholders or, if there are no Class

A Notes or Class B Notes then outstanding, by an Extraordinary Resolution of the Class C Noteholders; or

- (iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or
- (iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied provided that for the avoidance of doubt, a failure to make or procure any payment required under Condition 5(i) by reason of any failure on the part of the Remarketing Agent or the A1 Note Conditional Purchasers to perform their respective obligations under the Relevant Documents shall not constitute a default for the purposes of this Condition 9; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Fee Letter and the Services Letter) or otherwise becomes insolvent.

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

10. Enforcement and Post Enforcement Call Option

At any time after the Notes become due and repayable at their Principal Amount Outstanding, subject to Condition 7, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the Security for the Notes and to enforce repayment of the Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it

shall have been (1) so directed in writing by the holders of at least one-quarter of the aggregate of the GBP Equivalent Principal Amount Outstanding of the Class A Notes outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders, or (2) if there are no Class A Notes then outstanding, so directed in writing by the holders of at least one-quarter of the aggregate of the GBP Equivalent Principal Amount Outstanding of the Class B Notes outstanding or if so directed by an Extraordinary Resolution of the Class B Noteholders, or (3) if there are no Class A Notes and no Class B Notes then outstanding, so directed in writing by the holders of at least one-quarter of the GBP Equivalent Principal Amount Outstanding of the Class C Notes outstanding or if so directed by an Extraordinary Resolution of the Class C Noteholders and (ii) it shall have been indemnified to its satisfaction.

Notwithstanding the foregoing:

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

ranking in priority thereto or *pari passu* therewith or the Trustee is of the opinion, reached after considering at any time and from time to time the advice of a merchant bank or other financial adviser selected by the Trustee, that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Class C Noteholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith.

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

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class B Notes under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class B Notes and all other claims ranking *pari passu* therewith, then the Class B Noteholders shall, upon the Security having been enforced and realised to the maximum possible extent as certified by the Trustee, be forthwith entitled to their respective shares of such remaining proceeds (as determined in accordance with the provisions of the Deed of Charge) and, after payment to each Class B Noteholder of its respective share of such remaining proceeds, all interests in the Permanent Global Class B Note of a particular class will be automatically exchanged for equivalent interests in an equivalent amount of Class B Notes of such class in definitive form and such Permanent Global Class B Note (if any) will be cancelled. On the date of such exchange, the Trustee (on behalf of all of the Class B Noteholders) will, at the request of Paragon Options plc ("POPLC"), transfer for a consideration of £0.01 per Class B1a Note and €0.01 per Class B1b Note all (but not some only) of the Class B Notes to POPLC or to one of PGC's subsidiaries pursuant to the option granted to POPLC by the Trustee (as agent for the Class B Noteholders but without any personal liability on the part of the Trustee) pursuant to the Post-Enforcement Call Option Deed. Immediately upon such transfer, no such former Class B Noteholder shall have any further interest in the Class B Notes of the relevant class. Each of the Class B Noteholders acknowledges that the Trustee has the authority and the power to bind the Class B Noteholders in accordance with the terms and conditions set out in the Post-Enforcement Call Option Deed and each Class B Noteholder, by subscribing for or purchasing Class B Notes, agrees to be bound.

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class C Notes under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class C Notes and all other claims ranking *pari passu* therewith, then the Class C Noteholders shall, upon the Security having been enforced and realised to the maximum possible extent as certified by the Trustee, be forthwith entitled to their respective shares of such remaining proceeds as determined in accordance with the provisions of the Deed of Charge and, after payment to each Class C Noteholder of its respective share of such remaining proceeds, all interests in the Permanent Global Class C Note of a particular class will be automatically exchanged for equivalent interests in an equivalent amount of Class C Notes of such class in definitive form and such Permanent Global Class C Note (if

any) will be cancelled. On the date of such exchange, the Trustee (on behalf of all of the Class C Noteholders) will, at the request of POPLC, transfer for a consideration of €0.01 per Class C1b Note all (but not some only) of the Class C Notes to POPLC or to one of PGC's subsidiaries pursuant to the option granted to POPLC by the Trustee (as agent for the Class C Noteholders but without any personal liability on the part of the Trustee) pursuant to the Post-Enforcement Call Option Deed. Immediately upon such transfer, no such former Class C Noteholder shall have any further interest in the Class C Notes of the relevant class. Each of the Class C Noteholders acknowledges that the Trustee has the authority and the power to bind the Class C Noteholders in accordance with the terms and conditions set out in the Post-Enforcement Call Option Deed and each Class C Noteholder, by subscribing for or purchasing Class C Notes, agrees to be bound.

11. Replacement of Notes

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer and the Registrar may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

12. Notices

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

- (a) if information concerned in such notice shall appear on the relevant page of the Reuters Screen (presently page PGCPM11) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Noteholders (the "**Relevant Screen**"), and in such case such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen; or
- (b) if published in the *Financial Times* and *The Wall Street Journal* or, if any such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other leading daily newspaper or newspapers printed in the English language as the Trustee shall approve in advance having (individually or in combination) a general circulation in the United Kingdom, Europe and, while any Rule 144A Note remains outstanding, the United States, and in each such case such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above; or
- (c) if sent to them by first class post (or its equivalent) or (if posted to an address outside the United Kingdom) by airmail at the respective addresses on the Register, and in such case such notice will be deemed to have been given on the fourth day after the date of posting; or
- (d) whilst the Notes then held by those Noteholders are represented by a Global Note, if delivered to DTC in the case of the Global Rule 144A Note, or to Euroclear and/or Clearstream, Luxembourg in the case of a Global Reg S Note, for communication by them to those Noteholders, and in such case such notice shall be deemed to have been given to the relevant Noteholders on the day of such delivery to DTC, Euroclear and/or Clearstream, Luxembourg, as appropriate; or

- (e) any other method or methods of giving notice sanctioned in advance by the Trustee if, in the Trustee's sole opinion, such other method or methods is/are reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges, competent listing authorities and/or quotation systems on or by which the Notes are then listed, quoted and/or traded and provided that notice of such other method or methods is/are given to those Noteholders in such manner as the Trustee shall require,

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

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

For so long as any of the Notes is a "restricted security" within the meaning of Rule 144(a)(3) under the Securities Act, unless the Issuer is subject to Section 13 or 15(d) under the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, the Issuer shall make available to any holder of Rule 144A Notes (or beneficial interest therein designated by such holder) and prospective purchaser of such Rule 144A Notes (or beneficial interest therein), in each case upon request, the information specified in Rule 144A(d)(4) under the Securities Act.

13. Meetings of Noteholders; Modifications; Consents; Waiver

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

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

The quorum at any meeting of the Relevant Noteholders for passing an Extraordinary Resolution of the Relevant Noteholders shall be two or more persons holding or representing over 50 per cent. of the aggregate GBP Equivalent Initial Principal Amount of the Notes then outstanding held by the Relevant Noteholders or, at any adjourned meeting, two or more persons being or representing the Relevant Noteholders whatever the aggregate GBP Equivalent Initial Principal Amount of the Notes then outstanding so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification, the necessary quorum for passing an Extraordinary Resolution by the Relevant Noteholders shall be two or more persons holding or representing over 75 per cent. of the aggregate GBP

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

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

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

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

the Class C Noteholders irrespective of the effect on the interests of the Class C Noteholders.

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

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

14. Indemnification of the Trustee

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

15. Notifications and Other Matters to be Final

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

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

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

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

17. Governing Law and Jurisdiction

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

EXECUTION PAGE

Executed as a deed by)
PARAGON MORTGAGES)
(No. 11) PLC)

_____ Signature of Director

_____ Name of Director

in the presence of:

_____ Signature of witness

_____ Name of witness

_____ Address of witness

_____ Occupation of witness

Executed as a deed by)
CITICORP TRUSTEE)
COMPANY LIMITED)

 _____ Signature of duly authorised attorney

_____ Name of duly authorised attorney

Andrew McIntosh
Vice President
Citibank N.A.
25 Canada Square
Canary Wharf
London E14 5LB

in the presence of:

 _____ Signature of witness

_____ Name of witness

_____ Address of witness

Clifford Chance
LLP
10 Upper Bank Street
London E14 5JJ

_____ Occupation of witness

