

Finance for People (No.3) PLC

(incorporated with limited liability in England and Wales with registered number 3203932)

£210,000,000

Class A Asset Backed Floating Rate Notes due 2013

Issue price: 100%

£70,000,000

Class B Asset Backed Floating Rate Notes due 2013

Issue price: 100%

£20,000,000

Class C Asset Backed Floating Rate Notes due 2013

Issue price: 100%

The £210,000,000 Class A Asset Backed Floating Rate Notes due 2013 (the "Class A Notes") of Finance for People (No. 3) PLC (the "Issuer") will be issued by the Issuer together with the £70,000,000 Class B Asset Backed Floating Rate Notes due 2013 of the Issuer (the "Class B Notes") and the £20,000,000 Class C Asset Backed Floating Rate Notes due 2013 of the Issuer (the "Class C Notes") (the Class A Notes, the Class B Notes and the Class C Notes together being the "Notes" and the Class B Notes and the Class C Notes together being the "Subordinated Notes").

Interest on the Notes will be payable in pounds sterling quarterly in arrear on the last business day falling in September, December, March and June in each year (each an "Interest Payment Date"), the first interest payment being made on the last business day in September 1998. Interest on the Subordinated Notes will be paid on an Interest Payment Date only to the extent that there are revenue funds available to the Issuer on the Principal Determination Date (as defined below) applicable to such Interest Payment Date to pay interest on such Notes, as more particularly described in this Offering Circular. To the extent that such funds are insufficient to pay the full amount of interest on the Class B Notes and/or the Class C Notes on such Interest Payment Date, payment of the shortfall will be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such shortfall, on which Interest Payment Date payment of such shortfall will be made to the extent of such available funds. Such deferred interest will accrue interest at the rate of interest accruing on the relevant Notes from time to time. The interest rates applicable to the Notes from time to time will be determined by reference to the London Interbank Offered Rate ("LIBOR") for three-month sterling deposits (other than in respect of the first Interest Period — see "Description of the Class A Notes, the Global Class A Notes and the Security", "Description of the Class B Notes, the Global Class B Notes and the Security" and "Description of the Class C Notes, the Global Class C Notes and the Security") plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods for which such margins apply, will be as set out below:

- (i) Class A Notes: 0.20% per annum up to and including the Interest Period ending in June 2004 and thereafter 0.50% per annum;
- (ii) Class B Notes: 0.55% per annum up to and including the Interest Period ending in June 2004 and thereafter 1.25% per annum; and
- (iii) Class C Notes: 1.30% per annum up to and including the Interest Period ending in June 2004 and thereafter 3.00% per annum.

The first Interest Period is expected to commence on (and include) 16th June 1998 and end on (but exclude) the last business day in September 1998. Interest payments on the Notes will be made subject to applicable withholding tax (if any) without the Issuer being obliged to pay additional amounts therefor.

The Notes will be subject to mandatory redemption in part from time to time on any Interest Payment Date, as more particularly described below. In certain other circumstances and at certain times, the Notes may be redeemed at the option of the Issuer at their principal amount outstanding together with accrued interest on any Interest Payment Date as more particularly described below.

The Subordinated Notes will be secured by the same security that will secure the Class A Notes but in the event of the security being enforced, the Class A Notes will rank in priority to the Subordinated Notes and the Class B Notes will rank in priority to the Class C Notes. The right to payment of interest on the Subordinated Notes will be subordinated and may be limited as described below (see "Summary – Interest" below). As a result, no assurance is given as to the amount (if any) of interest on the Class B Notes and the Class C Notes which may actually be paid on any Interest Payment Date.

The Class A Notes are expected, on issue, to be assigned an Aaa rating by Moody's Investors Service Limited ("Moody's"). The Class B Notes are expected, on issue, to be assigned an A2 rating by Moody's and the Class C Notes are expected, on issue, to be assigned a Baa3 rating by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

Application has been made to the London Stock Exchange Limited (the "London Stock Exchange") for the Notes to be admitted to the Official List. Copies of this Offering Circular, which comprises approved listing particulars with regard to the Issuer and the Notes in accordance with the listing rules made under Part IV of the Financial Services Act 1986, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act.

The Notes of each class will be initially represented by a Temporary Global Note (as defined in "Summary – Global Notes" below), without coupons or talons, which will be deposited with Morgan Guaranty Trust Company of New York, London office, as common depository (the "Common Depository") for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system ("Euroclear") and Cedel Bank, société anonyme ("Cedel Bank") at the closing of the issue of the Notes (which is expected to be on 16th June 1998). The Temporary Global Note relating to each class of Notes will be exchangeable 40 days after the closing of the issue of the Notes (provided that certification of non-U.S. beneficial ownership has been received) for interests in a permanent global note relating to the same class which will also be deposited with the Common Depository. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

Simultaneously with the issue of the Notes, the Issuer will issue unlisted Floating Rate Cumulative Secured Subordinated Loan Stock 2013 (the "Loan Stock") in an amount sufficient to enable the Issuer to achieve the initial ratings of the Notes. The Loan Stock will be secured by the same security that will secure the Notes, although the Loan Stock will be subordinated to the Notes in point of payment of principal and interest and the Notes will rank in priority to the Loan Stock in the event of the security being enforced (see "Summary – Priority of Payments" and "Summary – Security for the Notes" below). The Loan Stock will not be admitted to the Official List of the London Stock Exchange.

Particular attention is drawn to the section of this Offering Circular entitled "Special Considerations".

Class A Notes Managers

J.P. Morgan Securities Ltd.

Deutsche Bank

HSBC Markets

Bank Austria Creditanstalt

ING Barings

SG

Class B Notes Manager and Class C Notes Manager

J.P. Morgan Securities Ltd.

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

No person has been authorised to give any information or to make any representation other than as contained in this Offering Circular and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Trustee (as defined in “Summary-The Trustee” below) or the Managers (as defined in “Subscription and Sale” below). Neither the delivery of this Offering Circular nor any sale or allotment made in connection with the offering of the Notes shall under any circumstances constitute a representation or create any implication that there has been no change in the information contained herein since the date hereof.

The Notes will be obligations of the Issuer, secured by the security described in this Offering Circular. The Notes will not be obligations or the responsibility of, or be guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or the responsibility of, or be guaranteed by, Universal, PFPLC, PPF, PCF, PDF, PGC (each as defined in “Summary” below), the Trustee, the Managers, any company in the same group of companies as PGC (other than the Issuer) or any other person other than the Issuer. No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes shall be accepted by Universal, PFPLC, PPF, PCF, PDF, PGC, the Trustee, the Managers, any company in the same group of companies as PGC (other than the Issuer) or by any other person other than the Issuer.

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

This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer, the Trustee or the Managers or any of them to subscribe for or to purchase any of the Notes.

No action has been taken by the Issuer, the Trustee or the Managers, other than the application to the London Stock Exchange and the delivery to the Registrar of Companies as described in the seventh paragraph on the first page hereof, that would permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any offering circular, prospectus, form of application, advertisement or other offering material may be issued or distributed or published in any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. The Managers have represented that all offers and sales by them have been and will be made on such terms. Persons into whose possession this Offering Circular comes are required by the Issuer, the Trustee and the Managers to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offers and sales of Notes and distribution of this Offering Circular, see “Subscription and Sale” below. For a description of the certification requirements as to non-U.S. beneficial ownership, see “Description of the Class A Notes, the Global Class A Notes and the Security”, “Description of the Class B Notes, the Global Class B Notes and the Security” and “Description of the Class C Notes, the Global Class C Notes and the Security” below.

The Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended). The Notes are in bearer form and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or delivered at any time directly or indirectly in the United States of America or to U.S. Persons.

References in this document to “£”, “pounds”, “sterling” or “pounds sterling” are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

In connection with the issue of the Notes, J.P. Morgan Securities Ltd. may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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Summary

The information on the first page, page 2 and pages 4 to 27 relating to the Notes and the Portfolio Assets (as defined below) is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular.

Issuer	Finance for People (No.3) PLC, a public company incorporated under the laws of England with registered number 3203932 and a wholly owned subsidiary of The Paragon Group of Companies PLC (“PGC”). The ordinary shares of PGC are listed on the London Stock Exchange.
Administrator	Paragon Finance PLC (“PFPLC” or, in its capacity as administrator, the “Administrator”), a public company incorporated under the laws of England with registered number 1917566 and a wholly owned subsidiary of PGC.
Portfolio Assets	The assets forming part of the security for the Notes (the “Portfolio Assets”) will comprise: the benefit of unsecured loans granted to individuals in the United Kingdom acquired (and not subsequently sold) by the Issuer (“Portfolio Loans”); the benefit of motor vehicle hire purchase agreements, motor vehicle leasing agreements and motor vehicle contract purchase agreements acquired (and not subsequently sold) by the Issuer (“Portfolio Car Finance Contracts”); the benefit of motor vehicle dealer stocking arrangements acquired (and not subsequently sold) by the Issuer (“Portfolio Dealer Stocking Vehicle Contracts” and, together with Portfolio Car Finance Contracts, “Portfolio Car Finance Products”); and legal and beneficial ownership of the vehicles that are the subject of Portfolio Car Finance Contracts or Portfolio Dealer Stocking Vehicle Contracts (“Portfolio Motor Vehicles” — but subject to certain limitations on the title in such motor vehicles acquired by the Issuer — see “Special Considerations” below), all as more particularly described in the section entitled “Portfolio Assets” below.
Sellers of Portfolio Loans	<p>The beneficial ownership of a pool of Loans (as defined below), the aggregate of the Current Balances (as defined below) of which as at close of business on 13th March 1998 was £269,433,136.06, was acquired by the Issuer from Universal Credit Limited (“Universal”), a company incorporated under the laws of England with registered number 1981317 and a wholly owned subsidiary of PGC pursuant to a loan sale contract made on 17th March 1998 (as more particularly described in the paragraph entitled “Acquisition of Portfolio Assets” in the section entitled “Portfolio Assets” below).</p> <p>The beneficial ownership of a further pool of Loans, the aggregate of the Current Balances of which as at close of business on 30th April 1998 was £10,613,168.28, was acquired by the Issuer from Universal pursuant to a loan sale contract made on 5th May 1998.</p> <p>Universal is engaged in the business of originating unsecured loans to individuals in the United Kingdom. Its registered office is at St Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE.</p> <p>The beneficial ownership of a further pool of Loans, the aggregate of the Current Balances of which as at close of business on 30th April 1998 was £8,735,784.61, was acquired by the Issuer from Paragon Personal Finance Limited (“PPF”), a company incorporated under the laws of England with registered number 3303798 and a wholly owned subsidiary of PGC pursuant to a loan sale contract made on 5th May 1998.</p> <p>PPF is engaged in the business of, <i>inter alia</i>, originating unsecured loans to individuals in the United Kingdom. Its registered office is at St Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE.</p> <p>On the Closing Date, the Issuer is expected to acquire additional Loans from PPF and/or Universal, using part of the proceeds of the issue of the Notes, as more particularly described in the paragraph entitled “Acquisition of Portfolio Assets” in the section entitled “Portfolio Assets” below.</p>

The Issuer may, from time to time on any business day on or before the fourth anniversary of the Closing Date (as defined below) but subject to having sufficient Available Purchase Funds (as defined below), purchase further Loans (“Further Loans”) from PFPLC and/or Universal and/or PPF, as more particularly described in the paragraph entitled “Further Loans” below.

PFPLC’s registered office is at St Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE. PFPLC is engaged in the business of, *inter alia*, originating, acquiring and administering unsecured loans to individuals in the United Kingdom.

Universal, PFPLC and PPF, in this capacity, are referred to in this Offering Circular as “Sellers”.

Any unsecured loan to an individual in the United Kingdom in which, at any time, a Seller has a beneficial interest or has had such an interest, is referred to in this Offering Circular as a “Loan”.

**Seller of Portfolio Car
Finance Contracts**

On the Closing Date, the Issuer is expected to acquire Car Finance Contracts (as defined below), together with the legal and beneficial ownership of the relevant Motor Vehicles, from Paragon Car Finance Limited (“PCF”), a company incorporated under the laws of England with registered number 3202928 and a wholly owned subsidiary of PGC, using part of the proceeds of the issue of the Notes. PCF’s registered office is at St Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE.

PCF is engaged in the business of, *inter alia*, originating and acquiring motor vehicle hire purchase agreements, motor vehicle contract purchase agreements and motor vehicle leasing agreements to individuals and corporations in the United Kingdom.

The Issuer may, from time to time on any business day on or before the fourth anniversary of the Closing Date but subject to having sufficient Available Purchase Funds, purchase further Car Finance Contracts (“Further Car Finance Contracts”) from PCF, as more particularly described in the paragraph entitled “Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts” in the section entitled “Portfolio Assets” below.

In this capacity, PCF is also referred to as a “Seller”.

The benefit of any motor vehicle hire purchase agreement, motor vehicle leasing agreement or motor vehicle contract purchase agreement in which, at any time, PCF has a beneficial interest or has had such an interest, is referred to in this Offering Circular as a “Car Finance Contract”.

**Seller of Portfolio Dealer
Stocking Vehicle Contracts**

The Issuer may, from time to time on any business day on or before the fourth anniversary of the Closing Date, but subject to having sufficient Available Purchase Funds, acquire Dealer Stocking Vehicle Contracts (as defined below), together with the legal and beneficial ownership of the relevant Motor Vehicles, from Paragon Dealer Finance Limited (“PDF”), a company incorporated under the laws of England with registered number 2433063 and a wholly owned subsidiary of PGC. PDF’s registered office is at St Catherine’s Court, Herbert Road, Solihull, West Midlands B91 3QE. PDF is engaged in the business of providing motor vehicle dealer stocking arrangements to motor vehicle dealerships in the United Kingdom.

In this capacity, PDF is also referred to as a “Seller”.

The benefit of any motor vehicle dealer stocking arrangement (as more particularly described in the section entitled “Portfolio Assets” below) in which, at any time, PDF has a beneficial interest or has had such an interest, is referred to in this Offering Circular as a “Dealer Stocking Vehicle Contract”.

Any Car Finance Contract or Dealer Stocking Vehicle Contract is referred to in this Offering Circular as a “Car Finance Product”.

Any motor vehicle that is at any time the subject of a Car Finance Product is referred to in this Offering Circular as a “Motor Vehicle”.

The Trustee

Morgan Guaranty Trust Company of New York (the “Trustee”). Morgan Guaranty Trust Company of New York (“MGT”) and Citibank, N.A. (“Citibank”) are currently negotiating the purchase by Citibank of MGT’s trustee business. It is currently intended that such purchase will be completed during June 1998. As part of such purchase, MGT’s rights and obligations as Trustee in relation to the issue of the Notes will be transferred to Citibank. On completion of that transfer, Citibank will replace MGT as Trustee in accordance with the provisions of the Trust Deed (as defined below) and the other relevant documents.

The Notes

£210,000,000 Class A Asset Backed Floating Rate Notes due 2013, £70,000,000 Class B Asset Backed Floating Rate Notes due 2013 and £20,000,000 Class C Asset Backed Floating Rate Notes due 2013.

The Notes will be obligations of the Issuer. The Notes will not be obligations or the responsibility of, or be guaranteed by, any person other than the Issuer. In particular, the Notes will not be obligations or the responsibility of, or be guaranteed by, Universal, PFPLC, PPF, PCF, PDF, PGC, the Trustee, the Managers, any company in the same group of companies as PGC (other than the Issuer) or by any other person other than the Issuer.

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

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

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

Interest

The interest rate applicable to the Notes from time to time will be determined by reference to LIBOR for three-month sterling deposits (other than in respect of the first Interest Period — see “Description of the Class A Notes, the Global Class A Notes and the Security”, “Description of the Class B Notes, the Global Class B Notes and the Security” and “Description of the Class C Notes, the Global Class C Notes and the Security”) plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods for which such margins apply, will be as set out below:

Class A Notes: 0.20% per annum up to and including the Interest Period ending in June 2004 and thereafter 0.50% per annum;

Class B Notes: 0.55% per annum up to and including the Interest Period ending in June 2004 and thereafter 1.25% per annum; and

Class C Notes: 1.30% per annum up to and including the Interest Period ending in June 2004 and thereafter 3.00% per annum.

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

B Notes (see “Priority of Payments” below). Accordingly, Class B Noteholders and Class C Noteholders (each as defined below in “Description of the Class A Notes, the Global Class A Notes and the Security” and the Class A Noteholders, Class B Noteholders and Class C Noteholders together being the “Noteholders”) will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest due to Class A Noteholders on that Interest Payment Date have been paid in full. Similarly, Class C Noteholders will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest due to Class A Noteholders and Class B Noteholders on that Interest Payment Date have been paid in full.

To the extent that funds are insufficient to pay the interest otherwise due on the Class B Notes and/or the Class C Notes on an Interest Payment Date, the deficit will not then be paid but will only be paid on subsequent Interest Payment Dates if and when permitted by subsequent cash flow which is surplus to the Issuer’s liabilities of a higher priority (see “Priority of Payments” below) on the relevant Interest Payment Date. Such shortfall will accrue interest (at the rate applicable from time to time to the relevant class of Notes) during the time it remains unpaid. To the extent that any such shortfall and interest thereon is not made good by subsequent surplus cash flow as aforesaid, then, at the final maturity or in certain other circumstances, the Issuer’s obligation in respect of any remaining shortfall and interest thereon will cease.

Interest is payable in respect of the Notes (provided certification of non-U.S. beneficial ownership by the Noteholders has been received) in pounds sterling quarterly in arrear on the last business day falling in September, December, March and June in each year, the first payment being made on the last business day in September 1998.

The first Interest Period will commence on (and include) the date of the closing of the issue of the Notes, which is expected to be 16th June 1998, or such later date as may be agreed between the Issuer and the Managers (the “Closing Date”) and end on (but exclude) the last business day in September 1998. Each subsequent Interest Period applicable to the Notes will commence on (and include) an Interest Payment Date and end on (but exclude) the next succeeding Interest Payment Date. Interest payments will be made subject to applicable withholding tax (if any), without the Issuer being obliged to pay additional amounts therefor.

Security for the Notes

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

- (i) all present and future right, title, interest and benefit of the Issuer in and under each Portfolio Asset (including Portfolio Assets that are governed by Scottish Law (“Scottish Loans”, “Scottish Car Finance Contracts” or “Scottish Dealer Stocking Vehicle Contracts”, where appropriate) and which are held on trust for the Issuer by the relevant Seller) and in and to any contractually binding agreement, understanding or arrangement constituting such Portfolio Asset (a “Loan Agreement”, “Car Finance Agreement” or “Dealer Stocking Vehicle Agreement”, where appropriate) subject, where applicable, to the subsisting rights of the person or persons to whom such Portfolio Asset was granted and/or, as the case may be, the person or persons (if any) from time to time assuming an obligation to make payments and/or perform other obligations under such Portfolio Asset (each, in relation to a Portfolio Loan, a “Borrower” or, in relation to a Portfolio Car Finance Contract comprising a hire purchase agreement or a motor vehicle contract purchase agreement, a “Hirer” or, in relation to a Portfolio Car Finance Contract comprising a motor vehicle leasing agreement, a “Lessee” or, in relation to a Portfolio Dealer Stocking Vehicle Contract, a “Dealer”);
- (ii) all present and future right, title, interest and benefit of the Issuer in and to each Portfolio Motor Vehicle subject to the subsisting rights of the Hirer,

Lessee or Dealer, as the case may be, in respect of such Portfolio Motor Vehicle;

(iii) subject to any subsisting rights of redemption, all insurances in which the Issuer has an interest;

(iv) the Issuer's rights under each Asset Sale Contract, the Repurchase Deed, the Warranty Deed, the Administration Agreement, the Agency Agreement, the Subordinated Loan Agreement, the Services Letter, the Fee Letter, the Swap Agreement, the PFPLC Collection Accounts Declaration of Trust, the Universal Collection Accounts Declaration of Trust, the PPF Collection Account Declaration of Trust, the PCF Collection Account Declaration of Trust, the PDF Collection Account Declaration of Trust, any hedging arrangements entered into by the Issuer, the Substitute Administrator Agreement and the VAT Declaration of Trust (each as defined elsewhere in this Offering Circular) and all other contracts, agreements, deeds and documents to which the Issuer is or becomes a party;

(v) any investments in which the Issuer, or the Administrator on its behalf, may place its cash resources; and

(vi) the Issuer's rights to all moneys standing to the credit of the bank account of the Issuer with National Westminster Bank Plc at its branch at 4 High Street, Solihull, West Midlands (or such other bank as the Issuer, subject to certain restrictions and with the consent of the Trustee, may from time to time select for such purpose) into and out of which all payments to and by the Issuer will be made (the "Transaction Account") and any other bank accounts in which the Issuer has an interest.

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

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

Certain other amounts will also have the benefit of the security interests referred to above, including the amounts owing to the Trustee and any receiver of the security, the amounts owing for the time being to each holder of the Loan Stock (the holders of Loan Stock being the "Stockholders"), any amounts payable to Barclays Bank PLC ("Barclays") in its capacity as administrator of last resort under the Substitute Administrator Agreement, any amounts payable to the Swap Counterparty (as defined below) under the Swap Agreement, the fees and expenses of, and commissions payable to, and all other amounts owing to, the Administrator and/or any substitute administrator, all amounts owing to Universal, PFPLC or PPF under, *inter alia*, each Loan Sale Contract (as defined below) or the Administration Agreement, all amounts owing to PFPLC under the Fee Letter or the Services Letter, all amounts owing to PCF under, *inter alia*, any Car Finance Sale Contract (as defined below) or the Administration Agreement, all amounts owing to PDF under, *inter alia*, any Dealer Stocking Vehicle Sale Contract (as defined below) or the Administration Agreement and amounts owing under the Subordinated Loan Agreement referred to below.

The terms on which such security interests will be held will provide that, upon enforcement:

(i) all amounts payable to any receiver of the security, and the Trustee, any amounts payable to Barclays under the Substitute Administrator Agreement, the fees, expenses and commissions payable to the Administrator and/or any substitute administrator and all amounts (if any) payable to the Swap Counterparty under the Swap Agreement will rank in priority to payment of interest or principal on the Notes;

(ii) amounts owing to the Class B Noteholders will rank in priority after all payments on the Class A Notes;

(iii) amounts owing to the Class C Noteholders will rank in priority after all payments on the Class A Notes and the Class B Notes; and

(iv) amounts owing to Universal, PFPLC or PPF under each Loan Sale Contract, the Fee Letter and the Services Letter, amounts owing to PCF under any Car Finance Sale Contract, amounts owing to PDF under any Dealer Stocking Vehicle Sale Contract and amounts owing under the Subordinated Loan Agreement and the Loan Stock will rank in priority after all payments on the Notes.

Priority of Payments

Moneys received by the Issuer from Borrowers, Hirers, Lessees or Dealers (together, "Obligors") or recovered under the Portfolio Assets (other than amounts of principal, or its equivalent in relation to Portfolio Car Finance Products but including any amount treated as an income receipt on the sale of a Portfolio Motor Vehicle or on the early settlement of such Portfolio Car Finance Product (as more particularly described in "Portfolio Asset Administration" below) which will be dealt with in the manner described under "Mandatory Redemption in Part" below) and other net income of the Issuer (which will be an amount determined in accordance with the definition of (and referred to in this Offering Circular as) "Available Revenue Funds" in "Description of the Class A Notes, the Global Class A Notes and the Security") will be applied from time to time in making payment of certain moneys which properly belong to third parties (such as overpayments by Obligors) and of sums due to third parties under obligations incurred in the course of the Issuer's business (unless the intended recipient agrees otherwise) and in making certain provisions. Until enforcement of the security for the Notes, the following payments and provisions are required to be made on each Interest Payment Date, up to the amount of the Available Revenue Funds, in the following order of priority (in each case only if and to the extent that payments and provisions of a higher priority have been made in full but subject to, with limited exceptions, the making of the payments referred to in the preceding sentence (which may be made on any business day)):

(i) payment of amounts due from the Issuer to the Trustee and amounts due to Barclays pursuant to the Substitute Administrator Agreement (other than the commitment fee referred to therein);

(ii) payment of all fees, costs and expenses payable to the Administrator under the Administration Agreement, all insurance commissions (if any) payable to a Seller under the Administration Agreement and the commitment fee payable to Barclays pursuant to the Substitute Administrator Agreement;

(iii) payment of any amounts (other than any Swap Termination Amounts (as defined below)) payable to the Swap Counterparty under the Swap Agreement;

(iv) payment of interest due or overdue on the Class A Notes together with (if applicable) interest thereon;

(v) payment of or provision for sums due to third parties under obligations incurred in the course of the Issuer's business (including the Issuer's liability (if any) to value added tax ("VAT") and to mainstream corporation tax in

respect of profits attributable to the relevant Interest Period (after deducting any available advance corporation tax credit on distributions made by the Issuer to the extent that such advance corporation tax has been accounted for to the Inland Revenue) and the balance, if any, of the VAT liability of the Paragon VAT Group (as defined below) following a demand being made by H.M. Customs & Excise on the Issuer where the VAT liability is not satisfied in full in accordance with the Administration Agreement and the VAT Declaration of Trust (see “The Paragon VAT Group” below);

(vi) payment of interest due or overdue on the Class B Notes together with (if applicable) interest thereon;

(vii) payment of interest due or overdue on the Class C Notes together with (if applicable) interest thereon;

(viii) provision for an amount necessary to replenish the First Loss Fund (as defined below) to the required amount specified in “First Loss Fund” below;

(ix) payment of any amounts due to the Swap Counterparty in respect of the partial or total termination of a hedging arrangement entered into pursuant to the Swap Agreement (each, a “Swap Termination Amount”);

(x) provision for an amount up to, and to that extent reducing, the provision (if any) in the Issuer’s accounts (the “Principal Deficiency Ledger” as described in “Portfolio Asset Administration — Arrears and Default Procedures” below) against deficits suffered in recovering amounts of principal (or its equivalent) due from Obligor or resulting from principal (or its equivalent) being applied in paying interest on the Class A Notes or in refunding reclaimed direct debit payments; the amount of any such reduction will be deemed to be principal (or its equivalent) received when calculating the amount of Available Purchase Funds on the immediately following Principal Determination Date;

(xi) provision for an amount up to, and to that extent reducing, the then Spread Requirement (as defined below); the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Purchase Funds on the immediately following Principal Determination Date;

(xii) provision for any amounts then due or overdue to PFPLC under the Fee Letter;

(xiii) provision for, at the option of the Issuer, a reserve to fund any purchases of hedging arrangements under the Swap Agreement, or otherwise in accordance with Moody’s requirements, in the next Interest Period;

(xiv) provision for interest due under the Subordinated Loan Agreement;

(xv) payment of interest which, by the terms and conditions of the Loan Stock, is due and payable except to the extent satisfied by the issue of additional Loan Stock by the Issuer in accordance with the Loan Stock Instrument (as defined below);

(xvi) provision for payment to the Administrator or PFPLC of such fees as the Issuer and the Administrator or PFPLC, as the case may be, may agree in respect of facilities or services provided to the Issuer by the Administrator or PFPLC, as the case may be, other than fees provided for above; and

(xvii) provision for the amount of any distributions to be made by the Issuer plus any advance corporation tax in respect thereof;

all as set out in a deed of charge and assignment to be entered into between the Issuer, the Trustee, PFPLC, Universal, PCF, PDF, PPF, the Administrator, Barclays and the Swap Counterparty on or about the Closing Date (the “Deed of Charge”).

If and to the extent that the provisions specified in paragraphs (xii), (xiii), (xiv), (xvi) and (xvii) are made on such Interest Payment Date, the relevant

amounts shall be paid to the persons entitled thereto on or (with the prior consent of PFPLC) after the business day after such Interest Payment Date (save in the case of advance corporation tax which shall be paid on the due date for payment thereof) to the extent that the Available Revenue Funds are then sufficient for such purpose. If the Available Revenue Funds are then insufficient for such purpose, such payments will not be made and the amount provided for will be added to the Available Revenue Funds on the next following Principal Determination Date.

If on any Interest Payment Date, while any Class A Note remains outstanding, application in the order set out above would result in the sum of:

(x) any debit balance on the Principal Deficiency Ledger; and

(y) the aggregate of the amounts specified in paragraphs (i) to (v) inclusive above to the extent that such amounts would not be paid or provided for in full following such application,

exceeding the sum of:

(a) the then resulting current balance of the First Loss Fund; and

(b) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes — the “Class B Conditions”) of the Class B Notes (after deducting the amount of any Class B Available Redemption Funds (as defined in the Class B Conditions) on the Principal Determination Date relating to such Interest Payment Date); and

(c) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes — the “Class C Conditions”) of the Class C Notes (after deducting the amount of any Class C Available Redemption Funds (as defined in the Class C Conditions) on the Principal Determination Date relating to such Interest Payment Date),

then, to the extent of such excess, the payments specified in paragraphs (vi) and (vii) shall on the next Interest Payment Date (and on each succeeding Interest Payment Date while such excess exists) be postponed and shall instead be paid immediately after payment of any provisions referred to in paragraphs (viii), (ix), (x) and (xi).

With effect from the first day on which no Class A Note is outstanding, the making of the provision specified in paragraph (viii) shall be postponed and instead such provision shall be made immediately after the making of the provision referred to in paragraph (xi) but otherwise payments will be made in the same order of priority.

If on any Interest Payment Date, the Available Revenue Funds and the First Loss Fund together would be insufficient to meet the payments and provisions referred to in paragraphs (i) to (ix) inclusive above, if amounts were not payable under paragraphs (v), (vi), (vii) and (viii) thereof (the amount of such insufficiency being the “Swap Deficiency”) and there is any amount standing to the credit of the Interest Shortfall Ledger (as defined below) (after any deductions thereto in accordance with the Administration Agreement by virtue of shortfalls in payments or provisions of higher priority — the “Balance”) then the lesser of the Swap Deficiency and the Balance (the “Amount”) will be added to the Available Revenue Funds in accordance with the Administration Agreement and the order of payments and provisions will be changed so that the lesser of the Amount and any Swap Termination Amount then payable will be payable, in discharge or partial discharge of such Swap Termination Amount, next in priority after any amount then payable pursuant to paragraph (iv) above.

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

If so agreed in any Asset Sale Contract arrears of interest (subject to certain conditions, as described in the paragraph entitled “Portfolio Assets — Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts” in the section entitled “Portfolio Assets” below), other amounts which have become due but remain unpaid and interest accrued (but unpaid) as at the date of the relevant Asset Sale Contract will not be purchased by the Issuer and any payments received in respect of the relevant Portfolio Assets will be applied first to those arrears, other amounts and accrued interest and will be accounted for to the relevant Seller.

Mandatory Redemption in Part

Prior to enforcement, the Notes will be subject to mandatory redemption in part on each Interest Payment Date in an aggregate principal amount calculated by reference to the Available Redemption Funds as determined on the ninth day or, if earlier, the fifth business day prior to such Interest Payment Date (a “Principal Determination Date”).

Up to and including the first Interest Payment Date on which the ratio of the aggregate Principal Amounts Outstanding of the Class B Notes and Class C Notes to the aggregate Principal Amounts Outstanding (as defined in the terms and conditions of the Class A Notes — the “Class A Conditions”) of the Class A Notes, the Class B Notes and the Class C Notes is 180:300 or more (such circumstance constituting the “Determination Event”), all Available Redemption Funds will be applied in mandatory redemption of the Class A Notes.

After the occurrence of the Determination Event, on each Interest Payment Date, if there will be a balance of zero on the Principal Deficiency Ledger, after application of funds in accordance with the payments and provisions shown above under the heading “Priority of Payments”, all Available Redemption Funds will be applied in redemption of the Notes so as to achieve and then maintain the above ratio provided that:

(i) if on any Interest Payment Date, there will be a debit balance on the Principal Deficiency Ledger, all Available Redemption Funds will be applied in redemption of the Class A Notes; and

(ii) while any Class A Note remains outstanding, the aggregate Principal Amount Outstanding of the Class B Notes and the Class C Notes may not be less than £11,000,000 (the “Minimum Amount”). Accordingly, if any part of the Available Redemption Funds on any Interest Payment Date were to be applied in redemption in part of the Class B Notes and the Class C Notes in accordance with the above and, as a result, the aggregate Principal Amounts Outstanding of the Class B Notes and the Class C Notes would be less than the Minimum Amount, that part of the Available Redemption Funds on that date will be applied in redemption of the Class A Notes.

Whilst any Class A Notes are outstanding, any amounts to be applied in redemption of the Class B Notes and the Class C Notes will be applied *pro rata* according to their respective Principal Amounts Outstanding on such Interest Payment Date.

Once the Class A Notes have been redeemed in full, all Available Redemption Funds will be applied in redemption of the Class B Notes.

Once the Class B Notes have been redeemed in full, all Available Redemption Funds will be applied in redemption of the Class C Notes.

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

“Available Redemption Funds” on any Principal Determination Date (the “relevant Principal Determination Date”) means the aggregate of:

- (a) the amount (if any) left when the amount (if any) of Available Purchase Funds (as defined below) at the relevant Principal Determination Date, which the Issuer has notified to the Administrator

pursuant to Clause 6.1 of the Administration Agreement, that it then intends to apply in purchasing Loans and/or Car Finance Contracts and/or Dealer Stocking Vehicle Contracts and any related Motor Vehicles at any time during the period from (and including) the relevant Principal Determination Date to (and including) the fourth anniversary of the Closing Date (such notified amount being “Allocated Purchase Funds”) is subtracted from Available Purchase Funds at the relevant Principal Determination Date; and

(b) any Available Redemption Funds on the preceding Principal Determination Date not applied in redeeming Notes of any class during the period from (and including) the relevant Principal Determination Date to (but excluding) the next following Principal Determination Date (such period being a “Collection Period”); and

(c) any part of the amount deducted pursuant to (d) below in determining Available Redemption Funds on the preceding Principal Determination Date which was not applied in purchasing and cancelling Class A Notes during the preceding Collection Period; less

(d) the amount notified by the Issuer to the Administrator as the amount which the Issuer then intends to apply, during the Collection Period commencing on that Principal Determination Date, in purchasing Class A Notes during that Collection Period pursuant to the Class A Conditions.

“Available Purchase Funds” on the relevant Principal Determination Date means the aggregate (avoiding double counting) of:

(a) the aggregate amount (the “Portfolio Principal Received”) of all principal (or, in relation to Portfolio Car Finance Products, principal equivalent) credits made by the Administrator to the Debtor Ledger (as defined below) pursuant to Clause 7.11 of the Administration Agreement (see “Portfolio Asset Administration — Debtor Ledger/Current Balance”) during the preceding Collection Period in respect of any Loan that was a Portfolio Loan and/or Car Finance Product that was a Portfolio Car Finance Product and/or any Motor Vehicle that was a Portfolio Motor Vehicle at any time during such period; and

(b) any Allocated Purchase Funds on the preceding Principal Determination Date; and

(c) any part of the amount deducted, pursuant to paragraph (i) below, in determining Available Purchase Funds on the preceding Principal Determination Date which was not applied in paying interest on Class A Notes (or, in the case of the first Principal Determination Date, interest on amounts outstanding under the Facility Agreement (as defined below)) of any class or in payment of any Swap Termination Amounts on the preceding Interest Payment Date; and

(d) any amount credited by the Administrator to the Principal Deficiency Ledger on the Interest Payment Date preceding the relevant Principal Determination Date in accordance with paragraph (x) of “Priority of Payments” above; and

(e) any amount credited by the Administrator to the Spread Requirement Ledger on the Interest Payment Date preceding the relevant Principal Determination Date in accordance with paragraph (xi) of “Priority of Payments” above; and

(f) the aggregate of all amounts advanced to the Issuer during the preceding Collection Period pursuant to the Subordinated Loan Agreement in relation to the payment to a relevant Seller of commission paid by such Seller that has not been amortised under a Further Loan, Further Car Finance Contract or, if applicable, Dealer Stocking Vehicle Contract on the date the Issuer acquires such Further

Loan, Further Car Finance Contract or Dealer Stocking Vehicle Contract (if applicable) (“Unamortised Commission”); and

(g) the aggregate of all payments made into the Transaction Account during the preceding Collection Period, which are not income payments and which do not fall within (a) to (f) (inclusive) above (including without limitation such portion of each amount (the “Repurchase Price”) paid to the Issuer by PFPLC in respect of the repurchase of Portfolio Assets pursuant to and calculated in accordance with the Repurchase Deed during that period which corresponds to the principal amount (or its equivalent) of a Portfolio Asset — see the paragraph entitled “Portfolio Assets — Repurchase of Portfolio Assets” in the section entitled “Portfolio Assets” below and (on the first Principal Determination Date) the net proceeds of the issue of the Notes, to the extent not applied in repayment of amounts owing under the Facility Agreement or in purchasing Loans or Car Finance Contracts (and the related Motor Vehicles) on the Closing Date),

less the aggregate (avoiding double counting) of:

(i) the amount calculated on the relevant Principal Determination Date by the Administrator (in accordance with Schedule 2 of the Administration Agreement) as being the estimated potential shortfall (if any) in the funds that will be available to the Issuer on the next Interest Payment Date to make interest payments on Class A Notes and items of higher priority and payments of Swap Termination Amounts (the “Potential Interest Shortfall Amount”, an amount equal to such shortfall being credited to a ledger maintained by the Administrator pursuant to the Administration Agreement, such ledger being the “Interest Shortfall Ledger”), such estimate to be made on the basis and the assumptions to be set out in the Administration Agreement;

(ii) the aggregate of all payments, made out of the Transaction Account during the preceding Collection Period (in respect of, *inter alia*, payments due to Obligors, making Authorised Investments (as defined below), making payments in the course of the Issuer’s business when due and payable (except to the extent provided for on a previous Interest Payment Date), paying the costs of hedging arrangements, repaying principal on the Subordinated Loan Agreement and refunding overpayments to Obligors, in each case pursuant to the relevant clauses of the Deed of Charge) which are (a) not income payments or (b) income payments to the extent that they are stated in the relevant clauses of the Deed of Charge to reduce the Available Purchase Funds on the date of payment; and

(iii) the aggregate amount paid in cash and not by the issue of Loan Stock during the preceding Collection Period in purchasing Further Loans and/or Further Car Finance Contracts (and the related Motor Vehicles) and/or Dealer Stocking Vehicle Contracts (and the related Motor Vehicles) during such period in accordance with the Administration Agreement,

provided that there shall be subtracted from the figure determined by applying the above calculation (the “Pre-PDL Principal Amount”) an amount equal to the lesser of (i) the absolute value of the Adjusted PDL Requirement (as defined below) on the relevant Principal Determination Date and (ii) the Pre-PDL Principal Amount; and provided further that when applying the above calculation in respect of the first Principal Determination Date, the “preceding Principal Determination Date” shall be 20th May 1998 and the “preceding Interest Payment Date” and the “Interest Payment Date preceding the relevant Principal Determination Date” shall be 29th May 1998;

“Adjusted PDL Requirement” on the relevant Principal Determination Date means: (i) if the PDL Requirement (as defined below) is negative, the amount obtained by reducing such negative PDL Requirement by the amount of any debit balance on that date of the Principal Deficiency Ledger; or (ii) if the PDL Requirement is zero or positive, an amount equal to zero;

“PDL Requirement” on the relevant Principal Determination Date means the number, whether positive or negative, obtained by subtracting the Total Enhancement Amount (as defined below) as at the preceding Principal Determination Date from the Total Enhancement Amount on the relevant Principal Determination Date, provided that if on the relevant Principal Determination Date, the PDL Requirement is (i) negative and (ii) would if it were positive be a larger number (the amount by which it would be larger being the “Principal Shortfall”) than the Pre-PDL Principal Amount, the Principal Shortfall shall be deducted from the PDL Requirement on the immediately following Principal Determination Date;

“Total Enhancement Amount” on the relevant Principal Determination Date means the aggregate of the products of the Current Balance (as defined below) of each Portfolio Asset on that date and a percentage set out in the Master Definitions Schedule dated the date of this Offering Circular between, *inter alios*, the Issuer, the Trustee, Barclays, PFPLC, PPF, PCF, PDF and Universal, in relation to the issue of the Notes (the “Master Definitions Schedule”) under the definition “Enhancement Percentage” whose value increases, in a non-linear manner, with the number of months that a Portfolio Asset is in arrears;

“Current Balance” on any Principal Determination Date means: (a) in relation to a Portfolio Loan, the aggregate outstanding amount of principal, interest and other amounts due and payable by the Borrower thereunder; (b) in relation to a Portfolio Car Finance Contract, the aggregate amount of those parts of each monthly payment payable by the Obligor that is attributable to principal in accordance with clause 7.11 of the Administration Agreement throughout the remaining term of the Portfolio Car Finance Contract (including amounts then due and payable but not paid) plus the assumed residual value of the relevant Portfolio Motor Vehicle (if such Portfolio Car Finance Contract comprises a lease agreement or a motor vehicle contract purchase agreement) plus the aggregate outstanding amount of interest (or its equivalent), and other amounts due and payable by the Obligor on that date thereunder; and (c) in relation to a Portfolio Dealer Stocking Vehicle Contract, the aggregate of the amount paid by PDF to the relevant Dealer by way of net purchase price for the relevant Motor Vehicle plus the aggregate outstanding amount of handling fee and other amounts (avoiding double counting) due and payable by the Dealer on that date thereunder; each as shown in the Debtor Ledger (as defined below) for the relevant Portfolio Asset; and

“Debtor Ledger” means the ledger account established and maintained by or on behalf of the Administrator, pursuant to and in accordance with the Administration Agreement, in respect of each Portfolio Asset, as described below under “Portfolio Asset Administration — Debtor Ledger/Current Balance” below.

Optional Redemption of Class A Notes

All (but not some only) of the Class A Notes will be subject to redemption, at the option of the Issuer, at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class A Notes or in the event of certain other United Kingdom taxation changes (although the Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction).

Furthermore, the Issuer will also be entitled, but not obliged, to redeem all (but not some only) of the Class A Notes at their Principal Amount

Outstanding together with accrued interest on any Interest Payment Date falling in or after June, 2001 (the “Coupon Call Date”).

All (but not some only) of the Class A Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the aggregate Principal Amount Outstanding of the Notes then outstanding is less than £30,000,000.

Furthermore, any optional redemption of all (but not some only) Class A Notes may only be made if Moody’s has first confirmed that the then current rating of either or both the Class B Notes and Class C Notes would not be adversely affected by such redemption.

Optional Redemption of Class B Notes

Provided that there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes will be subject to redemption, at the option of the Issuer, at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class B Notes or in the event of certain other United Kingdom taxation changes (although the Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction).

Provided that there are no Class A Notes then outstanding or all the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling on or after the Coupon Call Date or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full.

Furthermore, any optional redemption of all (but not some only) Class B Notes may only be made if Moody’s has first confirmed that the then current rating of the Class C Notes would not be adversely affected by such redemption.

Optional Redemption of Class C Notes

Provided that there are no Class A Notes or Class B Notes then outstanding or all the Class A Notes (if any) and the Class B Notes are to be redeemed in full at the same time, all (but not some only) of the Class C Notes will be subject to redemption, at the option of the Issuer, at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date in the event that the Issuer is obliged to make any withholding or deduction from payments in respect of the Class C Notes or in the event of certain other United Kingdom taxation changes (although the Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction).

Provided that there are no Class A Notes or Class B Notes then outstanding or all the Class A Notes (if any) and the Class B Notes are to be redeemed in full at the same time, all (but not some only) of the Class C Notes may, at the option of the Issuer, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling on or after the Coupon Call Date or, if earlier, falling on or after the date on which all the Class A Notes and Class B Notes are redeemed in full.

Purchase of Notes

Prior to the Determination Event, the Issuer may, at its option, apply Available Redemption Funds (up to a maximum amount in any Collection Period equal to the amount deducted on the then preceding Principal Determination Date pursuant to paragraph (d) of the definition of “Available Redemption Funds”) in the purchase of Class A Notes in the open market or otherwise at any price at or below their Principal Amount Outstanding (excluding accrued interest and expenses). Any Class A Notes so purchased will be cancelled. The Issuer may not purchase Class A Notes after the occurrence of the Determination Event. The Issuer may not purchase Class B Notes or Class C Notes at any time.

Final Redemption

To the extent not otherwise redeemed or purchased and cancelled, the Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in June 2013 less the following amounts, if any (which for the avoidance of doubt shall not thereafter be due and payable):

(i) in the case of the Class C Notes, any shortfall in principal funds on that date;

(ii) in the case of the Class B Notes, any shortfall in principal funds but only to the extent that such shortfall exceeds the then aggregate Principal Amount Outstanding of the Class C Notes.

Principal Amount Outstanding and Pool Factor

The Principal Amount Outstanding of a Note, irrespective of class, will be its initial principal amount of £10,000 less the aggregate amount of principal repayments that have been made or fallen due (whether or not paid) on that Note. The Pool Factor for each Note during an Interest Period will be determined by dividing the Principal Amount Outstanding of such Note on the first day of that Interest Period (after deducting any principal repayment due on that day) by 10,000 and expressing the quotient to the sixth decimal place.

The Issuer will cause the Administrator to determine the Principal Amount Outstanding and the Pool Factor for each Note of a particular class for each Interest Period and such determination will be published on the Reuters Screen by not later than the first business day after the Principal Determination Date immediately preceding such Interest Period.

Portfolio Loans

Certain Loans have been acquired by the Issuer prior to the date of this Offering Circular. Save to the extent redeemed in full or sold by the Issuer prior to the Closing Date, these Loans will form part of the initial security for the Notes. These Loans were acquired pursuant to loan sale contracts concluded as a result of: (i) the acceptance by the Issuer of a written offer from Universal to sell the benefit of Loans on standard terms and conditions on 17th March 1998 which, as at close of business on the 13th March 1998, had an aggregate Current Balance of £269,433,136.06; and (ii) the acceptance by the Issuer of subsequent written offers on substantially the same terms from (x) Universal on 5th May 1998 to sell the benefit of Loans which, as at close of business on 30th April 1998, had an aggregate Current Balance of £10,613,168.28; and (y) PPF on 5th May 1998 to sell the benefit of Loans which, as at close of business on 30th April 1998, had an aggregate Current Balance of £8,735,784.61 (each such sale contract being a "Loan Sale Contract").

Provided that, *inter alia*, Moody's has not notified the Issuer, Universal and/or PPF that any rating to be prospectively assigned to any class of Notes would be adversely affected as a result of such acquisition, the Issuer is expected to acquire additional Loans from Universal and/or PPF pursuant to a loan sale contract to be made on the Closing Date, using part of the proceeds of the issue of the Notes to the extent not applied: (i) in repayment of amounts owing under the Facility Agreement; or (ii) in purchasing Car Finance Contracts and the relevant Motor Vehicles on the Closing Date; or (iii) in being initially credited to the Transaction Account to be applied in purchasing Loans or Car Finance Products on any business day on or before the fourth anniversary of the Closing Date. Such contract will be concluded as a result of acceptance by the Issuer of a written offer by Universal or PPF (each, an "Offer to Sell") to sell the benefit of Loans on substantially the same standard terms and conditions as are referred to in the previous paragraph. Acceptance by the Issuer of such Offer(s) to Sell is subject to further conditions, as described in the paragraph entitled "Portfolio Assets — Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts" in the section entitled "Portfolio Assets" below.

The Loans acquired by the Issuer on or before the Closing Date (and not subsequently redeemed in full or sold by the Issuer on or before the Closing Date) are referred to as the “Initial Portfolio Loans”.

No notice of the transfer of the Initial Portfolio Loans has been or will be given to Borrowers unless, *inter alia*, there has been a breach of the Administration Agreement that gives rise to the Trustee’s rights to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Portfolio Loan, PFPLC is in breach of its repurchase obligations (as described below) under the Repurchase Deed.

No Portfolio Loan has or will have an original maturity later than 30th June 2012. There are no obligations to make further advances under any Portfolio Loan. All of the Portfolio Loans are governed by English, Scottish or Northern Irish law.

The Portfolio Loans are further described in “Portfolio Assets” below.

Further Loans

Provided that, *inter alia*, Moody’s has not notified the relevant Seller and the Issuer that any rating then assigned to any class of Notes by Moody’s would be adversely affected as a result of such acceptance, the Issuer may, from time to time on or before the fourth anniversary of the Closing Date, accept written offers to sell from any of Universal, PPF or PFPLC (each, also an “Offer to Sell”) in relation to Further Loans. Acceptance by the Issuer of any such Offer to Sell is subject to further conditions, as described in the paragraph entitled “Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts” in the section entitled “Portfolio Assets” below.

The purchase price for a Further Loan will be its Current Balance on a date specified by the relevant Seller (the “Effective Date” — being no more than three business days before the Issuer is due to acquire the Further Loan) adjusted for any Purchased Accruals, Unamortised Commission, any provision for non-payment specified by the relevant Seller and any Excluded Arrears, as described in the paragraph entitled “Repurchase of Portfolio Assets” in the section entitled “Portfolio Assets” below. The terms “Purchased Accruals” and “Excluded Arrears” are defined in that section.

A Further Loan may be purchased on any business day on or before the fourth anniversary of the Closing Date but only to the extent of any Available Purchase Funds on that day. Any such purchase will reduce the Available Purchase Funds and hence the amount potentially available to redeem the Notes on the next following Interest Payment Date.

The Further Loans will be acquired pursuant to a loan sale contract constituted by an Offer to Sell by a relevant Seller that is accepted by the payment by the Issuer of the aggregate of the purchase prices of such Further Loans (each also a “Loan Sale Contract”). Each such Loan Sale Contract will incorporate the standard terms and conditions agreed on the Closing Date between the Issuer, the Trustee and each Seller. Those terms and conditions are described in more detail in “Portfolio Assets — Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts”.

Any amounts received by a Seller in respect of a Further Loan after it has been transferred by that Seller to the Issuer (or, in the case of Scottish Loans, held on trust for the Issuer) will be held on trust for the Issuer, except for Excluded Arrears and Excluded Accruals (as defined in “Portfolio Assets — Repurchase of Portfolio Assets”) if any.

No notice of the transfer of Further Loans will be given to Borrowers unless, *inter alia*, there has been a breach of the Administration Agreement that gives rise to the Trustee’s rights to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Further Loan, PFPLC is in breach of its repurchase obligations under the Repurchase Deed.

Portfolio Car Finance Contracts

Provided that, *inter alia*: (i) Moody's has not notified the Issuer and PCF that any rating to be prospectively assigned to any class of Notes would be adversely affected as a result of such acquisition; and (ii) the aggregate Current Balances of any Car Finance Contracts to be acquired would not exceed 12½% of the aggregate Current Balances of the Portfolio Assets on the Closing Date, the Issuer is expected to acquire from PCF certain Car Finance Contracts and Motor Vehicles the subject thereof on the Closing Date using part of the proceeds of the issue of the Notes to the extent not applied: (a) in repayment of amounts owing under the Facility Agreement; or (b) in purchasing Loans on the Closing Date; or (c) in being initially credited to the Transaction Account to be applied in purchasing Loans or Car Finance Products on or before the fourth anniversary of the Closing Date. Such Car Finance Contracts and Motor Vehicles would be acquired pursuant to a car finance sale contract that would be made on the Closing Date between PCF and the Issuer. Such contract would be concluded as a result of the acceptance by the Issuer of a written offer by PCF (also an "Offer to Sell") to sell the benefit of Car Finance Contracts and related Motor Vehicles (a "Car Finance Sale Contract") on standard terms and conditions agreed on the Closing Date. Acceptance by the Issuer of such Offer to Sell is subject to further conditions, as described in the paragraph entitled "Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts" in the section entitled "Portfolio Assets" below.

The Issuer has agreed, in relation to each Portfolio Motor Vehicle that is the subject of a hire purchase agreement or motor vehicle contract purchase agreement, that legal and beneficial ownership in such Portfolio Motor Vehicle will pass to the relevant Hirer upon such Hirer exercising his or her option to purchase such Portfolio Motor Vehicle in accordance with, and on the expiry or early settlement of, the relevant Car Finance Agreement.

No notice of transfer of Portfolio Car Finance Contracts (or of the transfer of legal and beneficial ownership in the related Portfolio Motor Vehicle) will be given to Hirers or Lessees unless, *inter alia*, there has been a breach of the Administration Agreement that gives rise to the Trustee's right to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Portfolio Car Finance Contract (and the related Portfolio Motor Vehicle), PFPLC is in breach of its repurchase obligations under the Repurchase Deed.

No Portfolio Car Finance Contract will have an original maturity later than 30th June 2012. All Portfolio Car Finance Contracts are governed by English, Scottish or Northern Irish law.

The Portfolio Car Finance Contracts are more particularly described in "Portfolio Assets" below.

Further Car Finance Contracts

Provided that, *inter alia*: (i) Moody's has not notified PCF and the Issuer that any rating assigned to any class of Notes by Moody's would be adversely affected as a result of such acceptance; and (ii) as a result of such acceptance, the aggregate Current Balances of the Portfolio Car Finance Products would not exceed 12½% of the aggregate Current Balances of the Portfolio Assets, the Issuer may, from time to time on or before the fourth anniversary of the Closing Date, accept Offers to Sell from PCF in relation to Further Car Finance Contracts and the related Motor Vehicles. Acceptance by the Issuer of any such Offer to Sell is subject to further conditions, as described in the paragraph entitled "Further Loans, Further Car Finance Contracts and Portfolio Dealer Stocking Vehicle Contracts" in the section entitled "Portfolio Assets" below.

The purchase price for a Further Car Finance Contract and the related Motor Vehicle will be its Current Balance on a date specified by PCF (the "Effective Date" — being no more than three business days before the Issuer is due to acquire the Further Car Finance Contract and related Motor Vehicle) adjusted for any Purchased Accruals, any Unamortised Commission, any

provision for non-payment specified by PCF and any Excluded Arrears as described in the paragraph entitled “Further Loans, Further Car Finance Contracts and Portfolio Dealer Stocking Vehicle Contracts” in the section entitled “Portfolio Assets” below. The terms “Purchased Accruals” and “Excluded Arrears” are defined in that section.

A Further Car Finance Contract and the related Motor Vehicle may be purchased on any business day on or before the fourth anniversary of the Closing Date but only to the extent of any Available Purchase Funds on that day. Any such purchase will reduce the Available Purchase Funds and hence the amount potentially available to redeem the Notes on the next following Interest Payment Date.

The Further Car Finance Contracts and the ownership of the Motor Vehicles the subject thereof would be acquired pursuant to a car finance sale contract constituted by an Offer to Sell by PCF that is accepted by the payment by the Issuer of the aggregate of the purchase prices of such Further Car Finance Contracts and related Motor Vehicles (each also a “Car Finance Sale Contract”). Each such Car Finance Sale Contract would incorporate the standard terms and conditions agreed on the Closing Date between the Issuer, the Trustee and each Seller.

Any amounts received by PCF in respect of a Further Car Finance Contract after it has been transferred to the Issuer (or, in the case of Scottish Car Finance Contracts, held on trust for the Issuer) will be held on trust for the Issuer, except for Excluded Arrears and Excluded Accruals.

No notice of the transfer of Further Car Finance Contracts (or of the transfer of legal and beneficial ownership in the related Portfolio Motor Vehicles) will be given to Hirers or Lessees unless, *inter alia*, there has been a breach of the Administration Agreement that gives rise to the Trustee’s rights to terminate it or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Further Car Finance Contract and the related Portfolio Motor Vehicle, PFPLC is in breach of its repurchase obligations under the Repurchase Deed.

Portfolio Dealer Stocking Vehicle Contracts

Provided that, *inter alia*: (i) Moody’s has not notified PDF and the Issuer that any rating assigned to any class of Notes by Moody’s would be adversely affected as a result of such acceptance; (ii) as a result of such acceptance, the aggregate Current Balances of the Portfolio Car Finance Products would not exceed 12½% of the aggregate Current Balances of the Portfolio Assets; and (iii) as a result of acceptance, the aggregate Current Balances of the Portfolio Dealer Stocking Vehicle Contracts would not exceed £5,000,000, the Issuer may, from time to time on or before the fourth anniversary of the Closing Date, accept offers to sell from PDF in relation to Dealer Stocking Vehicle Contracts and the related Motor Vehicles. Such Dealer Stocking Vehicle Contracts and Motor Vehicles would be acquired pursuant to a dealer stocking finance sale contract that would be made between PDF and the Issuer. Such a contract would be concluded as a result of the acceptance by the Issuer of a written offer by PDF (also an “Offer to Sell”) to sell the benefit of Dealer Stocking Vehicle Contracts and the related Motor Vehicles (a “Dealer Stocking Vehicle Sale Contract”) on standard terms and conditions agreed on the Closing Date. No such contract will be entered into on the Closing Date. Acceptance by the Issuer of any such Offer to Sell is subject to further conditions, as described in the paragraph entitled “Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts” in the section entitled “Portfolio Assets” below.

The purchase price for a Dealer Stocking Vehicle Contract and the related Motor Vehicle would be the Current Balance of the Dealer Stocking Vehicle Contract on a date specified by PDF (the “Effective Date” — being no more than three business days before the Issuer is due to acquire the Dealer Stocking Vehicle Contract and related Motor Vehicle) adjusted for any Purchased Accruals, any Unamortised Commission, any provision for non-

payment specified by PDF and any Excluded Arrears as described in the paragraph entitled “Portfolio Assets — Further Loans, Further Car Finance Contracts and Portfolio Dealer Stocking Vehicle Contracts” in the section entitled “Portfolio Assets” below.

A Dealer Stocking Vehicle Contract and the related Motor Vehicle may be purchased on any business day on or before the fourth anniversary of the Closing Date but only to the extent of any Available Purchase Funds on that day. Any such purchase will reduce the Available Purchase Funds and hence the amount potentially available to redeem the Notes on the next following Interest Payment Date.

Any amounts received by PDF in respect of a Dealer Stocking Vehicle Contract after it has been transferred to the Issuer (or, in the case of Scottish Dealer Stocking Vehicle Contracts, held on trust for the Issuer) will be held on trust for the Issuer, except for Excluded Arrears and Excluded Accruals.

No notice of the transfer of Portfolio Dealer Stocking Vehicle Contracts (or of the transfer of legal and beneficial ownership in the related Portfolio Motor Vehicles) will be given to Dealers unless, *inter alia*, there has been a breach of the Administration Agreement that gives rise to the Trustee’s right to terminate such agreement or the Trustee certifies that the security for the Notes is in jeopardy or, in relation to any particular Portfolio Dealer Stocking Vehicle Contract and the related Portfolio Motor Vehicle, PFPLC is in breach of its repurchase obligations under the Repurchase Deed.

No Motor Vehicle the subject of a Portfolio Dealer Stocking Vehicle Contract will fall to be repurchased by the relevant Dealer later than 30th June 2012. All Portfolio Dealer Stocking Vehicle Contracts will be governed by English, Scottish or Northern Irish law.

The Portfolio Dealer Stocking Vehicle Contracts are more particularly described in “Portfolio Assets” below.

The Issuer has agreed, in relation to each Portfolio Motor Vehicle that is the subject of a Portfolio Dealer Stocking Vehicle Contract, that such legal and beneficial ownership in such Portfolio Motor Vehicle as the Issuer acquired from PDF will pass to the relevant Dealer upon such Dealer repurchasing such Portfolio Motor Vehicle in accordance with, and on the expiry or early settlement of, the relevant Dealer Stocking Vehicle Agreement.

Initial Portfolio Assets

The Portfolio Assets, as at the Closing Date, taking into account Portfolio Assets acquired on the Closing Date, will have an aggregate of their respective Current Balances of approximately £300,000,000. Those Portfolio Assets will comprise Portfolio Loans beneficially owned by the Issuer on the date of this Offering Circular (“Existing Portfolio Loans”) save to the extent repaid prior to the Closing Date and certain additional Loans originated by Universal and/or PPF and Car Finance Contracts originated by PCF (and the related Motor Vehicles) and purchased by the Issuer on the Closing Date. The statistical and other information contained in this Offering Circular is stated as at close of business on 30th April 1998 and relates to the Loans beneficially owned by the Issuer at that time and to such additional Loans and Car Finance Contracts at that time (the “Provisional Pool”).

Receipt of Moneys

All direct debit payments made by Obligor will be paid either (i) directly to the Transaction Account or (ii) if such payments cannot be made directly to the Transaction Account without a change of instructions from the relevant Obligor, directly into the collection account of the Seller from whom the Issuer acquired the relevant Portfolio Asset. Accordingly, direct debit payments will be made directly to either the Transaction Account or any one of Universal’s collection accounts with Lloyds Bank PLC, National Westminster Bank Plc and Girobank plc, PFPLC’s collection account with National Westminster Bank Plc, either of PFPLC’s collection accounts with Midland Bank plc, PPF’s collection account with National Westminster Bank Plc, PCF’s collection account with National Westminster Bank Plc or PDF’s

collection account with National Westminster Bank Plc, as the case may be (together, the “Collection Accounts”). Those moneys that are credited directly to a Collection Account will be transferred on the business day after being credited to such Collection Account, or as soon as practicable thereafter, to the Transaction Account.

Certain Obligors are or will be permitted to make payments in respect of Portfolio Assets using alternative arrangements to direct debits, provided that those arrangements are intended to ensure timely payment.

Under the Universal Collection Accounts Declaration of Trust, the PFPLC Collection Accounts Declaration of Trust, the PPF Collection Account Declaration of Trust, the PCF Collection Account Declaration of Trust and the PDF Collection Account Declaration of Trust (each as defined in “Portfolio Asset Administration” below) Universal, PFPLC, PPF, PCF and PDF will each, respectively, declare that all direct debit payments, cheque payments and moneys received or recovered and paid into their respective Collection Accounts in respect of Portfolio Loans, Portfolio Car Finance Contracts or, as the case may be, Portfolio Dealer Stocking Vehicle Contracts are held on trust for the Issuer until they are applied in the manner described above.

Portfolio Asset Administration

Pursuant to an agreement to be entered into on the Closing Date between PFPLC, the Issuer, the Trustee, Universal, PPF, PCF and PDF (the “Administration Agreement”), PFPLC will agree to administer the Portfolio Assets on behalf of the Issuer, carrying out all administrative functions with the diligence and skill as would a reasonably prudent lender or financier administering its own unsecured consumer loans, car finance and dealer stocking products. Subject to the terms of the relevant Loan Agreement, Car Finance Agreement or Dealer Stocking Vehicle Agreement, the Administrator has authority to change the rates of interest (or equivalent revenue charges) applicable to the Portfolio Assets. However, the Administrator may not change such rates (other than in respect of Portfolio Dealer Stocking Vehicle Contracts) without first having received a confirmation from Moody’s that such change will not lead to the then current rating of any class of Notes being adversely affected. The Trustee may revoke the Administrator’s authority to change such rates in certain circumstances. The weighted average rate applicable to any portfolio of Loans or Car Finance Contracts being acquired by the Issuer at any time may not on the relevant sale date be less than a specific margin above the rate payable by the Issuer under the hedging arrangements entered into in relation to that acquisition, as more particularly described in “The Issuer-Hedging Arrangements” below. The Administrator will receive, in priority to payments of interest on the Notes, an annual fee of not more than 1% (inclusive of VAT) of the aggregate of the Current Balances of all Portfolio Assets, payable quarterly in arrear on each Interest Payment Date, calculated by reference to those Current Balances as at the then preceding Interest Payment Date (or, in relation to the first Interest Payment Date, those Current Balances on the Closing Date). Any substitute administrator appointed (other than as administrator of last resort) would receive a fee consistent with that commonly charged at that time for the provision of administration services for unsecured consumer loans and car finance and dealer stocking products. Pursuant to an agreement to be entered into on or before the Closing Date with Barclays (the “Substitute Administrator Agreement”), Barclays will agree to be administrator of last resort and, in the event that it became the administrator, an annual fee of not more than 1.5% (exclusive of VAT) on the Current Balances of the Portfolio Assets, payable quarterly in arrear on each Interest Payment Date, would be payable.

Under the Administration Agreement, the Administrator will, on behalf of the Issuer and the Trustee, follow its own standard procedures for enforcement of payments due under unsecured consumer loans and car finance and dealer stocking products to recover sums due to the Issuer or, to the extent that

such procedures are not applicable, having regard to the nature of the default in question, take such action as would a reasonably prudent lender or financier in respect of such default.

Asset Repurchase

Under a repurchase deed to be dated on or about the Closing Date between PFPLC, the Issuer, the Trustee, Universal, PPF, PCF and PDF (the “Repurchase Deed”), PFPLC will agree to repurchase, or procure the purchase by a third party of, certain Portfolio Assets in certain circumstances. These circumstances include:

(i) in relation to a Portfolio Loan acquired by the Issuer before 1st October 1998, the declaration by a court of competent jurisdiction that more than 16% of the principal amount outstanding of such Portfolio Loan is irrecoverable by reason of breaches of the Consumer Credit Act 1974 (the “CCA”), or a decision by the Administrator not to bring enforcement proceedings solely on the basis that such a declaration would be made, or the Administrator fails promptly to certify, at the Trustee’s request, that enforcement proceedings were not taken solely on that basis (a “CCA Event”); and

(ii) any warranty given by PFPLC in respect of a Portfolio Asset under the Warranty Deed being untrue or incorrect in any material respect as of the date as of which it was given,

and where such matters are capable of remedy, PFPLC’s obligation to repurchase or procure the repurchase of such Portfolio Asset will only arise if the matter is not remedied within 30 days of notice from the Issuer.

However, PFPLC is not required to repurchase any Portfolio Asset which is an Initial Portfolio Loan (being any Portfolio Loan acquired by the Issuer on or before the Closing Date and not subsequently redeemed or sold in full): (i) until the aggregate of the Repurchase Prices (as defined below) of the Initial Portfolio Loans to be repurchased exceeds £1,000,000 (whereupon PFPLC will be obliged to repurchase all of the Initial Portfolio Loans that it would, but for such minimum threshold, have been obliged to repurchase); or (ii) if the aggregate of the Repurchase Prices of the Initial Portfolio Loans that it has already repurchased, or procured the repurchase of, is greater than £20,000,000. This restriction will not apply to Further Loans acquired after the Closing Date or Car Finance Products acquired at any time.

The Repurchase Price for each Portfolio Asset will be its Current Balance on the date of repurchase (including amounts that are or will be irrecoverable under a Portfolio Loan to be repurchased because of any CCA Event) adjusted for Unamortised Commission, where applicable, interest that has accrued but is not then payable, Excluded Accruals that have not been received by the relevant Seller and Excluded Arrears that have not been received by that Seller.

For further details, see the paragraph entitled “Repurchase of Portfolio Assets” in the section entitled “Portfolio Assets” below.

Insurances

The security for the Notes will include the relevant interests of the Issuer in respect of certain insurances as described in the paragraph entitled “Other” in the section entitled “Portfolio Assets” below.

First Loss Fund

On 17th March 1998, the Issuer established a fund (the “First Loss Fund”) which amounted to £5,812,131.58 and which formed part of the balance of the Transaction Account. A further amount of £256,800 was added to the First Loss Fund on 30th April 1998 in advance of the Issuer acquiring Loans from Universal and PPF on 5th May 1998.

The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of the amounts referred to in items (i) to (v) and, subject to the following paragraph, (vi) and (vii) in “Priority of Payments” above where the aggregate amount of interest paid by Borrowers in respect of Portfolio Loans or its equivalent paid by Hirers, Lessees or Dealers in respect

of Portfolio Car Finance Products is insufficient to create sufficient Available Revenue Funds to pay such amounts.

Notwithstanding the above, the First Loss Fund will not be applied towards payment of interest due or overdue on the Class B Notes or the Class C Notes to the extent that the priority of payment of such interest is postponed (as set out in “Priority of Payments” above).

The First Loss Fund may also be used to meet certain out-of-pocket expenses incurred by the Issuer and required to be paid otherwise than on an Interest Payment Date, including payments to third parties in the course of its business and payments of an interest or an equivalent nature to or on behalf of Obligors but only to the extent that those items are of an income or an equivalent nature and that the Issuer’s income is insufficient to meet those expenses.

On each Interest Payment Date, revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (vii) inclusive (or, to the extent that the priority of payments of interest due on the Class B Notes and the Class C Notes is postponed, as set out in “Priority of Payments” above, items (i) to (v) inclusive)) in “Priority of Payments” above will be applied to replenish the First Loss Fund to the Required Amount (as defined in the next paragraph).

The Required Amount will be at all times on or after the Closing Date the aggregate of:

- (i) £6,068,931.58; and
- (ii) a sum equal to 2.14% of the aggregate of (x) the Current Balances of any Loans or Car Finance Contracts that are acquired by the Issuer on the Closing Date and (y) any Purchased Accruals, less any Excluded Arrears, of each such Loan or Car Finance Contract; and
- (iii) a sum equal to 2.14% of the balance of the Note proceeds, after the Issuer has repaid all amounts outstanding under the Facility Agreement, that the Issuer does not apply in acquiring Loans or Car Finance Contracts on the Closing Date; and
- (iv) any additional amount which may from time to time be agreed between the Issuer and Moody’s.

Spread Requirement

On each Interest Payment Date, revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (x) inclusive (or, to the extent that the priority of payments of interest due on the Class B Notes and the Class C Notes is postponed, as set out in “Priority of Payments” above, items (i) to (x) inclusive, other than items (vi) and (vii)) in “Priority of Payments” above, will be set aside up to the then Spread Requirement and added to the amount of Available Purchase Funds on the next Principal Determination Date.

On any date, the Spread Requirement will be the aggregate of:

- (i) £3,913,610.08; and
- (ii) an amount equal to 1.38% of the aggregate of (x) the Current Balances of any Loans or Car Finance Contracts that are acquired by the Issuer on the Closing Date and (y) the Purchased Accruals, less the Excluded Arrears, of each such Loan or Car Finance Contract; and
- (iii) a sum equal to 1.38% of the balance of the Note proceeds, after the Issuer has repaid all amounts outstanding under the Facility Agreement that the Issuer does not apply in acquiring Loans or Car Finance Contracts on the Closing Date; and
- (iv) any additional amount which may from time to time be agreed between the Issuer and Moody’s,

less the aggregate of all provisions made, on any preceding Interest Payment Date or on the Closing Date, in accordance with paragraph (xi) of “Priority of Payments”.

Hedging Arrangements

On the Closing Date, the Issuer will have entered into hedging arrangements which will include an ISDA Master Agreement (together with any confirmations for specific transactions, the “Swap Agreement”) with Morgan Guaranty Trust Company of New York as Swap Counterparty (the “Swap Counterparty” or the “Swap Provider”) and one or more interest rate swaps and interest rate caps, each in accordance with Moody’s requirements to hedge the Initial Portfolio Loans and any Portfolio Car Finance Contracts that are acquired on the Closing Date. The Issuer’s hedging arrangements are more particularly described in “The Issuer — Hedging Arrangements” below.

Reinvestment of Income

Cash in the Transaction Account must be invested in sterling denominated securities, bank accounts or other obligations of or rights against entities whose long-term debt is rated Aaa by Moody’s or whose short-term debt is rated P-1 by Moody’s or, if at the relevant time there are no such entities, any entity previously approved in writing by the Trustee or any other debt represented by the balance on any bank account, or any other security or obligation as would not adversely affect the then current rating of the Class A Notes or, if there are no Class A Notes then outstanding, the Class B Notes or, if there are no Class B Notes then outstanding, the Class C Notes. Any such investments (“Authorised Investments”) made by the Issuer must also satisfy certain further criteria described in “Portfolio Asset Administration — Reinvestment of Income” below.

Global Notes

Each class of the Notes will be represented initially by a temporary global note in bearer form (each a “Temporary Global Note”), without coupons or talons, which will be deposited on the Closing Date with the Common Depository for Euroclear and Cedel Bank. Interests in the Temporary Global Note relating to that particular class will be exchangeable for interests in a permanent global note relating to that class in bearer form (each a “Permanent Global Note”), without coupons or talons, 40 days after the Closing Date provided certification of non-U.S. beneficial ownership by the Noteholders of the relevant class has been received. The Permanent Global Notes will also be deposited with the Common Depository. The Temporary Global Notes and the Permanent Global Notes are referred to together as the “Global Notes”. Notes in definitive form will be issuable only in certain limited circumstances as more particularly described in the descriptions of the Notes in this Offering Circular. Unless Notes in definitive form are so issued and for so long as the Global Notes remain in effect, Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear and Cedel Bank.

While any Global Note of a particular class is outstanding, payments on the Notes of that class represented by any such Global Notes will be made against presentation of the relevant Global Note by the Common Depository to the Principal Paying Agent (as defined below) provided certification of non-U.S. beneficial ownership by the Noteholders of that class has been received by Euroclear or Cedel Bank. Each of the persons appearing from time to time in the records of Euroclear or of Cedel Bank as the holder of a Note of a particular class will be entitled to receive any payment so made in respect of that Note in accordance with the rules and procedures of Euroclear or, as the case may be, Cedel Bank. Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes of any class for so long as either of the Global Notes of that class are outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Note of the relevant class for the Permanent Global Note of that class, which date shall be no earlier than the Exchange Date (as defined in the relevant Temporary Global Note) or (ii) the first Interest

Payment Date in relation to the Notes, in order to obtain any payment due on the Notes.

Relationship between Noteholders

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

The trust deed constituting the Notes will also contain provisions requiring the Trustee to have regard only to the interests of the Class B Noteholders if, in its opinion, there is a conflict between the interests of the Class B Noteholders and the interests of the Class C Noteholders. The trust deed will also contain provisions limiting the powers of the Class C Noteholders, *inter alia*, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution if such action or the effect of such Extraordinary Resolution would, in the Trustee's opinion, be materially prejudicial to the interests of the Class B Noteholders, unless sanctioned by an Extraordinary Resolution of the Class B Noteholders. The Class C Noteholders will not be entitled to request or direct the Trustee to accelerate payment by the Issuer of the Class C Notes upon the occurrence of an Event of Default unless payment of the Class A Notes (if any) and the Class B Notes is also accelerated or there are no Class A Notes or Class B Notes outstanding.

Fee Letter

PFPLC has agreed to arrange the issue of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issue of the Notes and of documents for approval by the Issuer and has liaised with professional advisers and the Managers. PFPLC will pay, on behalf of the Issuer, or reimburse to the Issuer, the management and underwriting commissions and selling commissions due to the Managers referred to in "Subscription and Sale" below and any expenses payable by the Issuer in connection with the issue of the Notes. Furthermore, PFPLC negotiated the terms of the Facility Agreement for the acquisition of the Existing Portfolio Loans. In particular, PFPLC negotiated the terms of the financing and of documents for approval by the Issuer and liaised with professional advisers and paid on behalf of the Issuer all fees, costs, commissions and expenses payable by the Issuer in connection with the Facility Agreement.

The Issuer will agree under a fee letter to be dated on the Closing Date (the "Fee Letter") that it will pay PFPLC an arrangement fee of 0.4% of the aggregate principal amount of the Notes and that it will repay PFPLC all commissions and expenses paid by PFPLC in connection with the issue of the Notes and the Facility Agreement in instalments on each Interest Payment Date over a period of four years from the Closing Date (less, in the case of

the Facility Agreement, amounts (if any) paid to PFPLC in respect of such commissions and expenses before the Closing Date). Amounts to be paid under the Fee Letter will bear interest from the Closing Date at a rate of 4% per annum above LIBOR payable in arrear on each Interest Payment Date.

Loan Stock

The Notes will be issued simultaneously with the Loan Stock, the terms and conditions of which will be set out in an instrument to be dated the Closing Date (the “Loan Stock Instrument”). The initial tranche of Loan Stock (which will be issued in an amount sufficient to establish the initial rating of the Notes by Moody’s) will be subscribed for by PFPLC.

For further details of the Loan Stock, see “The Issuer- Loan Stock” below.

The Notes and the Loan Stock will share the same security, but the Loan Stock will be subordinated to the Notes in point of payment and the Notes will rank in priority to the Loan Stock in the event of the security being enforced. No offer of Loan Stock is made by this Offering Circular. The Loan Stock will not be admitted to the Official List of the London Stock Exchange.

Subordinated Loan Agreement

PFPLC will make available to the Issuer under a subordinated loan agreement to be dated on or before the Closing Date (the “Subordinated Loan Agreement”) a subordinated loan facility under which an amount or amounts will be drawn down by the Issuer on the Closing Date: (i) to repay amounts (and interest thereon) borrowed by the Issuer under a subordinated loan agreement dated 17th March 1998 between PFPLC and the Issuer with which it, *inter alia*, established the First Loss Fund; (ii) to make a further credit to the First Loss Fund on the Closing Date; and (iii) to reimburse the relevant Seller of a Portfolio Asset for any Unamortised Commission on the date such Portfolio Asset is acquired. The Issuer may from time to time borrow further sums from PFPLC or other lenders (“Subordinated Lenders”) on the terms of the Subordinated Loan Agreement. Payments of principal in respect of sums borrowed under the Subordinated Loan Agreement may not be repaid whilst any Notes are outstanding. For further details of the Subordinated Loan Agreement see “The Issuer — Subordinated Loan Facility from PFPLC” below.

Bank Borrowing

On 5th March 1998 the Issuer entered into a Credit Facility Agreement (the “Facility Agreement”) with, *inter alios*, Morgan Guaranty Trust Company of New York as agent and lender and J.P. Morgan Securities Ltd. as arranger. On 17th March and 30th April 1998, the Issuer made drawings under the Facility Agreement of, respectively, £238,750,000 and £12,000,000. These drawings were used to assist in the funding of the purchases by the Issuer of Loans from Universal on 17th March 1998 and from Universal and PPF on 5th May 1998, as described above. The net proceeds of the Notes will be used, in part, in repayment of the existing principal indebtedness of the Issuer under the Facility Agreement.

Special Considerations

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

The Notes will be solely the obligations of the Issuer. The Notes will not be obligations or the responsibility of, or be guaranteed by, Universal, PFPLC, PPF, the Trustee, the Managers, PCF, PDF or PGC, any company in the same group of companies as PGC (other than the Issuer) or any other person other than the Issuer. Furthermore, none of Universal, PFPLC, PPF, the Trustee, the Managers, PCF, PDF or PGC nor any other person other than the Issuer will accept any liability whatsoever to Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes.

The ability of the Issuer to meet its obligations to pay principal of and interest on the Notes and its operating and administration expenses will be dependent, *inter alia*, on funds being received in respect of Portfolio Assets, the Transaction Account deposit arrangements, the extent of the First Loss Fund, any hedging arrangements entered into under the Swap Agreement or otherwise, any Authorised Investments, the Subordinated Loan Agreement, the arrangements for maintaining the Spread Requirement, any Loan Stock in issue and the insurances (if any) in which the Issuer has an interest.

The Provisional Pool includes Loans having Current Balances as at close of business on 30th April 1998 in aggregate of £58,607,887.59 and Car Finance Contracts having Current Balances as at close of business on 30th April 1998 in aggregate of £84,469.03 in respect of which payments from Borrowers, Hirers or Lessees, as the case may be, were in arrears, as at close of business on 30th April 1998, by an amount in excess of three current monthly payments.

Upon enforcement of the security for the Notes, the Trustee will have recourse only to the Portfolio Assets and any other assets of the Issuer then in existence, including the First Loss Fund. The Issuer and the Trustee will have no recourse to any of Universal, PFPLC, PPF, PCF, PGC or PDF other than, in the case of PFPLC's liability, as provided in the Warranty Deed and the Repurchase Deed in respect of breaches of warranty or any occurrence of a CCA Event (as more particularly described in the section entitled "Portfolio Assets" below).

The terms on which the security for the Notes will be held will provide that, upon enforcement, (a) certain payments (including all amounts payable to any receiver and the Trustee, any amounts (including commitment fees) payable to Barclays under the Substitute Administrator Agreement, certain fees, expenses and commissions payable to the Administrator and/or Universal and/or PPF and/or PCF and/or PDF and amounts (if any) payable to the Swap Counterparty under the Swap Agreement) will be made in priority to payments in respect of interest on and principal of the Notes, (b) amounts of principal and interest payable on the Class A Notes will rank in priority to all amounts then owing to the Class B Noteholders and to the Class C Noteholders, (c) amounts of principal and interest payable on the Class B Notes will rank in priority to all amounts then owing to the Class C Noteholders and (d) payments on the Notes will rank ahead of all amounts then owing to Stockholders, PFPLC, Universal, PPF, PCF, PDF or any Subordinated Lender under, *inter alia*, the Loan Stock, the Services Letter, the Fee Letter or the Subordinated Loan Agreement. In the event that the security for the Notes is enforced, no amounts will be paid to the Class B Noteholders or to the Class C Noteholders until all amounts owing to the Class A Noteholders have been paid in full. Also, in such event, no amounts will be paid to the Class C Noteholders until all amounts owing to the Class B Noteholders have been paid in full.

The Issuer may receive an amount under a direct debit which subsequently has to be repaid to the bank making the payment, if that bank is unable to recoup such amount itself from its customer's account. If the Issuer has insufficient revenue funds to make the repayment, such an amount may be repaid by applying principal (or principal equivalent) amounts received.

The effect of the PDL Requirement (as defined above) is to allow principal (or principal equivalent) receipts of the Issuer to be used to make revenue payments, or vice versa. If the PDL Requirement on any Principal Determination Date is negative, this will indicate that, overall and on a weighted basis, the Portfolio Assets have improved their default position during the then immediately preceding Collection Period. The definitions of Available Revenue Funds and Adjusted PDL Requirement are such that this will result in an amount equal to such negative PDL Requirement being first used to reduce or cancel any existing debit balance on the Principal Deficiency Ledger and then added to the level of funds available to the Issuer to make revenue payments. In such a case, there would be a corresponding reduction in Available Purchase Funds. If the PDL Requirement is positive, this will conversely indicate a deterioration during the then immediately preceding

Collection Period in the performance of the Portfolio Assets, and result in the diversion of income funds to add to the level of Available Purchase Funds. This diversion is achieved by a debit being made to the Principal Deficiency Ledger. To the extent that there are sufficient Available Revenue Funds on the next Interest Payment Date to reduce or cancel this debit balance, an equal addition to Available Purchase Funds will be made on the next Principal Determination Date, in accordance with the definition of Available Purchase Funds. Furthermore, the Issuer may with the agreement of PFPLC or any other subordinated lender borrow funds under the Subordinated Loan Agreement on any date for application in reduction of any debit balance on the Principal Deficiency Ledger. Any amount so applied will be deemed to be added to the Available Purchase Funds on that date.

If, upon default by Obligors and the exercise by the Issuer or the Administrator of all available remedies under any Loan Agreement, Car Finance Agreement or Dealer Stocking Vehicle Agreement, the Issuer does not receive the full amount due from those Obligors, or if principal receipts from Borrowers, or its equivalent from Hirers, Lessees or Dealers are applied in paying interest on the Class A Notes or Swap Termination Amounts on an Interest Payment Date or in refunding reclaimed direct debit payments (as set out above) and, in either case, if otherwise there would be insufficient funds available for these purposes, then the following consequences may ensue: first, the Issuer's interest and other net income may not be sufficient, after making the payments to be made in priority thereto, to pay, in full or at all, interest due on the Class B Notes and/or the Class C Notes; secondly, the Class C Notes (and, to the extent that any shortfall in principal funds exceeds the aggregate of the Principal Amount Outstanding of the Class C Notes, the Class B Notes) will each be redeemed at less than their face value unless prior to their final maturity date the Issuer's interest and other net income is sufficient, after making other payments to be made in priority thereto, where applicable, to reduce to nil any shortfall in principal funds which arises from deficits suffered in recovering sums due from Obligors or which results from the application of principal (or principal equivalent) receipts from Obligors in paying interest on the Class A Notes or Swap Termination Amounts in refunding reclaimed direct debit payments; thirdly, if the aggregate provision against such deficits (even to the extent reduced as aforesaid) should exceed the aggregate face value of the Class B Notes and the Class C Notes, Class A Noteholders may receive by way of principal repayment less than the face value of their Class A Notes; and, fourthly, the Issuer may be unable to pay, in full or at all, interest due on the Class A Notes.

As described in "Summary — Portfolio Asset Administration", the Trustee or the Issuer or any substitute administrator appointed by the Trustee or Barclays when acting in its capacity as administrator of last resort may, in limited circumstances, revoke the Administrator's limited authority to change the rates of interest (or equivalent revenue charges) applicable to the Portfolio Assets. These circumstances include a breach by the Administrator of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders. In such circumstances, the Trustee may terminate the Administrator's limited authority (which, in any event, is subject to prior confirmation by Moody's that no downgrading in the ratings of the Notes will occur) to change the rates of interest (or equivalent revenue charges) applicable to the Portfolio Assets and/or terminate the appointment of the Administrator.

In view of the First Loss Fund, the terms and conditions of the Class A Notes, the Class B Notes and the Class C Notes will provide that a Trustee's certificate, to the effect that the Issuer had sufficient funds available for the purpose, will be necessary to constitute an Event of Default if one or more interest payments on the Class A Notes, the Class B Notes or the Class C Notes is or are missed or not paid in full (see "Description of the Class A Notes, the Global Class A Notes and the Security — Events of Default", "Description of the Class B Notes, the Global Class B Notes and the Security — Events of Default" and "Description of the Class C Notes, the Global Class C Notes and the Security — Events of Default" below).

PFPLC will warrant to the Issuer and the Trustee in the Warranty Deed in respect of certain matters relating to the Portfolio Assets (see the section entitled "Portfolio Assets — Warranties" in the section entitled "Portfolio Assets" below). These warranties are limited in their scope and nature to, *inter alia*, the beneficial ownership of the Portfolio Assets before they were sold to the Issuer and are subject to certain limitations, as more particularly described in the section entitled "Portfolio Assets" below. Except as described in that section below, neither the Issuer nor the Trustee has undertaken or will undertake any investigations, searches or other actions in relation to the Portfolio Assets and each will rely instead on the warranties given in the Warranty Deed. The Issuer's and the Trustee's sole remedy against PFPLC in respect of breach of warranty or the occurrence of a CCA Event shall be to require PFPLC to remedy the breach (to the extent the same is remediable) within 30 days of receipt of a notice to that effect or to repurchase the relevant Portfolio Asset pursuant to the Repurchase Deed provided that this shall not limit any other remedies available to the Issuer and/or the Trustee if PFPLC fails to repurchase a Portfolio Asset when obliged to do so (see the paragraph entitled "Portfolio Assets — Repurchase of Portfolio Assets" in the section entitled "Portfolio Assets" below). The obligations of PFPLC to repurchase any Initial Portfolio Loans are, however, subject to a minimum

aggregate repurchase price of £1,000,000 before such obligation is triggered (whereupon PFPLC will be obliged to repurchase all Initial Portfolio Loans that it would have been obliged to repurchase in the absence of such minimum threshold). Furthermore, PFPLC is not obliged to repurchase any Initial Portfolio Loans after it has repurchased Initial Portfolio Loans in an aggregate amount of £20,000,000 or more. However, such restriction does not apply to any Further Loans acquired after the Closing Date or any Car Finance Products acquired at any time.

The ability of the Issuer to redeem all the Notes in full, including after the occurrence of an Event of Default in relation to the Notes, while any amounts payable under the Portfolio Assets are still outstanding, may depend upon whether the Portfolio Assets can be realised to obtain an amount sufficient to redeem the Notes. There can be no assurance that the Portfolio Assets will realise such an amount. Either the Issuer or the Trustee or any receiver of the security may be unable to enforce or sell the Portfolio Assets on appropriate terms should either of them be required to do so.

In the event of the termination of the appointment of the Administrator by reason of default by the Administrator or its insolvency, the Trustee will be entitled to appoint a substitute administrator. There is no guarantee that an administrator could be found who would be willing to administer the Portfolio Assets and the Issuer's business on the terms of the Administration Agreement and the Deed of Charge (even though they provide for the fees payable to a substitute administrator to be consistent with those commonly charged at that time for the provision of unsecured personal loan, car finance and dealer stocking administration services). In such a case, and pursuant to the Substitute Administrator Agreement, Barclays would be required to assume responsibility for the provision of the administration services required to be performed under the Administration Agreement for the Portfolio Assets and the Issuer's business. The ability of a substitute administrator or Barclays fully to perform such services would depend on the information and records then available to it and it is possible that there could be an interruption in the administration during the course of the transition. Such person would not become bound by PFPLC's obligations under the Subordinated Loan Agreement or by PFPLC's obligations under the Warranty Deed or the Repurchase Deed. The fees and expenses of Barclays or a substitute administrator performing services in this way would be payable under paragraphs (i) and (ii) respectively of "Summary — Priority of Payments" above.

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

The transfer to the Issuer by Universal, PFPLC, PPF, PCF or PDF of the benefit of the Portfolio Assets governed by English law or the laws of Northern Ireland (excluding for the avoidance of doubt, Motor Vehicles) will take effect in equity only. The benefit of any Portfolio Assets governed by, or otherwise subject to, Scots law (excluding for the avoidance of doubt, Motor Vehicles) will be held in trust by Universal, PFPLC, PPF, PCF or PDF, as the case may be, absolutely for the Issuer under declarations of trust or supplemental declarations of trust in the form set out as an appendix to the Standard Terms and Conditions (the "Scottish Declarations of Trust") which again take effect in equity. References to the transfer of the benefit of such Portfolio Assets in the following paragraphs will be construed accordingly.

It is acknowledged by Hirers and Lessees that PCF remains the legal and (subject to the purchase option of Hirers) beneficial owner of Motor Vehicles the subject of Car Finance Agreements. The terms of each Car Finance Sale Contract include an agreement that this legal and beneficial ownership should pass to the Issuer upon payment by it of the agreed purchase price (as described above under "Summary — Portfolio Car Finance Contracts") for the relevant Car Finance Contract and Motor Vehicle. The Issuer has been advised that as a matter of English, Scottish and Northern Irish law this provision of the Car Finance Sale Contracts should be effective to pass PCF's title to the relevant Motor Vehicles to the Issuer.

The terms of the Dealer Stocking Vehicle Agreements state that title to each relevant Motor Vehicle will pass to PDF. There is a risk that this term of a Dealer Stocking Vehicle Agreement might be challenged by a Dealer or by the liquidator, receiver or trustee-in-bankruptcy of a Dealer or by creditors seeking to attach a relevant

Motor Vehicle. Under English, Scottish and Northern Irish law, the basis of any such challenge would be, in essence, that the Dealer Stocking Vehicle Agreement, despite its clear provision to the contrary, was in substance a secured borrowing by the Dealer, the security for which was the relevant Motor Vehicle, title to which remained with the relevant Dealer. There are sustainable arguments that as a matter of English and Northern Irish law, this is not the correct construction of the Dealer Stocking Vehicle Agreements. However, case law in England and Wales suggests that such arguments would be considered on a case by case basis and that their success would depend on the particular facts of the case. The Issuer has been advised that under Scottish law there is a risk of PDF being held not to have title to the relevant Motor Vehicles unless and until physical delivery is made to PDF. It is not proposed to comply with the registration requirements which would be imposed upon such a secured lending arrangement, should it be held to exist, or to make any physical delivery of Motor Vehicles to PDF or the Issuer.

If a court were to hold that Dealer Stocking Vehicle Agreements were in reality secured lending arrangements, it would follow that title to the relevant Motor Vehicles remained with the relevant Dealer and therefore that PDF was not in a position to transfer title to the relevant Motor Vehicles to the Issuer. In the case of a Dealer which was a corporate body, therefore, the Issuer would be left with a contractual right to recover amounts payable under the relevant Dealer Stocking Vehicle Agreement, but would not be entitled to take possession of the relevant Motor Vehicles against a conflicting third party claim. In the case of an individual Dealer (other than such a Dealer resident in Scotland) there is a further possibility that these contractual rights would be invalidated as the result of the failure to register the secured lending transaction. However, under the Warranty Deed, PFPLC will warrant to the Issuer that PDF has full legal and beneficial title in each relevant Portfolio Motor Vehicle. Therefore, if PDF's title in the relevant Portfolio Motor Vehicle was successfully challenged, in which event the Issuer would not have title to the relevant Motor Vehicle or, in the case of an individual Dealer, the relevant Dealer Stocking Vehicle Agreement would be void for failure to register, PFPLC will be obliged to repurchase the relevant Dealer Stocking Vehicle Agreement and the relevant Portfolio Motor Vehicle from the Issuer, at a repurchase price that would be determined pursuant to the Repurchase Deed as if PDF's title had not been challenged.

The Trustee will be granted a fixed charge over, among other things, the Issuer's beneficial interest in the Portfolio Assets (other than the Portfolio Motor Vehicles). The Trustee will be granted a floating charge over the Portfolio Motor Vehicles. A floating charge is a charge that is recognised by common law and statute but has certain disadvantages relative to a fixed charge. One disadvantage is that in an insolvent winding up of the Issuer a holder of a floating charge would rank behind certain creditors who are preferred by statute, whereas a holder of a fixed charge would rank ahead of these creditors. Another disadvantage is that an asset subject to a floating charge may, unlike a fixed charge, be transferred to a third party free of the security. This will facilitate the transfer of title to Portfolio Motor Vehicles (for example to Dealers, Hirers or Lessees or in a default situation to third parties) by the Issuer, but will then result in Portfolio Motor Vehicles ceasing to be subject to the security in favour of the Trustee.

In the case of Portfolio Assets (other than Portfolio Motor Vehicles) governed by English law giving notice to the relevant Obligor of the transfer by Universal, PFPLC, PPF, PCF or PDF, as the case may be, is required to perfect legal title of the Issuer to such Portfolio Assets. However, the Trustee, Universal, PFPLC, PPF, PCF, PDF and the Issuer will agree that notice will only be given to the relevant Obligor in certain circumstances.

The holding of an equitable interest in the Portfolio Assets (other than Portfolio Motor Vehicles) where notice is not given to the relevant Obligors has several legal consequences, including (in England and Wales) the following:

- (a) Unless and until an Obligor has notice of the transfer to the Issuer of the relevant Portfolio Asset, such Obligor is not bound to make payment to anyone other than the person to whom he or she made such payments before the transfer took place (being Universal, PFPLC, PPF, PCF or PDF, as the case may be) and can obtain a valid discharge from such person. However, Universal, PFPLC, PPF, PCF and PDF, as the case may be, will hold all collections received by them in respect of Portfolio Assets on trust for the Issuer. Furthermore, in respect of Portfolio Assets transferred to the Issuer by PFPLC, whilst PFPLC remains the Administrator under the Administration Agreement, PFPLC will also be the agent of the Issuer for the purposes of collection of all moneys due under such Portfolio Assets and will be accountable to the Issuer accordingly for amounts paid to it in respect of such Portfolio Assets.
- (b) Unless and until an Obligor has notice of the sale, equitable rights of set-off (such as those referred to in this section in relation to the CCA) may accrue in favour of such Obligor against his or her obligation to make payments under the relevant Portfolio Asset to Universal, PFPLC, PPF, PCF or PDF, as the case may be. These rights may result in the Issuer receiving less money than

anticipated from the Portfolio Assets. Pursuant to the Warranty Deed, PFPLC has warranted or will warrant in respect of each Portfolio Asset as at a specified date no more than five business days before the date on which the Issuer acquires or acquired such Portfolio Asset, that no right of set-off (or analogous claim) has been created or has arisen or exists or has been asserted between Universal, PFPLC, PPF, PCF or PDF, as the case may be, and the relevant Obligor which would entitle such Obligor to reduce the amount payable in respect of such Portfolio Asset. However, rights of set-off (or analogous claims) arising under Section 56 or Section 75 of the CCA (which would not apply to all Portfolio Assets — see below) are expressly excluded from that warranty.

- (c) For so long as the Issuer holds only an equitable interest in the Portfolio Assets, the Issuer's interest therein may become subject to the interests of third parties (whether legal or equitable) created after the creation of the Issuer's equitable interest and before its legal interest is perfected by the giving of notice to the relevant Obligor. The Issuer's equitable interest may also be defeated by a subsequent purchaser or transferee for value of the legal ownership of the relevant Portfolio Asset who has not received notice of the Issuer's prior interest. In addition, the holding of an equitable interest does not enable the Issuer to prevent Universal, PFPLC, PPF, PCF or PDF, as the case may be, from modifying the terms of any Loan Agreement, Car Finance Agreement or Dealer Stocking Vehicle Agreement. However, pursuant to the Standard Terms and Conditions (as defined below), Universal, PFPLC, PPF, PCF and PDF undertake not to amend any Loan Agreement, Car Finance Agreement or Dealer Stocking Vehicle Agreement.
- (d) For so long as the Issuer holds only an equitable interest, it must join Universal, PFPLC, PPF, PCF or PDF, as the case may be, as a party to any legal proceedings which it may take against any Obligor. In this regard, Universal, PFPLC, PPF, PCF or PDF, as the case may be, will each undertake for the benefit of the Issuer in the Standard Terms and Conditions that it will lend its name to, and take such other steps as may be reasonably required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Portfolio Assets.

In respect of any Scottish Loans, Scottish Car Finance Contracts or Scottish Dealer Stocking Vehicle Contracts, the holding of an equitable interest in a Portfolio Asset granted pursuant to a Scottish Declaration of Trust where notice is not given to the relevant Obligor has similar consequences to those noted in sub-paragraphs (a) to (d) above. However, additional procedural steps would be required to be taken by Universal, PFPLC, PPF, PCF or PDF, as the case may be, in order to vest full legal title to the Scottish Loans or Scottish Car Finance Contracts or Scottish Dealer Stocking Vehicle Contracts in the Issuer and thereby put it in the same position as it would have been in as regards Portfolio Assets governed by English law where notice had been given to the relevant Obligor.

In respect of any Portfolio Assets governed by the laws of Northern Ireland, the holding of an equitable interest in a Portfolio Asset where notice has not been given to the relevant Obligor will have similar consequences to those noted in sub-paragraphs (a) to (d) above. The methods of enforcing judgments available to unsecured creditors in Northern Ireland are similar to those in England and Wales. However, to enforce a judgment obtained against a debtor resident in Northern Ireland, a creditor must make an application for enforcement through the Enforcement of Judgments Office in Northern Ireland (the "Enforcement of Judgments Office"). Such applications are dealt with in date order and afforded priority accordingly and the Enforcement of Judgments Office has an exclusive discretion to use whatever procedure it feels is appropriate to recover a judgment debt.

With respect to the Portfolio Loans, the Issuer has only acquired the benefit of the loans themselves. These consist of unsecured monetary obligations of the Borrowers under the relevant Loan Agreement. No security has been given by any Borrower for any such monetary obligation and neither Universal nor PFPLC nor PPF has any interest (and therefore is unable to transfer the benefit of any interest) in any property acquired by a Borrower with the proceeds of any Portfolio Loan.

Some Obligors under Portfolio Loans or Portfolio Car Finance Contracts have taken out creditor insurance to cover their payment obligations in the event of death, total disability or unemployment ("Creditor Insurance"). No Seller has any interest in any Creditor Insurance obtained by Obligors, even though the premium for such insurance may have been paid with part of the amount borrowed under a Portfolio Loan or otherwise financed under a Portfolio Car Finance Contract. Any insurer's obligation to pay moneys under such Creditor Insurance will be owed to the Obligor. However, the relevant Creditor Insurance policies provide for all insurance proceeds to be paid directly to the relevant Seller's collection account. Any insurance proceeds in respect of a Portfolio Asset paid into the relevant Seller's collection account would be held on trust for the Issuer, pending transfer of such proceeds to the Transaction Account.

As regards Portfolio Car Finance Products, these again are unsecured monetary obligations on the part of the Hirers, Lessees or Dealers, as the case may be.

However, the Issuer owns the Portfolio Motor Vehicles in question, subject as described above and subject in the case of Portfolio Car Finance Contracts to the Hirers'/Lessees' rights of possession and use and, in the case of hire purchase agreements, motor vehicle contract purchase agreements and motor vehicle dealer stocking arrangements, to the Hirers' or Dealers' rights to purchase the relevant Portfolio Motor Vehicle on expiry of the relevant term of the Car Finance Agreement or Dealer Stocking Vehicle Agreement. These ownership rights will not, however, be specifically assigned or charged by the Issuer to the Trustee but they will fall within the floating charge created by the Issuer in favour of the Trustee. Such ownership rights may carry certain risks and liabilities, such as potential liability to the Hirer or Lessee and/or third parties if the car is defective. The Issuer will have the benefit of certain product liability insurance in respect of such liabilities which will be assigned to the Trustee by way of security under the Deed of Charge.

As noted above, each Seller will undertake to lend its name to, and take such other steps as may be reasonably required by the Issuer or the Trustee in relation to, any legal proceedings in respect of the Portfolio Assets. It should be noted however that it may be difficult to trace and repossess any particular Portfolio Motor Vehicle, which is likely to be in the physical possession of the relevant Hirer, Lessee or (as the case may be) Dealer. There is a general legal rule that a person who is not the legal and beneficial owner of an asset is not able effectively to transfer legal and beneficial ownership of that asset to a third party. This rule would prevent Hirers, Lessees and (assuming that the Dealers do not have title to the Portfolio Motor Vehicles) Dealers from transferring legal and beneficial ownership in Portfolio Motor Vehicles to third parties. However, there are certain exceptions to this rule, including where a person in possession of a physical asset with the permission of its owner purports to transfer legal and beneficial ownership of it to a third party who accepts that ownership in good faith and for value. The law will then hold that the third party has acquired good title to the asset. There is therefore a risk that the Issuer's title to the Motor Vehicles may be defeated by such a transfer by a Hirer, Lessee or Dealer. Further, any proceeds arising on the disposal of a Portfolio Motor Vehicle may be less than the total amount outstanding under the relevant Portfolio Car Finance Contract or (as the case may be) Portfolio Dealer Stocking Vehicle Contract. It should be noted that a Portfolio Motor Vehicle may be subject to an existing lien or similar right (for example, in respect of repairs carried out by a garage for which payment has not yet been made or unpaid rent for premises on which the relevant Portfolio Motor Vehicle is kept). Also any action to recover outstanding amounts under a Portfolio Car Finance Contract or Portfolio Dealer Stocking Vehicle Contract may not be pursued if to do so would be uneconomic. Each Car Finance Agreement and Dealer Stocking Vehicle Agreement requires the Hirer, Lessee or (as the case may be) Dealer to take out vehicle accident insurance. However, there can be no certainty that such insurance has in fact been taken out or maintained or that any proceeds from such insurance (if taken out and maintained) will be available to the Issuer or the Trustee.

The Issuer will rely on the Administrator to exercise the rights and carry out the obligations described in "Portfolio Asset Administration".

Each Portfolio Loan or Portfolio Car Finance Contract with an individual Borrower, Lessee or Hirer for an amount of £15,000 (or, for Portfolio Loans or Portfolio Car Finance Contracts entered into on or after 1st May 1998, £25,000) or less is regulated by the CCA.

It is believed that Portfolio Dealer Stocking Vehicle Agreements will not, even where the Dealer is an individual, be regulated by the CCA. To the extent that this is held not to be the case, the CCA-specific concerns, summarised below, will apply to Portfolio Dealer Stocking Vehicle Contracts.

In common with the loans of many other lenders in the consumer finance market, the Portfolio Loans sold and to be sold by Universal to the Issuer do not and may continue not to comply in all respects with the requirements of the CCA or related or subordinate legislation. If a significant number of Borrowers were to take the relevant legislative points this could, depending on the attitude of the courts, lead to a significant disruption, and shortfall, in the income of the Issuer. This risk is believed by the Issuer to be in part mitigated by the apparent rarity with which such points have historically been taken by consumer borrowers and the likelihood that most of the relevant Portfolio Loans are non-compliant in ways which courts tend to regard as insufficient for them to decide not to enforce the relevant loan. The Issuer also has the benefit of the repurchase obligations of PFPLC under the Repurchase Deed, although this repurchase obligation is subject to a cap on PFPLC's liability of £20,000,000 in relation to the Initial Portfolio Loans, as described above.

If a Loan Agreement or Car Finance Agreement which is regulated by the CCA has not been executed in accordance with the provisions of the CCA, the CCA provides that such an agreement will be unenforceable without a court order being obtained. Examples of improper execution in accordance with the CCA include a

failure to comply with the provisions of the Consumer Credit (Agreements) Regulations 1983 which govern the form and content of agreements regulated by the CCA.

The Timeshare Act 1992 (the “TA”) provides that a Borrower may cancel a Portfolio Loan used to finance the purchase of leisure accommodation rights where: (a) the accommodation is within the United Kingdom; (b) one of the parties to the purchase agreement was in the United Kingdom when it was entered into; or (c) the accommodation is within an EU State and the Borrower is ordinarily resident within the United Kingdom, (a “Timeshare Loan”). The Borrower’s right to cancel a Timeshare Loan under the TA is limited to a period of 14 days from the date the agreement was entered into unless there has been a failure to comply with certain provisions of the TA or regulations made under it, in which case the cancellation period will, depending upon the actions of the Borrower, be extended indefinitely.

In certain circumstances (principally, except for Timeshare Loans, where antecedent negotiations have taken place in the presence of the Borrower and the relevant agreement is signed off the trade premises of the creditor or its agent for such negotiations), the CCA renders an agreement which is subject to it cancellable and regulations require certain related formalities to be observed. Any deviation from these requirements results in the agreement being completely unenforceable; the court has no jurisdiction to validate them.

A Borrower, Hirer or Lessee under a Loan Agreement or Car Finance Agreement governed by the CCA is entitled at any time, by giving notice in writing, to pay all amounts payable by him/her under his or her Portfolio Loan or Portfolio Car Finance Contract in full, less a rebate at least equal to that calculated in accordance with the Consumer Credit (Rebate on Early Settlement) Regulations 1983.

If certain default or enforcement proceedings are taken or notice of early termination is served on a Borrower, Hirer or Lessee under a Loan Agreement or Car Finance Agreement governed by the CCA, the court has the power, on application by such Borrower, Hirer or Lessee in certain circumstances if it appears to the court just to do so, to make a time order to permit such Borrower, Hirer or Lessee to make payments under the relevant Portfolio Loan or Portfolio Car Finance Contract by such instalments, payable at such times, as the court thinks reasonable, having regard to the means of such Borrower, Hirer or Lessee.

The court will also have regard to the prejudice caused to any person by the relevant contravention of the CCA and the degree of culpability of the relevant lender, creditor or owner for it. The court has powers to amend an agreement which is regulated by the CCA or impose conditions on the performance of, or suspend the operation of, an enforcement order made by it in relation to any such agreement.

However, on the occurrence of a CCA Event in relation to any Portfolio Loan acquired by the Issuer before 1st October 1998 (which includes the unenforceability of a specified minimum amount payable under the relevant Portfolio Loan), PFPLC will be obliged to repurchase the relevant Portfolio Loan, subject to the limitations as to a minimum threshold and maximum aggregate amounts referred to below in relation to repurchases of Initial Portfolio Loans.

Many of the Loan Agreements (including those governing Timeshare Loans) and all Car Finance Agreements (save for car leasing agreements where Creditor Insurance is not funded by PCF) constitute “DCS” (debtor/creditor/supplier) agreements for the purposes of the CCA. A DCS agreement is one where, *inter alia*, under pre-existing arrangements between creditor and supplier, the creditor provides finance for the purchase by the debtor of goods or services from the supplier. Certain Loan Agreements and Car Finance Agreements are DCS agreements only by virtue of Universal, PFPLC, PCF or PPF, as lender, advancing funds for the payment of the premiums under Creditor Insurance policies, the supplier in such case being the insurer. Certain Car Finance Agreements are DCS agreements by virtue of PCF, as owner of a Motor Vehicle, supplying that Motor Vehicle to the Hirer. In relation to a DCS agreement, Universal, PFPLC, PPF or PCF may be liable, by virtue of Section 56 of the CCA, for any misrepresentations, acts, omissions or statements made by the supplier to the Borrower, Hirer or Lessee during negotiations prior to execution of the relevant Loan Agreement or Car Finance Agreement. In addition, pursuant to Section 75 of the CCA, Universal, PFPLC, PPF or PCF (as well as the supplier) may be liable to the Borrower, Hirer or Lessee for misrepresentation, breach of an express or implied warranty or breach of contract. Examples of possible liability of this sort which may attach to the relevant Seller include cases where goods or services to be supplied are not supplied at all or are supplied but, in the case of services, not supplied within a reasonable time or are supplied but not with reasonable care and skill. The requirement to supply services within a reasonable time and with reasonable care and skill can, in certain circumstances, be implied into a contract for the supply of services under the Supply of Goods and Services Act 1982. Other examples of possible liability include the application of the Supply of Goods (Implied Terms) Act 1973 to hire purchase agreements, whereby a Hirer could make a claim for breach of contract against PCF if a Portfolio Motor Vehicle the subject of a Portfolio Car Finance Contract is not of satisfactory quality or reasonably fit for its intended purpose.

In these circumstances, Borrowers, Hirers and/or Lessees will have the right to claim directly against Universal, PFPLC, PPF or PCF, as the case may be, and/or set-off an amount in respect of that claim against their obligation to make payments under any loan or other financing agreement (including Portfolio Loans and/or Portfolio Car Finance Contracts) made to them by Universal, PFPLC, PPF or PCF, as the case may be. These rights will continue to subsist notwithstanding the sale of the Portfolio Loans and/or Portfolio Car Finance Contracts to the Issuer and may give rise to a number of consequences including the following:

- (a) a Borrower, Lessee or Hirer, in certain circumstances, may make a direct claim against Universal, PFPLC, PPF or PCF, as the case may be, or exercise a right of set-off against a loan, lease or hire purchase agreement which is not a Portfolio Loan or Portfolio Car Finance Contract as a result of liabilities arising under a Loan Agreement or Car Finance Agreement with that Obligor which is a DCS agreement;
- (b) a Borrower, Lessee or Hirer, in certain circumstances, may exercise a right of set-off against a Portfolio Loan or Portfolio Car Finance Contract as a result of liabilities arising under a different Loan Agreement or Car Finance Agreement with that Obligor which is a DCS agreement; and
- (c) a Borrower, Lessee or Hirer may exercise a right of set-off in respect of his or her obligations under a Loan Agreement (if the relevant Portfolio Loan is not a Scottish Loan) or a Car Finance Agreement (if the relevant Portfolio Car Finance Contract is not a Scottish Car Finance Contract) as a result of liabilities arising in relation to a loan agreement or other financing agreement with that Obligor which is a DCS agreement and which does not relate to a Portfolio Loan or Portfolio Car Finance Contract but which is made by Universal, PFPLC, PPF or PCF, as the case may be, to the same Borrower, Lessee or Hirer,

provided that any of the above rights of set-off will only be exercisable if, in the case of a set-off described in paragraphs (a) or (c), it arose prior to the date (if any) on which notice is given to the Borrower, Lessee or Hirer of the assignment to the Issuer of the benefit of the relevant Portfolio Loan or Portfolio Car Finance Contract or, in the case of a set-off described in paragraph (b), it arose before the date (if any) on which notice is given to the Borrower or Hirer of the assignment to the Issuer of one but not the other of the relevant Portfolio Loans or Portfolio Car Finance Contracts in favour of that Borrower, Lessee or Hirer.

Any Portfolio Loans or Portfolio Car Finance Contracts which are Scottish Loans or Scottish Car Finance Contracts will be held on trust by the relevant Seller (being Universal, PFPLC, PPF or PCF) for the Issuer, rather than being equitably assigned. Therefore, the type of set-off claim described in sub-paragraph (a) or (c) above will probably not be available to the relevant Borrower, Lessee or Hirer if it derives from a DCS agreement entered into after the relevant Scottish Loan or Scottish Car Finance Contract is held on trust.

In the case of a claim brought by a Borrower, Lessee or Hirer under Section 75 of the CCA, Universal, PFPLC, PPF or PCF, as the case may be, has, subject to any agreement to the contrary, a statutory right under Section 75 of the CCA to be indemnified by the supplier for any loss suffered, including any costs reasonably incurred in defending an action by a Borrower, Lessee or Hirer. In addition, under the Civil Liability (Contribution) Act 1978 Universal, PFPLC, PPF or PCF, as the case may be, has, subject to any agreement to the contrary, a statutory right to a contribution from the supplier.

Although the Supply of Goods and Services Act 1982 and the Civil Liability (Contribution) Act 1978 do not apply in Scotland, the position of Universal, PFPLC, PPF or PCF, as the case may be, under Scottish law is broadly similar to that stated in the preceding paragraph relating to the law of England and Wales.

It is possible that an Obligor may settle early (or terminate) the Loan Agreement or Car Finance Agreement to which it is a party. This may happen at any time, either by *ad hoc* agreement or pursuant to the terms of the relevant contract. The commercial effect of any such early settlement or termination will differ according to whether or not the relevant Loan Agreement or Car Finance Agreement is regulated by the CCA.

Where the relevant agreement is CCA-regulated, the Obligor may complete the agreement by payment of all outstanding amounts due thereunder in advance of their scheduled payment dates less any statutory rebate of charges to which the Obligor may be entitled. In relation to Car Finance Agreements, early settlement and payment in this way will entitle the Obligor to acquire title to the relative Portfolio Motor Vehicle.

As an alternative to early settlement of a CCA-regulated contract of hire-purchase, such as the Car Finance Agreements which are hire-purchase arrangements, the Hirer has a right to terminate without completing all payments which would otherwise have been due if the contract had run its course. In such circumstances, the Issuer is entitled to recover:

- (A) all arrears of payments and damages for any other breach of the relevant Car Finance Agreement by the Hirer prior to termination;
- (B) any sum payable by the Hirer arising from a failure of the Hirer's duty to take reasonable care of the relative Motor Vehicle;
- (C) the amount (if any) by which one half of the total amount due under the relevant Car Finance Agreement exceeds the aggregate of sums already paid by the Hirer and amounts due from the Hirer under the Car Finance Agreement immediately before termination (unless a court determines that a lower sum should be paid); and
- (D) the net proceeds of the sale of the Motor Vehicle.

Each of the above would affect the amount payable to the Issuer under the relevant Portfolio Loan Agreement or, as the case may be, Portfolio Car Finance Agreement.

An Obligor under a Loan Agreement or Car Finance Agreement which is not CCA-regulated may also settle early in a similar way to that described above, except that the Obligor will not be entitled to a statutory rebate of credit or hire-purchase charges. Some such rebate is likely to be granted by the Issuer. On termination of a Car Finance Agreement which is a hire-purchase arrangement and which is not CCA-regulated, the Hirer will be obliged to pay all amounts which would otherwise have been due had the contract run its course. A discount for early receipt of these amounts is likely to be allowed by the Issuer, together with an amount equal to the net proceeds of the sale of the related Motor Vehicle.

Various documents which may be executed in connection with an Offer to Sell or a Loan Sale Contract or Car Finance Sale Contract or a Dealer Stocking Vehicle Sale Contract (each, an "Asset Sale Contract") will, subject to certain exceptions, be executed outside the United Kingdom and will remain outside the United Kingdom unless required to be brought into the United Kingdom for the purposes of enforcement proceedings or for certain other limited purposes. The Issuer has undertaken to pay any stamp duty, stamp duty reserve tax and any other documentary or similar taxes, duties or levies which may arise in connection with the execution, performance or enforcement of any Asset Sale Contract.

In "Portfolio Asset Administration" below, the arrangements for collecting moneys relating to the Portfolio Assets are described, including the arrangements for the respective Collection Accounts of Universal, PFPLC, PPF, PCF and PDF to which payments in respect of the Portfolio Assets may be credited. That section also describes the arrangements for transferring amounts from the relevant Collection Account to the Transaction Account on the business day immediately following the date on which they were credited to the Collection Account, or as soon as practicable thereafter. Whilst standing to the credit of the relevant Collection Account, any money received in respect of Portfolio Assets may be co-mingled with other moneys of Universal, PFPLC, PPF, PCF or PDF, as the case may be, and/or other beneficiaries of trusts declared in respect of those accounts. Therefore, those moneys may cease to be easily traceable. As a result, the Issuer may receive less than was due to it in respect of Portfolio Assets on any particular date and may be required to refund moneys paid to it in error out of the Collection Accounts. In addition, there may be some interruption in the transfer of funds to the Issuer if Universal, PFPLC, PPF, PCF or PDF (or a liquidator or administrator in respect of any of them) attempted to freeze the operation of any of the Collection Accounts pending completion of any rights of tracing and there is a risk of payment to Universal, PFPLC, PPF, PCF or PDF of moneys to which the Issuer is beneficially entitled.

Any proceeds of the issue of the Notes that are not applied on the Closing Date in repayment of amounts outstanding under the Facility Agreement or in the acquisition of Loans or Car Finance Contracts (and the related Motor Vehicles) on the Closing Date will be deposited in the Transaction Account and may be invested in Authorised Investments from time to time until allocated by the Issuer for the purchase of Further Loans, Further Car Finance Contracts (and the related Motor Vehicles) or Dealer Stocking Vehicle Contracts (and the related Motor Vehicles) or used by PFPLC on the Issuer's behalf to redeem or repurchase Notes. It is expected that the amount so deposited on the Closing Date will be approximately £30,000,000.

Description of the Class A Notes, the Global Class A Notes and the Security

The following, subject to amendments, are the terms and conditions of the Class A Notes (the “Class A Conditions” and any reference to a “Class A Condition” shall be construed accordingly) substantially in the form as they will appear on the reverse of the Class A Notes in definitive form. While the Class A Notes remain in global form, the same terms and conditions govern them, except to the extent that they are appropriate only to the Class A Notes in definitive form.

The issue of the £210,000,000 Class A Asset Backed Floating Rate Notes due 2013 (the “Class A Notes”) was authorised by a resolution of the Board of Directors of Finance for People (No. 3) PLC (the “Issuer”) passed on 12th June 1998. The Class A Notes are constituted by a trust deed (the “Trust Deed”) dated 16th June 1998 between the Issuer and Morgan Guaranty Trust Company of New York (the “Trustee”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class A Notes (the “Class A Noteholders”), the holders for the time being of the Class B Notes (as defined below) (the “Class B Noteholders”) and the holders for the time being of the Class C Notes (as defined below) (the “Class C Noteholders”). The net proceeds from the issue of the Notes will be applied, amongst other things, in repayment to Morgan Guaranty Trust Company of New York of borrowings made by the Issuer to assist in the acquisition of certain Portfolio Loans (as defined in the master definitions schedule dated 12th June 1998, between and signed by, *inter alios*, the Issuer and the Trustee (the “Master Definitions Schedule”)) and in the purchase, either on or during the period of four years after the Closing Date (as defined below), of additional Portfolio Assets (as defined in the Master Definitions Schedule).

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of charge and assignment (the “Deed of Charge”) dated the Closing Date (as defined in Class A Condition 4(a)) between the Issuer, the Trustee, Universal Credit Limited (“Universal”), Paragon Finance PLC (“PFPLC”), Paragon Personal Finance Limited (“PPF”), Paragon Car Finance Limited (“PCF”), Paragon Dealer Finance Limited (“PDF”), PFPLC in its capacity as administrator, Barclays Bank PLC as substitute administrator (“Barclays”) and Morgan Guaranty Trust Company of New York in its capacity as swap provider (the “Swap Provider”). The Trust Deed will include the form of the temporary global note (the “Temporary Global Class A Note”) and the permanent global note (the “Permanent Global Class A Note”) for the Class A Notes and the definitive Class A Notes and coupons and talons relating thereto. Certain words and expressions used above and below have the meanings defined in the Trust Deed or the Master Definitions Schedule. In accordance with an agency agreement (the “Agency Agreement”) dated the Closing Date between the Issuer, the Trustee and Morgan Guaranty Trust Company of New York as principal paying agent (the “Principal Paying Agent”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “Reference Agent”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “Paying Agents”, which expression shall include the successors of each paying agent appointed as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class A Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class A Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement, the Standard Terms and Conditions, the Bridge Standard Terms and Conditions, the Master Definitions Schedule, the Warranty Deed, the Repurchase Deed (each as defined in the Master Definitions Schedule) and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof 60 Victoria Embankment, London EC4Y 0JP, and at the specified offices for the time being of the Paying Agents.

Class A Notes and Coupons (as defined below) will bear the following legend: “Any United States Person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code”. The sections referred to in the legend provide that a United States Person (as defined in the Internal Revenue Code) will not, with certain exceptions, be permitted to deduct any loss, and will not be eligible for favourable capital gains treatment with respect to any gain, realised on a sale, exchange or redemption of a Class A Note or Coupon.

Global Class A Notes

The Class A Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class A Note in bearer form, without coupons or talons, in the principal amount of £210,000,000. The Temporary Global Class A Note will be deposited on behalf of the subscribers of the Class A Notes with Morgan Guaranty Trust Company of New York, London office, as common depositary (the "Common Depositary") on the Closing Date. Upon deposit of the Temporary Global Class A Note, Euroclear or Cedel Bank will credit each subscriber of Class A Notes with the principal amount of Class A Notes for which it has subscribed and paid. Interests in the Temporary Global Class A Note will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class A Noteholders has been received) for interests in the Permanent Global Class A Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class A Note (the expression "Global Class A Notes" and "Global Class A Note" meaning, respectively, (i) both of the Temporary Global Class A Note and the Permanent Global Class A Note or (ii) either of the Temporary Global Class A Note or the Permanent Global Class A Note, as the context may require). On the exchange of the Temporary Global Class A Note for the Permanent Global Class A Note, the Permanent Global Class A Note will also be deposited with the Common Depositary. The Global Class A Notes will be transferable by delivery. The Permanent Global Class A Note will be exchangeable for definitive Class A Notes in bearer form in certain circumstances described below. Interest and principal on each Global Class A Note will be payable against presentation of that Global Class A Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Class A Noteholders has been received by Euroclear or Cedel Bank. Each of the persons appearing from time to time in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, or of Cedel Bank, as the holder of a Class A Note will be entitled to receive any payment so made in respect of that Class A Note in accordance with the respective rules and procedures of Euroclear or, as the case may be, Cedel Bank. Such persons shall have no claim directly against the Issuer in respect of payments due on the Class A Notes, which must be made by the holder of the relevant Global Class A Note, for so long as such Global Class A Note is outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Class A Note for the Permanent Global Class A Note, which date shall be no earlier than the Exchange Date (as defined in the Temporary Global Class A Note) and (ii) the first Interest Payment Date, in order to obtain any payment due on the Class A Notes.

For so long as the Class A Notes are represented by a Global Class A Note, such Class A Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or, as the case may be, of Cedel Bank.

For so long as the Class A Notes are represented by a Global Class A Note, each person who is for the time being shown in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear or of Cedel Bank, as the holder of a particular principal amount of Class A Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class A Notes and the expression "Class A Noteholder" shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Class A Note to be paid principal and interest thereon in accordance with its terms.

Principal and interest on a Global Class A Note will be payable against presentation of such Global Class A Note at the specified office of the Principal Paying Agent or, at the option of the holder, at any specified office of any Paying Agent provided that no payment of interest on a Global Class A Note may be made by, or upon presentation of such Global Class A Note to, any Paying Agent in the United States of America. A record of each payment made on a Global Class A Note, distinguishing between any payment of principal and payment of interest, will be endorsed on such Global Class A Note by the Paying Agent to which such Global Class A Note was presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made.

If (i) the principal amount of the Class A Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 16th June 1998, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class A Notes which would not be required were the Class A Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class A Notes represented by the Permanent Global Class A Note in exchange for the whole outstanding interest in the Permanent Global

Class A Note within 30 days of the occurrence of the relevant event, but in any event not prior to the expiry of 40 days after the Closing Date.

Security

The security for the Class A Notes was created pursuant to, and on the terms set out in, the Deed of Charge, which creates in favour of the Trustee on trust for, *inter alios*, the Class A Noteholders:

- (1) a conveyance, transfer and assignment by way of first fixed security of:
 - (a) subject, where applicable, to the subsisting rights of the Obligors (as defined in the Master Definitions Schedule) all present and future right, title, interest and benefit of the Issuer in and under the Portfolio Assets (other than the Portfolio Motor Vehicles (both as defined in the Master Definitions Schedule)) to which it is or becomes beneficially entitled, including for the avoidance of doubt:
 - (i) all sums of principal (or sums equivalent to principal), interest (or revenue charges equivalent to interest) or any other sum payable under and the right to demand, sue for, recover, receive and give receipts for all principal (or equivalent) moneys payable or to become payable under such Portfolio Assets or the unpaid part thereof and the interest (or revenue charges equivalent to interest) due or to become due thereon;
 - (ii) the benefit of and the right to sue on all covenants with, or vested in, the Issuer in respect of each such Portfolio Asset and the right to exercise all powers of the Issuer in relation to each such Portfolio Asset;
 - (iii) all causes and rights of action of the Issuer against any person in connection with any report, opinion, certificate, consent or other statement of fact or opinion given in connection with such Portfolio Asset or affecting any decision to enter into the relevant Financing Agreement (as defined in the Master Definitions Schedule); and
 - (iv) the benefit of any guarantee or surety vested in the Issuer relating to each such Portfolio Asset; and
 - (b) subject to any subsisting rights of redemption, all right, title, interest and benefit of the Issuer (whether present or future) in any insurances of which the Issuer may have the benefit or may acquire in the future;
- (2) a charge, conveyance, transfer and assignment by way of first fixed security of:
 - (a) all the rights, title, interest and benefit, present and future, of the Issuer in to and under the Scottish Trust Property and the Scottish Trusts (each as defined in the Master Definitions Schedule); and
 - (b) all the rights, title, interest and benefit, present and future, of the Issuer in and to all moneys, rights and property whatsoever which, from time to time and at any time, may be distributed under, or derived from, or accrue on, the Scottish Trust Property or in respect of the Scottish Trusts in any way whatsoever including all rights to receive payment of any amounts which may become payable to the Issuer under the Scottish Trusts and all payments received by the Issuer thereunder and also including, without limitation, all rights to serve notices and/or make demands thereunder, all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof and all rights of the Issuer arising under or in respect of the Scottish Trust Property and the Scottish Trusts;
- (3) a conveyance, transfer and assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in each Asset Sale Contract, the Repurchase Deed, the Warranty Deed, the Administration Agreement, the Agency Agreement, the Subordinated Loan Agreement, the VAT Declaration of Trust, the Services Letter, the Fee Letter, the Swap Agreement, any other hedging arrangements entered into by the Issuer, the Collection Account Declarations of Trust, the Substitute Administrator Agreement (each as defined in the Master Definitions Schedule) and all other contracts, agreements, deeds and documents, present and future, to which the Issuer is or may become a party, including all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof;

- (4) an assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in and to the Transaction Account (as defined in the Master Definitions Schedule) and all sums of money which from time to time may be standing to the credit of the Transaction Account and any other bank or other account in which the Issuer may at any time acquire any right, title, interest or benefit together with all interest accruing from time to time thereon and the debt represented by each such account and the benefit of all covenants relating thereto and all powers and remedies for enforcing the same;
- (5) a first fixed charge over all the right, title, interest and benefit present and future of the Issuer in the Authorised Investments (as defined in the Master Definitions Schedule) and each of them made by the Issuer in accordance with the Administration Agreement and all other investments in which the Issuer may at any time acquire any right, title, interest or benefit, in each case together with all moneys, income and proceeds to become payable thereunder or thereon and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same; and
- (6) a first floating charge over the whole of the undertaking and all the property and assets of the Issuer whatsoever and wheresoever situate, present and future, other than any property or assets from time to time or for the time being effectively charged by way of fixed charge, or otherwise assigned as fixed security, by the Deed of Charge (but excepting from the foregoing exclusion all property, assets, rights and interests (i) charged or assigned as referred to in paragraph (2) above and (ii) otherwise situate in or governed by Scots law, which are charged by the floating charge). For the avoidance of doubt, the Issuer's interest in each Portfolio Motor Vehicle shall be subject to the floating charge.

The security described above over the assets of the Issuer, which constitutes the security for the Class A Notes, is referred to as the "Security". The Security also stands as security for any amounts payable by the Issuer to the Class B Noteholders, the Class C Noteholders and to any Receiver, the Trustee, the Administrator, any Subordinated Lender, the Substitute Administrator, the Stockholder, the Swap Provider, PPF, Universal, PCF, PDF and PFPLC under the Notes and any Coupons, the Trust Deed, the Deed of Charge, the Administration Agreement, the Substitute Administrator Agreement, the Loan Stock Instrument, the Loan Stock, any Asset Sale Contract, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the Swap Agreement and any agreement with PFPLC referred to in Clause 6.2.2(p) of the Deed of Charge (each as defined in the Master Definitions Schedule). The Deed of Charge contains provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver and the Trustee, amounts payable to the Administrator (including fees, out-of-pocket expenses and commissions), amounts payable to the Substitute Administrator (including any commitment fee payable under the Substitute Administrator Agreement), amounts payable to the Swap Provider and amounts of all commissions (if any) paid by insurance companies to each of PFPLC, PPF, PCF, Universal and PDF pursuant to Clause 11.2 of the Administration Agreement will rank in priority to payments on the Class A Notes.

Terms and Conditions

1. Form, Denomination and Title

The Class A Notes are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons ("Interest Coupons") and principal coupons ("Principal Coupons") (severally or together "Coupons") and talons ("Talons") attached. Title to the Class A Notes, the Coupons and the Talons shall pass by delivery.

The holder of each Coupon (each a "Couponholder") and each Talon (whether or not the Coupon or the Talon is attached to a Class A Note) in his capacity as such shall be subject to and bound by all the provisions contained in the relevant Class A Note.

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents may treat the holder of any Class A Note, Coupon or Talon as the absolute owner thereof (whether or not such Class A Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

2. Status and Relationship between the Class A Notes, the Class B Notes and the Class C Notes

The Class A Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in the Deed of Charge) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

The £70,000,000 Class B Asset Backed Floating Rate Notes due 2013 of the Issuer (the “Class B Notes”) and the £20,000,000 Class C Asset Backed Floating Rate Notes due 2013 of the Issuer (the “Class C Notes”) are constituted by the Trust Deed and are secured by the same security as secures the Class A Notes, but the Class A Notes will rank in priority to the Class B Notes and the Class C Notes in the event of the security being enforced. 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 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, the Class C Noteholders or the other persons entitled to the benefit of the Security (as defined in the Master Definitions Schedule).

3. Covenants of the Issuer

(A) So long as any of the Class A Notes, the Class B Notes or the Class C Notes remains outstanding (as defined in the Master Definitions Schedule), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:

- (1) carry on any business other than as described in the Offering Circular dated 12th June 1998 relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Portfolio Assets and the related activities described in any Loan Agreement, Car Finance Agreement or Vehicle Agreement (each as defined in the Master Definitions Schedule)) 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;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Class A Notes, the Coupons and Talons, the Class B Notes and the Class C Notes and any principal coupons, interest coupons and talons appertaining respectively thereto, the subscription agreements relating to each of the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), any Asset Sale Contract, the Agency Agreement, the Trust Deed, the Loan Stock and the Loan Stock Instrument, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Subordinated Loan Agreement, the Portfolio Assets, the Deed of Charge, the Collection Account Declarations of Trust, the Swap Agreement, the VAT Declaration of Trust, the Services Letter, any insurances in which the Issuer at any time has an interest, the Scottish Trusts and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Master Definitions Schedule) (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, *inter alia*, 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 the Class A Notes, the Class B Notes or the Class C Notes in accordance with their respective terms and conditions; and
 - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;
- (2) 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, in particular, indebtedness under the Deed of Charge, the Fee Letter, the Services Letter, the Swap Agreement,

the VAT Declaration of Trust and indebtedness incurred on the issue of Loan Stock and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;

- (3) 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;
- (4) 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 consumer loans, motor vehicle finance agreements and motor vehicle dealer stocking agreements and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes, the Class B Notes and the Class C Notes and the performance and observance of every covenant in the Trust Deed and in these Class A Conditions on the part of the Issuer to be performed or observed;
 - (b) immediately after giving effect to such transaction, no Event of Default (as defined in Class A Condition 9) shall have occurred and be continuing;
 - (c) the Trustee is satisfied that the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
 - (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 Class A Notes, the Class B Notes and the Class C Notes are not adversely affected;
- (5) 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;
- (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
- (7) have an interest in any bank account, other than the Transaction Account, the VAT Account and the Collection Accounts (each as defined in the Master Definitions Schedule), unless such account or interest is charged to the Trustee on terms acceptable to it.

(B) So long as any of the Class A Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Portfolio Assets (the "Administrator"). Any appointment of an Administrator is subject to the prior written approval of the Trustee and must be of a person with experience of the administration of consumer loans, motor vehicle finance contracts and motor vehicle dealer stocking arrangements in England, Wales, Scotland and Northern Ireland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the 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. Upon the termination of the appointment of the Administrator, and in the absence of the appointment of any other substitute administrator, Barclays will act as administrator pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the Subordinated Loan Agreement, the Repurchase Deed, the Warranty Deed or any Asset Sale Contract.

4. Interest

(a) Interest Payment Dates

Each Class A Note bears interest on its Principal Amount Outstanding (as defined in Class A Condition 5(b)) from and including 16th June 1998 or such later date as may be agreed between the

Issuer and J.P. Morgan Securities Ltd. (the “Closing Date”). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class A Notes, interest in respect of such Class A Notes is payable quarterly in arrear on the last Business Day falling in September, December, March and June in each year (each an “Interest Payment Date”). To the extent that the funds available to the Issuer to pay interest on the Class A Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, the shortfall (“Accrued Interest”) will be borne by each Class A Note in a proportion equal to the proportion that the Principal Amount Outstanding of that Class A Note bears to the aggregate Principal Amount Outstanding of the Class A Notes (in each case as determined on the Interest Payment Date on which such Accrued Interest arises). As used in these Class A Conditions except Class A Condition 6, “Business Day” means a day (other than a Saturday or Sunday) on which banks are open for sterling business in London.

Accrued Interest will itself bear interest at the Rate of Interest (as defined below) applicable from time to time to the Class A Notes until there are sufficient funds available to the Issuer for payment of such Accrued Interest.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an “Interest Period”. Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the last Business Day falling in September 1998 in respect of the period from (and including) the Closing Date to (but excluding) the last Business Day falling in September 1998.

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

(b) Coupons and Talons

On issue, Coupons and Talons applicable to Class A Notes in definitive form are attached to the Class A Notes. A Talon may be exchanged for further Coupons and, if applicable, a further Talon on or after the Interest Payment Date for the final Coupon on the relevant Coupon sheet by surrendering such Talon at the specified office of any Paying Agent. Interest payments on the Class A Notes will be made against presentation and surrender of the appropriate Coupons in accordance with Class A Condition 6, except as provided therein.

(c) Rate of Interest

The rate of interest applicable from time to time to the Class A Notes (the “Rate of Interest”) will be determined by Morgan Guaranty Trust Company of New York 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) On the Closing Date (an “Interest Determination Date”) in respect of the first Interest Period, the Reference Agent will determine the interest rate on the linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of four months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “Interest Determination Date”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.20% per annum up to and including the Interest Period ending in June 2004 and thereafter 0.50% per annum.

- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays, Lloyds Bank PLC, Midland Bank plc, Morgan Guaranty Trust Company of New York and National Westminster Bank Plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “Reference Banks”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for three-month and four-month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three or four only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.
- (iii) There shall be no maximum or minimum Rate of Interest.

(d) Determination of Rate of Interest and Calculation of Interest Payments

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable on, the Class A Notes (an “Interest Payment”) for the relevant Interest Period. The Interest Payment for the Class A Notes shall be calculated by applying the Rate of Interest for the Class A Notes to the Principal Amount Outstanding of the Class A Notes taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards).

(e) Publication of Rate of Interest and Interest Payments

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to the Class A Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as the Class A Notes are listed on the Official List of the London Stock Exchange Limited (the “London Stock Exchange”), the London Stock Exchange, and will cause the same to be published in accordance with Class A Condition 12 on or as soon as possible after the date of commencement of the relevant Interest Period. The Interest Payment 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 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 the Class A Notes in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest for the Class A 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 the Class A 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, at all times, there will be at least 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 the Class A 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 prior written 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 approved by the Trustee has been appointed.

5. Redemption and Purchase

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

The Class A Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Principal Determination Date (as defined below) relating thereto there are any Available Redemption Funds (as defined below). The principal amount so redeemable in respect of each Class A Note prior to the service of an Enforcement Notice (each a “Principal Payment”) on any Interest Payment Date shall be the amount of the Class A Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date divided by the number of Class A Notes then outstanding (as defined in the Master Definitions Schedule) (rounded down to the nearest pound sterling); provided always that no Principal Payment may exceed the Principal Amount Outstanding of a Class A Note.

The Principal Determination Date relating to an Interest Payment Date means the ninth day or, if earlier, the fifth Business Day prior to such Interest Payment Date.

“Available Redemption Funds” on any Principal Determination Date (the “Relevant Date”) means the aggregate of:

- (A) the amount (if any) left when the amount (if any) of Available Purchase Funds (as defined below) at the Relevant Date, which the Issuer has notified to the Administrator, pursuant to Clause 6.1 of the Administration Agreement, that it then intends to apply in purchasing Loans and/or Car Finance Contracts and/or Dealer Stocking Vehicle Contracts and any relevant Motor Vehicles at any time during the period from (and including) the Relevant Date to (and including) the fourth anniversary of the Closing Date (the “Allocated Purchase Funds”) is subtracted from Available Purchase Funds at that Principal Determination Date; and
- (B) any Available Redemption Funds on the preceding Principal Determination Date not applied in redeeming Notes of any class during the period from (and including) the immediately preceding Principal Determination Date to (but excluding) the Relevant Date; and
- (C) any part of the amount (if any) deducted pursuant to (D) below in determining Available Redemption Funds on the preceding Principal Determination Date which was not applied in purchasing and cancelling Class A Notes during the preceding Collection Period; less
- (D) the amount notified by the Issuer to the Administrator as the amount which the Issuer then intends to apply, during the Collection Period commencing on that Principal Determination Date, in purchasing Class A Notes during that Collection Period pursuant to the Class A Conditions.

provided that in respect of the first Principal Determination Date, the “preceding Principal Determination Date” shall be 20th May 1998.

“Available Purchase Funds” means on any Principal Determination Date (the “Relevant Date”) the aggregate (avoiding double counting) of:

- (i) the aggregate amount (the “Portfolio Principal Received”) of all principal (or, in relation to Portfolio Car Finance Products, principal equivalent) credits made by the Administrator to the Debtor Ledger pursuant to Clause 7.11 of the Administration Agreement during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date in respect of any loan or car finance product that was a Portfolio Asset at any time during such period; and
- (ii) any Allocated Purchase Funds on the preceding Principal Determination Date; and

- (iii) any part of the amount deducted, pursuant to paragraph (a) below, in determining Available Purchase Funds on the preceding Principal Determination Date which was not applied in paying interest on Class A Notes (or, in the case of the first Principal Determination Date, paying interest on amounts outstanding under the Facility Agreement) or in payment of any amount (each a “Swap Termination Amount”) payable pursuant to the Swap Agreement following any termination thereof in whole or in part, if and to the extent that such amount would not have been payable in the absence of that termination (including any interest payable on such amount) on the preceding Interest Payment Date; and
- (iv) any amount credited by the Administrator to the Principal Deficiency Ledger on the Interest Payment Date preceding the Relevant Date in accordance with paragraph (j) of Clause 6.2.2 of the Deed of Charge; and
- (v) any amount credited by the Administrator to the Spread Requirement Ledger on the Interest Payment Date preceding the Relevant Date in accordance with paragraph (k) of Clause 6.2.2 of the Deed of Charge; and
- (vi) the aggregate of all amounts advanced to the Issuer during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 2(B) of the Subordinated Loan Agreement; and
- (vii) the aggregate (as determined pursuant to the last sentence of Clause 7.1 of the Administration Agreement) of all payments, made into the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date, which are not income payments and which do not fall within (i) to (vi) (inclusive) above (including without limitation such portion of each amount (the “Repurchase Price”) paid to the Issuer by PFPLC in respect of the repurchase of Portfolio Assets pursuant to and calculated in accordance with the Repurchase Deed during that period which corresponds to the principal (or its equivalent) amount of a Portfolio Asset and (on the first Principal Determination Date) the net proceeds of the issue of the Notes, to the extent not applied in repayment of amounts owing under the Facility Agreement or in purchasing Loans or Car Finance Contracts (and the related Motor Vehicles) on the Closing Date),

less the aggregate (avoiding double counting) of:

- (a) the amount calculated on the Relevant Date by the Administrator in accordance with Schedule 2 of the Administration Agreement as being the estimated potential shortfall (if any) in the funds that will be available to the Issuer on the next Interest Payment Date to make interest payments on Class A Notes and items of a higher priority and payments of Swap Termination Amounts (the “Potential Interest Shortfall Amount”), such estimate to be made on the basis and the assumptions to be set out in the Administration Agreement;
- (b) the aggregate (as determined pursuant to the last sentence of Clause 7.1 of the Administration Agreement) of all payments, made out of the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 6.2.1, Clause 6.3(d) or Clause 6.4 of the Deed of Charge, which are (i) not income payments or (ii) income payments to the extent that they are stated in Clause 6.2.1 or Clause 6.4 of the Deed of Charge to reduce the Available Purchase Funds on the date of payment; and
- (c) the aggregate amount paid in cash and not by the issue of Loan Stock during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date in purchasing Further Loans and/or Further Car Finance Contracts and/or Vehicle Agreements and any relevant Motor Vehicles during such period in accordance with Clause 6 of the Administration Agreement,

provided that there shall be subtracted from the figure determined by applying the above definition (the “Pre-PDL Principal Amount”) an amount equal to the lesser of (i) the absolute value of the Adjusted PDL Requirement (as defined in the Master Definitions Schedule) on the Relevant Date, and (ii) the Pre-PDL Principal Amount; and provided further that when applying the above definition in respect of the first Principal Determination Date, the “preceding Principal Determination Date” shall be 20th May 1998 and the “preceding Interest Payment Date” and the “Interest Payment Date preceding the Relevant Date” shall be 29th May 1998.

“Available Revenue Funds” means at any Principal Determination Date (the “Relevant Date”) the aggregate (avoiding double counting) of:

- (i) the aggregate amount (the “Portfolio Income Received”) of all income (or, in relation to Portfolio Car Finance Products, income equivalent) credits made by the Administrator to the Debtor Ledger pursuant to Clause 7.11 of the Administration Agreement during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date in respect of any asset that was a Portfolio Asset at any time during such period; and
- (ii) the aggregate (as determined pursuant to the last sentence of Clause 7.1 of the Administration Agreement) of any other net income paid into the Transaction Account during the period commencing on the preceding Principal Determination Date to (but excluding) the Relevant Date (including without limitation all net receipts under the Swap Agreement, to the extent that any such receipt does not fall within paragraph (vii) of the definition of Available Purchase Funds (above) on that Principal Determination Date, interest earned on the Transaction Account, any income earned on any Authorised Investment made pursuant to Clause 4.7 of the Administration Agreement, and the portion of each Repurchase Price paid to the Issuer during that period which does not correspond to the principal (or principal equivalent) amount of a Portfolio Asset); and
- (iii) the amount subtracted from Available Purchase Funds at the Relevant Date pursuant to the proviso to the definition of Available Purchase Funds (above); and
- (iv) any provisions, not being transfers to the First Loss Fund or the Spread Requirement Ledger, made on the preceding Interest Payment Date pursuant to Clause 6.2.2 of the Deed of Charge, to the extent that the payments for which such provisions were made have not been made; and
- (v) the aggregate of all amounts (if any) transferred on the preceding Interest Payment Date from the Interest Shortfall Ledger to be added to the Available Revenue Funds pursuant to Clause 7.14 and Clause 7.15 of the Administration Agreement; and
- (vi) the amount (if any) transferred on the preceding Interest Payment Date from the First Loss Fund to be added to the Available Revenue Funds pursuant to Clause 7.9 of the Administration Agreement; and
- (vii) any Available Revenue Funds on the preceding Principal Determination Date,

less the aggregate (avoiding double counting) of:

- (a) all income amounts paid out of the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 6.2.1, Clause 6.2.2 or Clause 6.4 of the Deed of Charge, to the extent that each such amount is there stated to reduce the Available Revenue Funds on the date of payment and all provisions (including without limitation to any fund or ledger) made on the preceding Interest Payment Date in accordance with Clause 6.2.2 of the Deed of Charge; and
- (b) all principal amounts paid out of the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 6.2.1 of the Deed of Charge, to the extent that each such amount is there stated to reduce the Available Revenue Funds on the date of payment,

provided that in respect of the first Principal Determination Date, the “preceding Principal Determination Date” shall be 20th May 1998 and the “preceding Interest Payment Date” shall be 29th May 1998.

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 prior to the occurrence of the Determination Event (being the first Interest Payment Date on which the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in Class A Condition 5(b)) of the Class A Notes, the aggregate Principal Amount Outstanding of the Class B Notes

and the aggregate Principal Amount Outstanding of the Class C Notes is 180:300 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; 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) where such Principal Determination Date falls prior to the occurrence of the Determination Event or on any Principal Determination Date thereafter on which it is determined by the Issuer that there will be a debit balance on the Principal Deficiency Ledger on the immediately following Interest Payment Date after the application of Available Revenue Funds on such Interest Payment Date in accordance with Clause 6.2.2 of the Deed of Charge, nil;
- (ii) on any other Principal Determination Date on which Class A Notes are outstanding, that amount of the Available Redemption Funds 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 sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes (but deducting from such aggregate the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 180:300; provided that if any part of the Available Redemption Funds being applied in accordance with the above would result in the sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes after such application being reduced below £11,000,000, the Subordinated Available Redemption Funds shall be reduced by an amount equal to such part of the Available Redemption Funds.

If the Issuer does not for any reason determine the aggregate principal amount of the Class A Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

Capitalised terms, not otherwise defined in this Class A Condition 5, have the respective meanings given to those terms in the Master Definitions Schedule.

(b) Calculation of Principal Payments, Principal Amount 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 Class A Note due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class A Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class A Note on the next Interest Payment Date) and (z) the fraction in respect of each Class A Note expressed as a decimal to the sixth point (the "Pool Factor"), of which the numerator is the Principal Amount Outstanding of a Class A Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class 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 Class A Note on any date shall be the principal amount of that Class A Note upon issue less the aggregate amount of all Principal Payments in respect of that Class A Note that have become due and payable (whether or not paid) prior to such date.
- (ii) The Issuer will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class A Notes are listed on the London Stock Exchange) the London Stock Exchange and will immediately cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class A Condition 12 by not later than the first Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date. If no Principal Payment is due to be made on the Class A Notes on any Interest Payment Date a notice to this effect will be given to the Class A Noteholders.

- (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 or the Pool Factor in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) Redemption for Taxation or Other Reasons

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class A Notes 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 political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest (or equivalent revenue charges) in relation to any of the Portfolio Assets for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that Moody's has confirmed to the Trustee that the then current rating of either or both the Class B Notes or Class C Notes would not thereby be adversely affected and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class A Condition 12, redeem all, but not some only, of the Class A Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date.

(d) Optional Redemption in Full

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class A Noteholders, and provided no Enforcement Notice has been served following an Event of Default, provided that Moody's has confirmed to the Trustee that the then current rating of either or both the Class B Notes or Class C Notes would not thereby be adversely affected and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes, the Issuer may redeem all (but not some only) of the Class A Notes at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after June 2001 (the "Coupon Call Date").

All (but not some only) of the Class A Notes may, at the option of the Issuer, provided that Moody's has confirmed to the Trustee that the then current rating of either or both the Class B Notes or Class C Notes would not thereby be adversely affected, be redeemed at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date on which the sum of (1) the aggregate Principal Amount Outstanding of the Class A Notes (2) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and (3) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes is less than £30,000,000.

(e) Redemption on Maturity

If not otherwise redeemed or purchased and cancelled, the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in June 2013.

(f) Purchases

Prior to the occurrence of the Determination Event, the Issuer may purchase Class A Notes at any time in the open market or otherwise at any price at or below their Principal Amount Outstanding (excluding accrued interest and expenses) provided that all unmatured or unused Coupons and Talons are surrendered with such Class A Notes. The Issuer may not purchase Class A Notes after the occurrence of the Determination Event.

(g) Cancellation

All Class A Notes redeemed in full or purchased pursuant to the foregoing provisions will be cancelled forthwith, together with all unmatured and unused Coupons and Talons attached thereto or surrendered therewith, and may not be resold or reissued.

(h) Certification

For the purposes of any redemption made pursuant to Class A Condition 5(c) or Class A Condition 5(d), as the case may be, the Trustee may rely upon any certificate of two Directors of the Issuer that the Issuer will be in a position to discharge all its liabilities in respect of the Class A Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes and such certificate shall be conclusive and binding on the Issuer and the holders of the Class A Notes.

6. Payments

Interest Payments and Principal Payments on Class A Notes will be made against presentation and surrender of, or, in the case of partial redemption, endorsement of, respectively, Interest Coupons and Principal Coupons relating to Class A Notes (except where, after such surrender, the unpaid principal amount of a Class A Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Class A Note) in which case such Principal Payment will be made against presentation and surrender of such Class A Note). Payments of principal other than Principal Payments (except as provided in the preceding sentence) will be made against presentation and surrender of Class A Notes. Presentation must be made at the specified office of any Paying Agent provided that no payment of interest will be made by, or upon presentation of any Class A Note or Coupon to, any Paying Agent in the United States of America. Payments will be made by pounds sterling cheque drawn on a branch in the City of London of, or transfer to a pounds sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment.

The initial Principal Paying Agent is Morgan Guaranty Trust Company of New York at its office at 60 Victoria Embankment, London EC4Y 0JP.

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. 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 Class A Condition 12.

Upon the date on which the Principal Amount Outstanding of a Class A Note is due to be reduced to zero, unmatured and unused Coupons and Talons relating thereto (whether or not attached) shall become void and no payment or exchange shall be made in respect thereof. If the due date for redemption in full of a Class A Note is not an Interest Payment Date, the interest accrued in respect of the period from the preceding Interest Payment Date (or from the Closing Date as the case may be) shall be payable only against presentation or surrender of the relevant Class A Note.

If the due date for payment of any amount of principal or interest in respect of any Class A Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay. In this Class A Condition 6 the expression "Business Day" means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class A Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class A Note for definitive Class A Notes, on which both Euroclear and Cedel Bank are open for business.

If interest is not paid in respect of a Class A Note on the date when due and payable (other than because the due date is not a Business Day), such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to the Class A Notes until there are sufficient funds on an Interest Payment Date for payment of such interest and interest thereon and notice thereof has been duly given in accordance with Class A Condition 12.

7. Taxation

All payments in respect of the Class A 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 to make any payment in respect of the Class A 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 Class A Notes or Coupons in respect of such withholding or deduction.

8. Prescription

A Principal Coupon shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon. A Class A Note shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon the effect of which would be to reduce the Principal Amount Outstanding of such Class A Note to zero. An Interest Coupon shall become void unless surrendered for payment within five years of the Relevant Payment Date in respect thereof. After the date on which a Class A Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof.

As used in this Class A Condition 8, the “Relevant Payment 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 Class A Condition 12.

9. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class A Notes outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders (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 and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class A Notes, only if the Trustee shall have certified in writing that 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 Class A Notes are, and each Class A Note shall accordingly forthwith become, immediately due and repayable at its Principal Amount Outstanding, together with accrued interest 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 Class A 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 Class A Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class A Noteholders; or
- (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 Class A 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 Class A Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking

into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Fee Letter and the Loan Stock) or otherwise becomes insolvent.

10. Enforcement

At any time after the Class A Notes become due and repayable at their Principal Amount Outstanding, 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 Class A Notes and Coupons and to enforce repayment of the Class A Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders or so requested in writing by Class A Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing, if the Class A Notes have become due and repayable pursuant to Class A Condition 9 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 the Couponholders 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 the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class A Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to take steps and/or proceed, fails to do so within a reasonable time and such failure is continuing.

11. Replacement of Class A Notes, Coupons and Talons

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

12. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class A Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the *Financial Times*) or, if this is not practicable, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any 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.

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently page PGCJ) or such other medium for the electronic display of data as may be approved by the Trustee and notified to the Class A Noteholders (the "Relevant Screen"). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class A Condition shall be given in accordance with the preceding paragraph.

The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Class A Noteholders in accordance with this Class A Condition 12.

13. Meetings of Class A Noteholders; Modifications; Consents; Waiver

The Trust Deed contains provisions for convening meetings of Class A Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class A Noteholders of a modification of the Class A Notes (including these Class A Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class A Notes, or a modification which would have the effect of postponing any day for payment of interest on

the Class A Notes, reducing or cancelling the amount of principal payable on the Class A Notes or the rate of interest applicable to the Class A Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class A Notes or the Coupons or any alteration of the date or priority of redemption of the Class A Notes (any such modification being referred to below as a “Basic Terms Modification”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class A Noteholders as described below. The quorum at any meeting of Class A Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class A Noteholders whatever the aggregate Principal Amount Outstanding of the Class A Notes 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 shall be two or more persons holding or representing 75%, or at any adjourned such meeting, 25%, or more of the aggregate Principal Amount Outstanding of the Class A Notes then outstanding. In the case of a Basic Terms Modification, an Extraordinary Resolution of a meeting of Class A Noteholders affected by such Basic Terms Modification will also be required. In any other case, no such separate meetings will be required unless an Enforcement Notice has been served (and the rules relating to meetings of Class A Noteholders, including matters relating to quorums and resolutions, shall apply *mutatis mutandis* to any meeting of Class A Noteholders). The Trust Deed contains provisions limiting the powers of the Class B Noteholders and the Class C Noteholders, *inter alia*, 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. 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 their interests. An Extraordinary Resolution passed at any meeting of Class A Noteholders shall be binding on all Class A Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution.

The Trustee may agree, without the consent of the Class A Noteholders or Couponholders, (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Class A Notes (including these Class A Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class A Noteholders or (ii) to any modification of the Class A Notes (including these Class A 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 Class A Noteholders or the Couponholders, 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 Class A Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class A Noteholders in accordance with Class A 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 Class A Notes unless 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 the 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 Class A Notes and the Coupons, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator 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, the Principal Paying Agent, the other Paying Agents (if any) and all Class A Noteholders and Couponholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Class A Noteholders or Couponholders shall attach to the Reference Banks (or any of

them), the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

16. Governing Law

The Class A Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof as are particular to Scots law, which are governed by and shall be construed in accordance with the laws of Scotland and such provisions thereof as are particular to Northern Irish law, which are governed by and shall be construed in accordance with the laws of Northern Ireland.

Description of the Class B Notes, the Global Class B Notes and the Security

The following, subject to amendments, are the terms and conditions of the Class B Notes (the “Class B Conditions” and any reference to a “Class B Condition” shall be construed accordingly) substantially in the form as they will appear on the reverse of the Class B Notes in definitive form. While the Class B Notes remain in global form, the same terms and conditions govern them, except to the extent that they are appropriate only to the Class B Notes in definitive form.

The issue of the £70,000,000 Class B Asset Backed Floating Rate Notes due 2013 (the “Class B Notes”) was authorised by a resolution of the Board of Directors of Finance for People (No. 3) PLC (the “Issuer”) passed on 12th June 1998. The Class B Notes are constituted by a trust deed (the “Trust Deed”) dated 16th June 1998 between the Issuer and Morgan Guaranty Trust Company of New York (the “Trustee” which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class B Notes (the “Class B Noteholders”), the holders for the time being of the Class A Notes (as defined below) (the “Class A Noteholders”) and the holders for the time being of the Class C Notes (as defined below) (the “Class C Noteholders”). The net proceeds from the issue of the Notes will be applied, amongst other things, in repayment to Morgan Guaranty Trust Company of New York of borrowings made by the Issuer to assist in the acquisition of certain Portfolio Loans (as defined in the master definitions schedule dated 12th June 1998 between and signed by, *inter alios*, the Issuer and the Trustee (the “Master Definitions Schedule”), and in the purchase, either on or during the period of four years after the Closing Date (as defined below), of additional Portfolio Assets (as defined in the Master Definitions Schedule).

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of charge and assignment (the “Deed of Charge”) dated the Closing Date (as defined in Class B Condition 4(a)) between the Issuer, the Trustee, Universal Credit Limited (“Universal”), Paragon Finance PLC (“PFPLC”), Paragon Personal Finance Limited (“PPF”), Paragon Car Finance Limited (“PCF”), Paragon Dealer Finance Limited (“PDF”), PFPLC in its capacity as administrator, Barclays Bank PLC as substitute administrator (“Barclays”) and Morgan Guaranty Trust Company of New York in its capacity as swap provider (the “Swap Provider”). The Trust Deed will include the form of the temporary global note (the “Temporary Global Class B Note”) and the permanent global note (the “Permanent Global Class B Note”) for the Class B Notes and the definitive Class B Notes and coupons and talons relating thereto. Certain words and expressions used above and below have the meanings defined in the Trust Deed or the Master Definitions Schedule. In accordance with an agency agreement (the “Agency Agreement”) dated the Closing Date between the Issuer, the Trustee and Morgan Guaranty Trust Company of New York as principal paying agent (the “Principal Paying Agent”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “Reference Agent”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “Paying Agents”, which expression shall include the successors of each paying agent appointed as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class B Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class B Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement, the Standard Terms and Conditions, the Bridge Standard Terms and Conditions, the Master Definitions Schedule, the Warranty Deed, the Repurchase Deed (each as defined in the Master Definitions Schedule) and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee, being at the date hereof 60 Victoria Embankment, London EC4Y 0JP, and at the specified offices for the time being of the Paying Agents.

Class B Notes and Coupons (as defined below) will bear the following legend: “Any United States Person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code”. The sections referred to in the legend provide that a United States Person (as defined in the Internal Revenue Code) will not, with certain exceptions, be permitted to deduct any loss, and will not be eligible for favourable capital gains treatment with respect to any gain, realised on a sale, exchange or redemption of a Class B Note or Coupon.

Global Class B Notes

The Class B Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class B Note in bearer form, without coupons or talons, in the principal amount of £70,000,000. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with Morgan Guaranty Trust Company of New York, London office, as common depositary (the "Common Depositary") on the Closing Date. Upon deposit of the Temporary Global Class B Note, Euroclear or Cedel Bank will credit each subscriber of Class B Notes with the principal amount of Class B Notes for which it has subscribed and paid. Interests in the Temporary Global Class B Notes will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received) for interests in the Permanent Global Class B Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class B Note (the expression "Global Class B Notes" and "Global Class B Note" meaning, respectively, (i) both of the Temporary Global Class B Note and the Permanent Global Class B Note or (ii) either of the Temporary Global Class B Note or the Permanent Global Class B Note, as the context may require). On the exchange of the Temporary Global Class B Note for the Permanent Global Class B Note, the Permanent Global Class B Note will also be deposited with the Common Depositary. The Global Class B Notes will be transferable by delivery. The Permanent Global Class B Note will be exchangeable for definitive Class B Notes in bearer form in certain circumstances described below. Interest and principal on each Global Class B Note will be payable against presentation of that Global Class B Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Class B Noteholders has been received by Euroclear or Cedel Bank. Each of the persons appearing from time to time in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, or of Cedel Bank, as the holder of a Class B Note will be entitled to receive any payment so made in respect of that Class B Note in accordance with the respective rules and procedures of Euroclear or, as the case may be, Cedel Bank. Such persons shall have no claim directly against the Issuer in respect of payments due on the Class B Notes, which must be made by the holder of the relevant Global Class B Note, for so long as such Global Class B Note is outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Class B Note for the Permanent Global Class B Note, which date shall be no earlier than the Exchange Date (as defined in the Temporary Global Class B Note) and (ii) the first Interest Payment Date, in order to obtain any payment due on the Class B Notes.

For so long as the Class B Notes are represented by a Global Class B Note, such Class B Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or, as the case may be, of Cedel Bank.

For so long as the Class B Notes are represented by a Global Class B Note, each person who is for the time being shown in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear or of Cedel Bank, as the holder of a particular principal amount of Class B Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class B Notes and the expression "Class B Noteholder" shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Class B Note to be paid principal and interest thereon in accordance with its terms.

Principal and interest on a Global Class B Note will be payable against presentation of such Global Class B Note at the specified office of the Principal Paying Agent or, at the option of the holder, at any specified office of any Paying Agent provided that no payment of interest on a Global Class B Note may be made by, or upon presentation of such Global Class B Note to, any Paying Agent in the United States of America. A record of each payment made on a Global Class B Note, distinguishing between any payment of principal and payment of interest, will be endorsed on such Global Class B Note by the Paying Agent to which such Global Class B Note was presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made.

If (i) the principal amount of the Class B Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 16th June 1998, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class B Notes which would not be required were the Class B Notes in definitive form, then the Issuer will (at the Issuer's expense) issue definitive Class B Notes represented by the Permanent Global Class B Note in exchange for the whole outstanding interest in the Permanent Global

Class B Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

Security

The security for the Class B Notes was created pursuant to, and on the terms set out in, the Deed of Charge, which creates in favour of the Trustee on trust for (*inter alios*) the Class B Noteholders:

- (1) a conveyance, transfer and assignment by way of first fixed security of:
 - (a) subject, where applicable, to the subsisting rights of the Obligors (as defined in the Master Definitions Schedule), all present and future right, title, interest and benefit of the Issuer in and under the Portfolio Assets (other than the Portfolio Motor Vehicles (both as defined in the Master Definitions Schedule)) to which it is or becomes beneficially entitled, including for the avoidance of doubt:
 - (i) all sums of principal (or sums equivalent to principal), interest (or revenue charges equivalent to interest) or any other sum payable under and the right to demand, sue for, recover, receive and give receipts for all principal (or equivalent) moneys payable or to become payable under such Portfolio Assets or the unpaid part thereof and the interest (or revenue charges equivalent to interest) due or to become due thereon;
 - (ii) the benefit of and the right to sue on all covenants with, or vested in, the Issuer in respect of each such Portfolio Asset and the right to exercise all powers of the Issuer in relation to each such Portfolio Asset;
 - (iii) all causes and rights of action of the Issuer against any person in connection with any report, opinion, certificate, consent or other statement of fact or opinion given in connection with such Portfolio Asset or affecting any decision to enter into the relevant Financing Agreement (as defined in the Master Definitions Schedule); and
 - (iv) the benefit of any guarantee or surety vested in the Issuer relating to each such Portfolio Asset; and
 - (b) subject to any subsisting rights of redemption, all right, title, interest and benefit of the Issuer (whether present or future) in any insurances of which the Issuer may have the benefit or may acquire in the future;
- (2) a charge, conveyance, transfer and assignment by way of first fixed security of:
 - (a) all the rights, title, interest and benefit, present and future, of the Issuer in to and under the Scottish Trust Property and the Scottish Trusts (each as defined in the Master Definitions Schedule); and
 - (b) all the rights, title, interest and benefit, present and future, of the Issuer in and to all moneys, rights and property whatsoever which, from time to time and at any time, may be distributed under, or derived from, or accrue on, the Scottish Trust Property or in respect of the Scottish Trusts in any way whatsoever including all rights to receive payment of any amounts which may become payable to the Issuer under the Scottish Trusts and all payments received by the Issuer thereunder and also including, without limitation, all rights to serve notices and/or make demands thereunder, all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof and all rights of the Issuer arising under or in respect of the Scottish Trust Property and the Scottish Trusts;
- (3) a conveyance, transfer and assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in each Asset Sale Contract, the Repurchase Deed, the Warranty Deed, the Administration Agreement, the Agency Agreement, the Subordinated Loan Agreement, the VAT Declaration of Trust, the Services Letter, the Fee Letter, the Swap Agreement, any other hedging arrangements entered into by the Issuer, the Collection Account Declarations of Trust, the Substitute Administrator Agreement (each as defined in the Master Definitions Schedule) and all other contracts, agreements, deeds and documents, present and future, to which the Issuer is or may become a party, including all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof;

- (4) an assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in and to the Transaction Account (as defined in the Master Definitions Schedule) and all sums of money which from time to time may be standing to the credit of the Transaction Account and any other bank or other account in which the Issuer may at any time acquire any right, title, interest or benefit together with all interest accruing from time to time thereon and the debt represented by each such account and the benefit of all covenants relating thereto and all powers and remedies for enforcing the same;
- (5) a first fixed charge over all the right, title, interest and benefit present and future of the Issuer in the Authorised Investments (as defined in the Master Definitions Schedule) and each of them made by the Issuer in accordance with the Administration Agreement and all other investments in which the Issuer may at any time acquire any right, title, interest or benefit, in each case together with all moneys, income and proceeds to become payable thereunder or thereon and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same; and
- (6) a first floating charge over the whole of the undertaking and all the property and assets of the Issuer whatsoever and wheresoever situate, present and future, other than any property or assets from time to time or for the time being effectively charged by way of fixed charge, or otherwise assigned as fixed security, by the Deed of Charge (but excepting from the foregoing exclusion all property, assets, rights and interests (i) charged or assigned as referred to in paragraph (2) above and (ii) otherwise situate in or governed by Scots law, which are charged by the floating charge). For the avoidance of doubt, the Issuer's interest in each Portfolio Motor Vehicle shall be subject to the floating charge.

The security described above over the assets of the Issuer, which constitutes the security for the Class B Notes, is referred to as the "Security". The Security also stands as security for any amounts payable by the Issuer to the Class A Noteholders and the Class C Noteholders and to any Receiver, the Trustee, the Administrator, any Subordinated Lender, the Substitute Administrator, the Stockholder, the Swap Provider, PPF, Universal, PCF, PDF and PFPLC under the Notes and any Coupons, the Trust Deed, the Deed of Charge, the Administration Agreement, the Substitute Administrator Agreement, the Loan Stock Instrument, the Loan Stock, any Asset Sale Contract, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the Swap Agreement and any agreement with PFPLC referred to in Clause 6.2.2(p) of the Deed of Charge (each as defined in the Master Definitions Schedule). The Deed of Charge contains provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver and the Trustee, amounts payable to the Administrator (including fees, out-of-pocket expenses and commissions), amounts payable to the Substitute Administrator (including any commitment fee payable under the Substitute Administrator Agreement), amounts payable to the Swap Provider, amounts of all commissions (if any) paid by insurance companies to each of PFPLC, PPF, PCF, Universal and PDF pursuant to Clause 11.2 of the Administration Agreement and amounts due and payable to Class A Noteholders will rank in priority to payments on the Class B Notes.

Terms and Conditions

1. Form, Denomination and Title

The Class B Notes are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons ("Interest Coupons") and principal coupons ("Principal Coupons") (severally or together "Coupons") and talons ("Talons") attached. Title to the Class B Notes, the Coupons and the Talons shall pass by delivery.

The holder of each Coupon (each a "Couponholder") and each Talon (whether or not the Coupon or the Talon is attached to a Class B Note) in his capacity as such shall be subject to and bound by all the provisions contained in the relevant Class B Note.

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents may treat the holder of any Class B Note, Coupon or Talon as the absolute owner thereof (whether or not such Class B Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

2. Status and Relationship between the Class A Notes, the Class B Notes and the Class C Notes

The Class B Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described in the Deed of Charge) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class B Notes are subordinated to, *inter alia*, payments of principal and interest on the £210,000,000 Class A Asset Backed Floating Rate Notes due 2013 of the Issuer (the “Class A Notes”) in accordance with the provisions of Class B Condition 7, the Trust Deed and the Deed of Charge.

The Class B Notes are secured by the same security that secures the Class A Notes and the £20,000,000 Class C Asset Backed Floating Rate Notes due 2013 of the Issuer (the “Class C Notes”), but the Class A Notes and certain other obligations of the Issuer will rank in point of security in priority to the Class B Notes in the event of the security being enforced, whereas the Class B Notes will rank in point of security in priority to the Class C Notes in the event of the security being enforced.

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of all of the Class B Noteholders, the Class A 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 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, the Class C Noteholders or the other persons entitled to the benefit of the Security (as defined in the Master Definitions Schedule) and subject thereto to have regard only to the interests of the Class B Noteholders if, in the Trustee’s opinion, there is a conflict between the interests of the Class B Noteholders and the interests of the Class C Noteholders or the other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

(A) So long as any of the Class A Notes, the Class B Notes or the Class C Notes remains outstanding (as defined in the Master Definitions Schedule), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:

- (1) carry on any business other than as described in the Offering Circular dated 12th June 1998 relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Portfolio Assets and the related activities described in any Loan Agreement, Car Finance Agreement or Vehicle Agreement (as defined in the Master Definitions Schedule)) 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;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Class B Notes, the Coupons and Talons, the Class A Notes and the Class C Notes and any principal coupons, interest coupons and talons appertaining respectively thereto, the subscription agreements relating to each of the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), any Asset Sale Contract, the Agency Agreement, the Trust Deed, the Loan Stock and the Loan Stock Instrument, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Subordinated Loan Agreement, the Portfolio Assets, the Deed of Charge, the Collection Account Declarations of Trust, the Swap Agreement, the VAT Declaration of Trust, the Services Letter, any insurances in which the Issuer at any time has an interest, the Scottish Trusts and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Master Definitions Schedule)(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, *inter alia*, 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 the Class B Notes, the Class A Notes or the Class C Notes in accordance with their respective terms and conditions; and
 - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;

- (2) 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, in particular, indebtedness under the Deed of Charge, the Fee Letter, the Services Letter, the Swap Agreement, the VAT Declaration of Trust and indebtedness incurred on the issue of Loan Stock and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;
- (3) 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;
- (4) 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 consumer loans, motor vehicle finance agreements and motor vehicle dealer stocking agreements and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes, the Class B Notes and the Class C Notes and the performance and observance of every covenant in the Trust Deed and in these Class B Conditions on the part of the Issuer to be performed or observed;
 - (b) immediately after giving effect to such transaction, no Event of Default (as defined in Class B Condition 10) shall have occurred and be continuing;
 - (c) the Trustee is satisfied that the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
 - (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 Class A Notes, the Class B Notes and the Class C Notes are not adversely affected;
- (5) 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;
- (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
- (7) have an interest in any bank account, other than the Transaction Account, the VAT Account and the Collection Accounts (each as defined in the Master Definitions Schedule), unless such account or interest is charged to the Trustee on terms acceptable to it.

(B) So long as any of the Class B Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Portfolio Assets (the “Administrator”). Any appointment of an Administrator is subject to the prior written approval of the Trustee and must be of a person with experience of the administration of consumer loans, motor vehicle finance contracts and motor vehicle dealer stocking arrangements in England, Wales, Scotland and Northern Ireland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the 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. Upon the termination of the appointment of the Administrator, and in the absence of appointment of any other substitute administrator, Barclays will act as administrator pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the Subordinated Loan Agreement, the Repurchase Deed, the Warranty Deed or any Asset Sale Contract.

4. Interest

(a) Interest Payment Dates

Each Class B Note bears interest on its Principal Amount Outstanding (as defined in Class B Condition 5(b)) from and including 16th June 1998 or such later date as may be agreed between the Issuer and J.P. Morgan Securities Ltd. (the "Closing Date"). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class B Notes, interest in respect of such Class B Notes is (subject to Class B Condition 7) payable quarterly in arrear on the last Business Day falling in September, December, March and June in each year (each an "Interest Payment Date"). To the extent that the funds available to the Issuer to pay interest on the Class B Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall ("Deferred Interest") which will be borne by each Class B Note in a proportion equal to the proportion that the Principal Amount Outstanding of that Class B Note bears to the aggregate Principal Amount Outstanding of the Class B Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not then fall due but will instead, subject to Class B Condition 7, be deferred until the first Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available (after allowing for the Issuer's liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. Such Deferred Interest will accrue interest ("Additional Interest") at the Rate of Interest (as defined below) applicable from time to time to the Class B Notes and, subject to Class B Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest to the extent of such available funds. To the extent that any such Deferred Interest or Additional Interest is not subsequently paid, the Issuer's obligation to the Class B Noteholders in respect of any such Deferred Interest and/or Additional Interest will be subject to Class B Condition 7. As used in these Class B Conditions except Class B Condition 6, "Business Day" means a day (other than a Saturday or Sunday) on which banks are open for sterling business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an "Interest Period". Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the last Business Day falling in September 1998 in respect of the period from (and including) the Closing Date to (but excluding) the last Business Day falling in September 1998.

Interest shall cease to accrue on any part of the Principal Amount Outstanding of a Class B Note as from (and including) the due date for redemption of such part unless, upon due presentation of the relevant Principal Coupon, payment of principal due is improperly withheld or refused, whereupon interest shall continue to accrue on such principal at the Rate of Interest from time to time applicable to the Class B Notes until the moneys in respect thereof have been received by the Trustee or the Principal Paying Agent and notice to that effect is given in accordance with Class B Condition 13.

(b) Coupons and Talons

On issue, Coupons and Talons applicable to Class B Notes in definitive form are attached to the Class B Notes. A Talon may be exchanged for further Coupons and, if applicable, a further Talon on or after the Interest Payment Date for the final Coupon on the relevant Coupon sheet by surrendering such Talon at the specified office of any Paying Agent. Interest payments on the Class B Notes will be made against presentation and surrender of the appropriate Coupons in accordance with Class B Condition 6, except as provided therein.

(c) Rate of Interest

The rate of interest applicable from time to time to the Class B Notes (the "Rate of Interest") will be determined by Morgan Guaranty Trust Company of New York 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) On the Closing Date (an "Interest Determination Date") in respect of the first Interest Period, the Reference Agent will determine the interest rate on the linear interpolation between sterling deposits for a period of three months and sterling deposits for a period of four months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so

quoted. On each Interest Payment Date thereafter (each also an “Interest Determination Date”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 0.55% per annum up to and including the Interest Period ending in June 2004 and thereafter 1.25% per annum.

- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays, Lloyds Bank PLC, Midland Bank plc, Morgan Guaranty Trust Company of New York and National Westminster Bank Plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “Reference Banks”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for three-month and four-month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three or four only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.
- (iii) There shall be no maximum or minimum Rate of Interest.

(d) Determination of Rate of Interest, Calculation of Interest Payments, Deferred Interest and Additional Interest

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable, subject to Class B Condition 7, on, the Class B Notes (an “Interest Payment”) for the relevant Interest Period. The Interest Payment for the Class B Notes shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of the Class B Notes taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). On (or as soon as practicable after) each Principal Determination Date (as defined in Class B Condition 5(a)), the Issuer shall determine (or cause the Administrator to determine) the actual amount of interest which will be paid on each Class B Note on the Interest Payment Date next following such Principal Determination Date and the amount of Deferred Interest (if any) on each Class B Note in respect of the Interest Period ending on (but excluding) such Interest Payment Date and the amount of Additional Interest (if any) which will be paid on such Interest Payment Date. The amount of Additional Interest shall be calculated by applying the relevant Rate of Interest to the Deferred Interest relating to the Class B Notes and any Additional Interest from prior Interest Periods which remains unpaid, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). In the event that on any Principal Determination Date funds

then available to the Issuer are insufficient to pay in full the Interest Payment, any outstanding Deferred Interest and any Additional Interest due on the Interest Payment Date next following such Principal Determination Date such funds will be applied first to the payment of any Interest Payment, secondly to the payment of any outstanding Deferred Interest and thereafter to the payment of any Additional Interest.

(e) Publication of Rates of Interest, Interest Payments, Deferred Interest and Additional Interest

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to the Class B Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as the Class B Notes are listed on the Official List of the London Stock Exchange Limited (the “London Stock Exchange”), the London Stock Exchange, and will cause the same to be published in accordance with Class B Condition 13 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) and the Additional Interest (if any) applicable to the Class B Notes for each Interest Period to be notified to the Trustee, the Paying Agents and (for so long as the Notes are listed on the London Stock Exchange) the London Stock Exchange, and will cause the same to be published in accordance with Class B Condition 13 no later than the fourth Business Day prior to the relevant Interest Payment Date. The Interest Payment, Deferred Interest, Additional 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 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 or the Additional Interest (if any) in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest for the Class B 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 or the Additional Interest (if any) for the Class B 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 B Notes remains outstanding, at all times there will be at least 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 the Class B 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 prior written 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 approved by the Trustee has been appointed.

5. Redemption and Purchase

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

The Class B Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Principal Determination Date (as defined below) relating thereto there are any Class B Available Redemption Funds (as defined below). The principal amount so redeemable in respect of each Class B Note prior to the service of an Enforcement Notice (each a “Principal Payment”) on any Interest Payment Date shall be the amount of the Class B Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date divided by the number of Class B Notes then outstanding (as defined in the Master Definitions Schedule) (rounded down to the nearest pound sterling); provided always that no Principal Payment may exceed the Principal Amount Outstanding of a Class B Note.

The Principal Determination Date relating to an Interest Payment Date means the ninth day or if earlier, the fifth Business Day prior to such Interest Payment Date.

“Available Redemption Funds” on any Principal Determination Date (the “Relevant Date”) means the aggregate of:

- (A) the amount (if any) left when the amount (if any) of Available Purchase Funds (as defined below) at the Relevant Date, which the Issuer has notified to the Administrator, pursuant to Clause 6.1 of the Administration Agreement, that it then intends to apply in purchasing Loans and/or Car Finance

Contracts and/or Dealer Stocking Vehicle Contracts and any relevant Motor Vehicles at any time during the period from (and including) the Relevant Date to (and including) the fourth anniversary of the Closing Date (the “Allocated Purchase Funds”) is subtracted from Available Purchase Funds at that Principal Determination Date; and

- (B) any Available Redemption Funds on the preceding Principal Determination Date not applied in redeeming Notes of any class during the period from (and including) the immediately preceding Principal Determination Date to (but excluding) the Relevant Date; and
- (C) any part of the amount (if any) deducted pursuant to (D) below in determining Available Redemption Funds on the preceding Principal Determination Date which was not applied in purchasing and cancelling Class A Notes during the preceding Collection Period; less
- (D) the amount notified by the Issuer to the Administrator as the amount which the Issuer then intends to apply, during the Collection Period commencing on that Principal Determination Date, in purchasing Class A Notes during that Collection Period pursuant to the Class A Conditions,

provided that in respect of the first Principal Determination Date, the “preceding Principal Determination Date” shall be 20th May 1998.

“Available Purchase Funds” means on any Principal Determination Date (the “Relevant Date”) the aggregate (avoiding double counting) of:

- (i) the aggregate amount (the “Portfolio Principal Received”) of all principal (or, in relation to Portfolio Car Finance Products, principal equivalent) credits made by the Administrator to the Debtor Ledger pursuant to Clause 7.11 of the Administration Agreement during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date in respect of any loan or car finance product that was a Portfolio Asset at any time during such period; and
- (ii) any Allocated Purchase Funds on the preceding Principal Determination Date; and
- (iii) any part of the amount deducted, pursuant to paragraph (a) below, in determining Available Purchase Funds on the preceding Principal Determination Date which was not applied in paying interest on Class A Notes (or, in the case of the first Principal Determination Date, paying interest on amounts outstanding under the Facility Agreement) or in payment of any amount (each a “Swap Termination Amount”) payable pursuant to the Swap Agreement following any termination thereof in whole or in part, if and to the extent that such amount would not have been payable in the absence of that termination (including any interest payable on such amount) on the preceding Interest Payment Date; and
- (iv) any amount credited by the Administrator to the Principal Deficiency Ledger on the Interest Payment Date preceding the Relevant Date in accordance with paragraph (j) of Clause 6.2.2 of the Deed of Charge; and
- (v) any amount credited by the Administrator to the Spread Requirement Ledger on the Interest Payment Date preceding the Relevant Date in accordance with paragraph (k) of Clause 6.2.2 of the Deed of Charge; and
- (vi) the aggregate of all amounts advanced to the Issuer during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 2(B) of the Subordinated Loan Agreement; and
- (vii) the aggregate (as determined pursuant to the last sentence of Clause 7.1 of the Administration Agreement) of all payments, made into the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date, which are not income payments and which do not fall within (i) to (vi) (inclusive) above (including without limitation such portion of each amount (the “Repurchase Price”) paid to the Issuer by PFPLC in respect of the repurchase of Portfolio Assets pursuant to and calculated in accordance with the Repurchase Deed during that period which corresponds to the principal (or its equivalent) amount of a Portfolio Asset and (on the first Principal Determination Date) the net proceeds of the issue of the Notes, to the extent not applied in repayment of amounts owing under the Facility Agreement or in purchasing Loans or Car Finance Contracts (and the related Motor Vehicles) on the Closing Date).

less the aggregate (avoiding double counting) of:

- (a) the amount calculated on the Relevant Date by the Administrator in accordance with Schedule 2 of the Administration Agreement as being the estimated potential shortfall (if any) in the funds that will be available to the Issuer on the next Interest Payment Date to make interest payments on Class A Notes and items of a higher priority and payments of Swap Termination Amounts (the “Potential Interest Shortfall Amount”), such estimate to be made on the basis and the assumptions to be set out in the Administration Agreement;
- (b) the aggregate (as determined pursuant to the last sentence of Clause 7.1 of the Administration Agreement) of all payments, made out of the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 6.2.1, Clause 6.3(d) or Clause 6.4 of the Deed of Charge, which are (i) not income payments or (ii) income payments to the extent that they are stated in Clause 6.2.1 or Clause 6.4 of the Deed of Charge to reduce the Available Purchase Funds on the date of payment; and
- (c) the aggregate amount paid in cash and not by the issue of Loan Stock during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date in purchasing Further Loans and/or Further Car Finance Contracts and/or Vehicle Agreements and any relevant Motor Vehicles during such period in accordance with Clause 6 of the Administration Agreement,

provided that there shall be subtracted from the figure determined by applying the above definition (the “Pre-PDL Principal Amount”) an amount equal to the lesser of (i) the absolute value of the Adjusted PDL Requirement (as defined in the Master Definitions Schedule) on the Relevant Date, and (ii) the Pre-PDL Principal Amount; and provided further that when applying the above definition in respect of the first Principal Determination Date, the “preceding Principal Determination Date” shall be 20th May 1998 and the “preceding Interest Payment Date” and the “Interest Payment Date preceding the Relevant Date” shall be 29th May 1998.

“Available Revenue Funds” means at any Principal Determination Date (the “Relevant Date”) the aggregate (avoiding double counting) of:

- (i) the aggregate amount (the “Portfolio Income Received”) of all income (or, in relation to Portfolio Car Finance Products, income equivalent) credits made by the Administrator to the Debtor Ledger pursuant to Clause 7.11 of the Administration Agreement during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date in respect of any asset that was a Portfolio Asset at any time during such period; and
- (ii) the aggregate (as determined pursuant to the last sentence of Clause 7.1 of the Administration Agreement) of any other net income paid into the Transaction Account during the period commencing on the preceding Principal Determination Date to (but excluding) the Relevant Date (including without limitation all net receipts under the Swap Agreement, to the extent that any such receipt does not fall within paragraph (vii) of the definition of Available Purchase Funds (above) on that Principal Determination Date, interest earned on the Transaction Account, any income earned on any Authorised Investment made pursuant to Clause 4.7 of the Administration Agreement, and the portion of each Repurchase Price paid to the Issuer during that period which does not correspond to the principal (or principal equivalent) amount of a Portfolio Asset); and
- (iii) the amount subtracted from Available Purchase Funds at the Relevant Date pursuant to the proviso to the definition of Available Purchase Funds (above); and
- (iv) any provisions, not being transfers to the First Loss Fund or the Spread Requirement Ledger, made on the preceding Interest Payment Date pursuant to Clause 6.2.2 of the Deed of Charge, to the extent that the payments for which such provisions were made have not been made; and
- (v) the aggregate of all amounts (if any) transferred on the preceding Interest Payment Date from the Interest Shortfall Ledger to be added to the Available Revenue Funds pursuant to Clause 7.14 and Clause 7.15 of the Administration Agreement; and
- (vi) the amount (if any) transferred on the preceding Interest Payment Date from the First Loss Fund to be added to the Available Revenue Funds pursuant to Clause 7.9 of the Administration Agreement; and
- (vii) any Available Revenue Funds on the preceding Principal Determination Date,

less the aggregate (avoiding double counting) of:

- (a) all income amounts paid out of the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 6.2.1, Clause 6.2.2 or Clause 6.4 of the Deed of Charge, to the extent that each such amount is there stated to reduce the Available Revenue Funds on the date of payment and all provisions (including without limitation to any fund or ledger) made on the preceding Interest Payment Date in accordance with Clause 6.2.2 of the Deed of Charge; and
- (b) all principal amounts paid out of the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 6.2.1 of the Deed of Charge, to the extent that each such amount is there stated to reduce the Available Revenue Funds on the date of payment,

provided that in respect of the first Principal Determination Date, the “preceding Principal Determination Date” shall be 20th May 1998 and the “preceding Interest Payment Date” shall be 29th May 1998.

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”, the “Subordinated Available Redemption Funds” and the “Class B Available Redemption Funds” as at such Principal Determination Date.

The Class A Available Redemption Funds shall equal:

- (i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the first Interest Payment Date on which the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in Class B Condition 5(b)) of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes is 180:300 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; 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) where such Principal Determination Date falls prior to the occurrence of the Determination Event or on any Principal Determination Date thereafter on which it is determined by the Issuer that there will be a debit balance on the Principal Deficiency Ledger on the immediately following Interest Payment Date after the application of Available Revenue Funds on such Interest Payment Date in accordance with Clause 6.2.2 of the Deed of Charge, nil;
- (ii) on any other Principal Determination Date on which Class A Notes are outstanding, that amount of the Available Redemption Funds 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 sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes (but deducting from such aggregate the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 180:300; provided that if any part of the Available Redemption Funds being applied in accordance with the above would result in the sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes after such application being reduced below £11,000,000 the Subordinated Available Redemption Funds shall be reduced by an amount equal to such part of the Available Redemption Funds.

If the Issuer does not for any reason determine the aggregate principal amount of the Class A Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

The Class B Available Redemption Funds:

- (a) on any Principal Determination Date on which there are Class A Notes outstanding, shall be determined in accordance with the following formula:

$$\text{BARF} = \text{SARF} \times 70/90$$

where:

- (i) “BARF” means the Class B Available Redemption Funds on such Principal Determination Date; and
- (ii) “SARF” means the Subordinated Available Redemption Funds on such Principal Determination Date; and
- (b) on any Principal Determination Date on which there are no Class A Notes outstanding, shall equal the lesser of the Available Redemption Funds and the aggregate Principal Amount Outstanding of the Class B Notes on such date.

If the Issuer does not for any reason determine the aggregate principal amount of Class B Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

Capitalised terms, not otherwise defined in this Class B Condition 5, have the respective meanings given to those terms in the Master Definitions Schedule.

(b) Calculation of Principal Payments, Principal Amount 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 Class B Note due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class B Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class B Note on the next Interest Payment Date) and (z) the fraction in respect of each Class B Note expressed as a decimal to the sixth point (the “Pool Factor”), of which the numerator is the Principal Amount Outstanding of a Class B Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class B 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 Class B Note on any date shall be the principal amount of that Class B Note upon issue less the aggregate amount of all Principal Payments in respect of that Class B Note that have become due and payable (whether or not paid) prior to such date.
- (ii) The Issuer will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class B Notes are listed on the London Stock Exchange) the London Stock Exchange and will immediately cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class B Condition 13 by not later than the first Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date. If no Principal Payment is due to be made on the Class B Notes on any Interest Payment Date a notice to this effect will be given to the Class B Noteholders.
- (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 or the Pool Factor in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) Redemption for Taxation or Other Reasons

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class B Notes 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 political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest (or equivalent revenue charges) in relation to any of the Portfolio Assets for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that on the Interest Payment Date on which such notice expires either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided further that Moody's has confirmed to the Trustee that the then current rating of the Class C Notes will not thereby be adversely affected and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 7(a)) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes, or the Trustee is otherwise directed by Extraordinary Resolution (as defined in the Trust Deed) of the Class B Noteholders, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class B Condition 13, redeem all, but not some only, of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date subject, in the case of a redemption pursuant to such an Extraordinary Resolution, to Class B Condition 7.

(d) Optional Redemption in Full

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class B Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes outstanding or the Issuer redeems in full all of the Class A Notes outstanding in accordance with the terms and conditions thereof and provided further that Moody's has confirmed to the Trustee that the then current rating of the Class C Notes will not thereby be adversely affected and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class B Condition 7(a)) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes or the Trustee is otherwise directed by Extraordinary Resolution of the Class B Noteholders, the Issuer may, on any Interest Payment Date falling in or after June 2001 (the "Coupon Call Date") or, if earlier, falling on or after the date on which all the Class A Notes are redeemed in full, redeem all (but not some only) of the Class B Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption, subject, in the case of a redemption pursuant to such an Extraordinary Resolution, to Class B Condition 7.

(e) Redemption on Maturity

If not otherwise redeemed, the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in June, 2013, subject to Class B Condition 7.

(f) Purchases

The Class B Notes may not be purchased by the Issuer.

(g) Cancellation

All Class B Notes redeemed in full will be cancelled forthwith, together with all unmatured and unused Coupons and Talons attached thereto or surrendered therewith, and may not be resold or reissued.

(h) Certification

For the purposes of any redemption made pursuant to Class B Condition 5(c) or Class B Condition 5(d), as the case may be, the Trustee may rely upon any certificate of two Directors of the Issuer that the Issuer will be in a position to discharge all its liabilities in respect of the Class B Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class B Notes and such certificate shall be conclusive and binding on the Issuer and the holders of the Class B Notes.

6. Payments

Subject to Class B Condition 7, Interest Payments and Principal Payments on Class B Notes will be made against presentation and surrender of, or, in the case of partial redemption, endorsement of, respectively,

Interest Coupons and Principal Coupons relating to Class B Notes (except where, after such surrender, the unpaid principal amount of a Class B Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Class B Note) in which case such Principal Payment will be made against presentation and surrender of such Class B Note). Payments of principal other than Principal Payments (except as provided in the preceding sentence) will be made against presentation and surrender of Class B Notes. Presentation must be made at the specified office of any Paying Agent provided that no payment of interest will be made by, or upon presentation of any Class B Note or Coupon to, any Paying Agent in the United States of America. Payments will be made by pounds sterling cheque drawn on a branch in the City of London of, or transfer to a pounds sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment.

The initial Principal Paying Agent is Morgan Guaranty Trust Company of New York at its office at 60 Victoria Embankment, London EC4Y 0JP.

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. 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 Class B Condition 13.

Upon the date on which the Principal Amount Outstanding of a Class B Note is due to be reduced to zero, unmatured and unused Coupons and Talons relating thereto (whether or not attached) shall become void and no payment or exchange shall be made in respect thereof. If the due date for redemption in full of a Class B Note is not an Interest Payment Date, the interest accrued in respect of the period from the preceding Interest Payment Date (or from the Closing Date as the case may be) shall be payable only against presentation or surrender of the relevant Class B Note.

If the due date for payment of any amount of principal or interest in respect of any Class B Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay.

In this Class B Condition 6 the expression "Business Day" means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class B Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class B Note for definitive Class B Notes, on which both Euroclear and Cedel Bank are open for business.

If interest is not paid in respect of a Class B Note on the date when due and payable (other than because the due date is not a Business Day) such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to the Class B Notes until such interest and interest thereon is available for payment and notice thereof has been duly given in accordance with Class B Condition 13.

7. Subordination

(a) Interest

Interest on the Class B Notes shall be payable in accordance with the provisions of Class B Conditions 4 and 6 subject to the terms of this Class B Condition.

In the event that the aggregate funds, if any, (computed in accordance with the provisions of the Deed of Charge), available to the Issuer on any Interest Payment Date for application in or towards the payment of interest which is, subject to this Class B Condition, due on the Class B Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class B Condition as the "Residual Amount") are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Class B Condition, due on the Class B Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Class B Note, a *pro rata* share of the Residual Amount on such Interest Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class B Notes on any Interest Payment Date in accordance with this Class B Condition falls short of the aggregate amount of interest payable on the Class B Notes on that date pursuant to Class B Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Class B Condition 4.

(b) Principal

The Class B Noteholders will not be entitled to any repayment of principal in respect of the Class B Notes prior to the occurrence of the Determination Event. If, on any Interest Payment Date on which Class B Notes are to be redeemed in full pursuant to Class B Conditions 5(e) or pursuant to an Extraordinary Resolution as contemplated by Class B Condition 5(c) or 5(d), there is any debit balance on the Principal Deficiency Ledger (as defined in the Master Definitions Schedule), then notwithstanding any other provisions of these Conditions the principal amount payable on such redemption of each Class B Note shall be its Principal Amount Outstanding less the amount if any (divided by the number of Class B Notes outstanding on such redemption) by which the then Principal Deficiency exceeds the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class C Notes) of the Class C Notes and the balance of the First Loss Fund on such redemption. “Principal Deficiency” means the debit balance on the Principal Deficiency Ledger. None of the foregoing shall prejudice the obligation of the Issuer to pay Class B Available Redemption Funds in redemption in whole or in part of the Class B Notes in accordance with Class B Condition 5(a).

(c) General

In the event that the security for the Class B Notes and Coupons is enforced and the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to or *pari passu* with the Class B Notes and Coupons under the Deed of Charge, to pay in full all principal and interest (including interest on interest) and other amounts whatsoever due in respect of the Class B Notes, then the Class B Noteholders and Couponholders shall have no further claim against the Issuer in respect of any such unpaid amounts, which claim shall be extinguished.

8. Taxation

All payments in respect of the Class B 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 to make any payment in respect of the Class B 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 Class B Notes or Coupons in respect of such withholding or deduction.

9. Prescription

A Principal Coupon shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon. A Class B Note shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon the effect of which would be to reduce the Principal Amount Outstanding of such Class B Note to zero. An Interest Coupon shall become void unless surrendered for payment within five years of the Relevant Payment Date in respect thereof. After the date on which a Class B Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof.

As used in this Class B Condition 9, the “Relevant Payment 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 Class B Condition 13.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class B Notes outstanding or if so directed by an Extraordinary Resolution of the Class B Noteholders (subject, in each case, to being indemnified to its satisfaction and to restrictions contained in the Trust Deed to protect the interests of the Class A Noteholders) 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 while any Class A Notes are outstanding or, if there are no Class A Notes outstanding, to the interests of the Class B Noteholders and, in the case of the event mentioned in (i) below in relation to any payment of interest on the Class B Notes, only if the Trustee shall have certified in writing that 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 Class B Notes are, and each Class B Note shall if notice is, or has already been, given that the Class A Notes are due and payable pursuant to the terms and conditions of the Class A Notes, or if there are no Class A Notes then outstanding, accordingly forthwith become, immediately due and repayable subject to Class B Condition 7 at its Principal Amount Outstanding, together with accrued interest (including any Deferred Interest and Additional Interest) 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 Class B 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 Class B Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class B 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 Class B 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 Class B Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Fee Letter and the Loan Stock) or otherwise becomes insolvent; or
- (vi) notice is given to the Issuer pursuant to the Trust Deed that the Class A Notes are immediately due and repayable.

11. Enforcement

At any time after the Class B Notes become due and repayable at their Principal Amount Outstanding, subject to Class B 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 Class B Notes and Coupons and to enforce repayment of the Class B Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class B Noteholders or so requested in writing by Class B Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing but 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 Class B 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 the Couponholders and to 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 the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class B Noteholder or Couponholder 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.

12. Replacement of Class B Notes, Coupons and Talons

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

13. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class B Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the *Financial Times*) or, if this is not practicable, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any 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.

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently page PGCJ) or such other medium for the electronic display of data as may be approved by the Trustee and notified to the Class B Noteholders (the “Relevant Screen”). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class B Condition shall be given in accordance with the preceding paragraph.

The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Class B Noteholders in accordance with this Class B Condition 13.

14. Meetings of Class B Noteholders; Modifications; Consents; Waiver

The Trust Deed contains provisions for convening meetings of Class B Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class B Noteholders of a modification of the Class B Notes (including these Class B Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class B Notes, or a modification which would have the effect of postponing any day for payment of interest on the Class B Notes, reducing or cancelling the amount of principal payable on the Class B Notes or the rate of interest applicable to the Class B Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class B Notes or the Coupons or any alteration of the date or priority of redemption of the Class B Notes (any such modification being referred to below as a “Basic Terms Modification”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class B Noteholders as described below. The quorum at any meeting of Class B Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class B Noteholders whatever the aggregate Principal Amount Outstanding of the Class B Notes 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 shall be two or more persons holding or representing 75%, or at any adjourned such meeting, 25%, or more of the aggregate Principal Amount Outstanding of the Class B Notes then outstanding. The Trust Deed contains provisions limiting the powers of the Class B Noteholders and the Class C Noteholders, *inter alia*, 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. 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 their interests. An Extraordinary Resolution passed at any meeting of Class B Noteholders shall not be effective for any purpose unless either (i) the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders or (ii) it is sanctioned by an Extraordinary Resolution of the Class A Noteholders but, subject thereto, it shall be binding on all Class B Noteholders and Class C Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Class A Noteholders shall be binding on all Class B Noteholders and Couponholders, irrespective of its effect upon such holders or their interests.

The Trustee may agree, without the consent of the Class B Noteholders or Couponholders, (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Class B Notes (including these Class B Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class B Noteholders or (ii) to any modification of the Class B Notes (including these Class B 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 Class B Noteholders or the Couponholders, 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 Class B Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class B Noteholders in accordance with Class B Condition 13 as soon as practicable thereafter.

15. 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 Class B Notes unless 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 the Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

16. 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 Class B Notes and the Coupons, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator 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, the Principal Paying Agent, the other Paying Agents (if any) and all Class B Noteholders and Couponholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Class B Noteholders or Couponholders shall attach to the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers, duties and discretions.

17. Governing Law

The Class B Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof as are particular to Scots law, which are governed by and shall be construed in accordance with the laws of Scotland and such provisions thereof as are particular to Northern Irish law, which are governed by and shall be construed in accordance with the laws of Northern Ireland.

Description of the Class C Notes, the Global Class C Notes and the Security

The following, subject to amendments, are the terms and conditions of the Class C Notes (the “Class C Conditions” and any reference to a “Class C Condition” shall be construed accordingly) substantially in the form as they will appear on the reverse of the Class C Notes in definitive form. While the Class C Notes remain in global form, the same terms and conditions govern them, except to the extent that they are appropriate only to the Class C Notes in definitive form.

The issue of the £20,000,000 Class C Asset Backed Floating Rate Notes due 2013 (the “Class C Notes”) was authorised by a resolution of the Board of Directors of Finance for People (No. 3) PLC (the “Issuer”) passed on 12th June 1998. The Class C Notes are constituted by a trust deed (the “Trust Deed”) dated 16th June 1998 between the Issuer and Morgan Guaranty Trust Company of New York (the “Trustee”, which expression shall include its successors as trustee under the Trust Deed) as trustee for the holders for the time being of the Class C Notes (the “Class C Noteholders”), the holders for the time being of the Class A Notes (as defined below) (the “Class A Noteholders”) and the holders for the time being of the Class B Notes (as defined below) (the “Class B Noteholders”). The net proceeds from the issue of the Notes will be applied, amongst other things, in repayment to Morgan Guaranty Trust Company of New York of borrowings made by the Issuer to assist in the acquisition of certain Portfolio Loans (as defined in the master definitions schedule dated 12th June 1998 between and signed by, *inter alios*, the Trustee and the Issuer (the “Master Definitions Schedule”)) and in the purchase, either on or during the period of four years after the Closing Date (as defined below), of additional Portfolio Assets (as defined in the Master Definitions Schedule).

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of charge and assignment (the “Deed of Charge”) dated the Closing Date (as defined in Class C Condition 4(a)) between the Issuer, the Trustee, Universal Credit Limited (“Universal”), Paragon Finance PLC (“PFPLC”), Paragon Personal Finance Limited (“PPF”), Paragon Car Finance Limited (“PCF”), Paragon Dealer Finance Limited (“PDF”), PFPLC in its capacity as administrator, Barclays Bank PLC as substitute administrator (“Barclays”) and Morgan Guaranty Trust Company of New York in its capacity as swap provider (the “Swap Provider”). The Trust Deed will include the form of the temporary global note (the “Temporary Global Class C Note”) and the permanent global note (the “Permanent Global Class C Note”) for the Class C Notes and the definitive Class C Notes and coupons and talons relating thereto. Certain words and expressions used above and below have the meanings defined in the Trust Deed or the Master Definitions Schedule. In accordance with an agency agreement (the “Agency Agreement”) dated the Closing Date between the Issuer, the Trustee and, Morgan Guaranty Trust Company of New York as principal paying agent (the “Principal Paying Agent”, which expression shall include its successors as principal paying agent under the Agency Agreement) and as reference agent (the “Reference Agent”, which expression shall include its successors as reference agent under the Agency Agreement) (and the Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent, the “Paying Agents”, which expression shall include the successors of each paying agent appointed as such under the Agency Agreement and any additional paying agent appointed)), payments in respect of the Class C Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified. The Class C Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge and will be deemed to have notice of all the provisions of the Administration Agreement, the Substitute Administrator Agreement, the Standard Terms and Conditions, the Bridge Standard Terms and Conditions, the Master Definitions Schedule, the Warranty Deed, the Repurchase Deed (each as defined in the Master Definitions Schedule) and the Agency Agreement. Copies of such documents will be available for inspection at the principal London office of the Trustee being at the date hereof 60 Victoria Embankment, London EC4Y 0JP, and at the specified offices for the time being of the Paying Agents.

Class C Notes and Coupons (as defined below) will bear the following legend: “Any United States Person (as defined in the Internal Revenue Code) who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code”. The sections referred to in the legend provide that a United States Person (as defined in the Internal Revenue Code) will not, with certain exceptions, be permitted to deduct any loss, and will not be eligible for favourable capital gains treatment with respect to any gain, realised on a sale, exchange or redemption of a Class C Note or Coupon.

Global Class C Notes

The Class C Notes (which shall be in the denomination of £10,000 each) will be initially represented by a Temporary Global Class C Note in bearer form, without coupons or talons, in the principal amount of £20,000,000. The Temporary Global Class C Note will be deposited on behalf of the subscribers of the Class C Notes with Morgan Guaranty Trust Company of New York, London office, as common depositary (the “Common Depositary”) on the Closing Date. Upon deposit of the Temporary Global Class C Note, Euroclear or Cedel Bank will credit each subscriber of Class C Notes with the principal amount of Class C Notes for which it has subscribed and paid. Interests in the Temporary Global Class C Notes will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class C Noteholders has been received) for interests in the Permanent Global Class C Note, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class C Note (the expression “Global Class C Notes” and “Global Class C Note” meaning, respectively, (i) both of the Temporary Global Class C Note and the Permanent Global Class C Note or (ii) either of the Temporary Global Class C Note or the Permanent Global Class C Note, as the context may require). On the exchange of the Temporary Global Class C Note for the Permanent Global Class C Note, the Permanent Global Class C Note will also be deposited with the Common Depositary. The Global Class C Notes will be transferable by delivery. The Permanent Global Class C Note will be exchangeable for definitive Class C Notes in bearer form in certain circumstances described below. Interest and principal on each Global Class C Note will be payable against presentation of that Global Class C Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Class C Noteholders has been received by Euroclear or Cedel Bank. Each of the persons appearing from time to time in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear, or of Cedel Bank, as the holder of a Class C Note will be entitled to receive any payment so made in respect of that Class C Note in accordance with the respective rules and procedures of Euroclear or, as the case may be, Cedel Bank. Such persons shall have no claim directly against the Issuer in respect of payments due on the Class C Notes, which must be made by the holder of the relevant Global Class C Note, for so long as such Global Class C Note is outstanding. Each such person must give a certificate as to non-U.S. beneficial ownership as of the earlier of (i) the date on which the Issuer is obliged to exchange the Temporary Global Class C Note for the Permanent Global Class C Note, which date shall be no earlier than the Exchange Date (as defined in the Temporary Global Class C Note) and (ii) the first Interest Payment Date, in order to obtain any payment due on the Class C Notes.

For so long as the Class C Notes are represented by a Global Class C Note, such Class C Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or, as the case may be, of Cedel Bank.

For so long as the Class C Notes are represented by a Global Class C Note, each person who is for the time being shown in the records of Morgan Guaranty Trust Company of New York, Brussels office, as operator of Euroclear or of Cedel Bank, as the holder of a particular principal amount of Class C Notes will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class C Notes and the expression “Class C Noteholder” shall be construed accordingly, but without prejudice to the entitlement of the bearer of the Global Class C Note to be paid principal and interest thereon in accordance with its terms.

Principal and interest on a Global Class C Note will be payable against presentation of such Global Class C Note at the specified office of the Principal Paying Agent or, at the option of the holder, at any specified office of any Paying Agent provided that no payment of interest on a Global Class C Note may be made by, or upon presentation of such Global Class C Note to, any Paying Agent in the United States of America. A record of each payment made on a Global Class C Note, distinguishing between any payment of principal and payment of interest, will be endorsed on such Global Class C Note by the Paying Agent to which such Global Class C Note was presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made.

If (i) the principal amount of the Class C Notes becomes immediately due and payable by reason of default or (ii) either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after 16th June 1998, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Class C Notes which would not be required were the Class C Notes in definitive form, then the Issuer will (at the Issuer’s expense) issue definitive Class C Notes represented by the Permanent Global Class C Note in exchange for the whole outstanding interest in the Permanent Global

Class C Note within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of 40 days after the Closing Date.

Security

The security for the Class C Notes was created pursuant to, and on the terms set out in, the Deed of Charge, which creates in favour of the Trustee on trust for (*inter alios*) the Class C Noteholders:

- (1) a conveyance, transfer and assignment by way of first fixed security of:
 - (a) subject, where applicable, to the subsisting rights of the Obligors (as defined in the Master Definitions Schedule), all present and future right, title, interest and benefit of the Issuer in and under the Portfolio Assets (other than the Portfolio Motor Vehicles (both as defined in the Master Definitions Schedule)) to which it is or becomes beneficially entitled, including for the avoidance of doubt:
 - (i) all sums of principal (or sums equivalent to principal), interest (or revenue charges equivalent to interest) or any other sum payable under and the right to demand, sue for, recover, receive and give receipts for all principal (or equivalent) moneys payable or to become payable under such Portfolio Assets or the unpaid part thereof and the interest (or revenue charges equivalent to interest) due or to become due thereon;
 - (ii) the benefit of and the right to sue on all covenants with, or vested in, the Issuer in respect of each such Portfolio Asset and the right to exercise all powers of the Issuer in relation to each such Portfolio Asset;
 - (iii) all causes and rights of action of the Issuer against any person in connection with any report, opinion, certificate, consent or other statement of fact or opinion given in connection with such Portfolio Asset or affecting any decision to enter into the relevant Financing Agreement (as defined in the Master Definitions Schedule); and
 - (iv) the benefit of any guarantee or surety vested in the Issuer relating to each such Portfolio Asset; and
 - (b) subject to any subsisting rights of redemption, all right, title, interest and benefit of the Issuer (whether present or future) in any insurances of which the Issuer may have the benefit or may acquire in the future;
- (2) a charge, conveyance, transfer and assignment by way of first fixed security of:
 - (a) all the rights, title, interest and benefit, present and future, of the Issuer in to and under the Scottish Trust Property and the Scottish Trusts (each as defined in the Master Definitions Schedule); and
 - (b) all the rights, title, interest and benefit, present and future, of the Issuer in and to all moneys, rights and property whatsoever which, from time to time and at any time, may be distributed under, or derived from, or accrue on, the Scottish Trust Property or in respect of the Scottish Trusts in any way whatsoever including all rights to receive payment of any amounts which may become payable to the Issuer under the Scottish Trusts and all payments received by the Issuer thereunder and also including, without limitation, all rights to serve notices and/or make demands thereunder, all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof and all rights of the Issuer arising under or in respect of the Scottish Trust Property and the Scottish Trusts;
- (3) a conveyance, transfer and assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in each Asset Sale Contract, the Repurchase Deed, the Warranty Deed, the Administration Agreement, the Agency Agreement, the Subordinated Loan Agreement, the VAT Declaration of Trust, the Services Letter, the Fee Letter, the Swap Agreement, any other hedging arrangements entered into by the Issuer, the Collection Account Declarations of Trust, the Substitute Administrator Agreement (each as defined in the Master Definitions Schedule) and all other contracts, agreements, deeds and documents, present and future, to which the Issuer is or may become a party, including all rights to receive payment of any amounts which may become payable to the Issuer thereunder and all payments received by the Issuer thereunder including, without limitation, all rights to serve notices and/or make demands thereunder and/or to take such steps as are required to cause payments to become due and payable thereunder and all rights of action in respect of any breach thereof and all rights to receive damages or obtain other relief in respect thereof;

- (4) an assignment by way of first fixed security of all the right, title, interest and benefit, present and future, of the Issuer in and to the Transaction Account (as defined in the Master Definitions Schedule) and all sums of money which from time to time may be standing to the credit of the Transaction Account and any other bank or other account in which the Issuer may at any time acquire any right, title, interest or benefit together with all interest accruing from time to time thereon and the debt represented by each such account and the benefit of all covenants relating thereto and all powers and remedies for enforcing the same;
- (5) a first fixed charge over all the right, title, interest and benefit present and future of the Issuer in the Authorised Investments (as defined in the Master Definitions Schedule) and each of them made by the Issuer in accordance with the Administration Agreement and all other investments in which the Issuer may at any time acquire any right, title, interest or benefit, in each case together with all moneys, income and proceeds to become payable thereunder or thereon and the benefits of all covenants relating thereto and all powers and remedies for enforcing the same; and
- (6) a first floating charge over the whole of the undertaking and all the property and assets of the Issuer whatsoever and wheresoever situate, present and future, other than any property or assets from time to time or for the time being effectively charged by way of fixed charge, or otherwise assigned as fixed security, by the Deed of Charge (but excepting from the foregoing exclusion all property, assets, rights and interests (i) charged or assigned as referred to in paragraph (2) above and (ii) otherwise situate in or governed by Scots law, which are charged by the floating charge). For the avoidance of doubt, the Issuer's interest in each Portfolio Motor Vehicle shall be subject to the floating charge.

The security described above over the assets of the Issuer, which constitutes the security for the Class C Notes, is referred to as the "Security". The Security also stands as security for any amounts payable by the Issuer to the Class A Noteholders and the Class B Noteholders and to any Receiver, the Trustee, the Administrator, any Subordinated Lender, the Substitute Administrator, the Stockholder, the Swap Provider, PPF, Universal, PCF, PDF and PFPLC under the Notes, any Coupons, the Trust Deed, the Deed of Charge, the Administration Agreement, the Substitute Administrator Agreement, the Loan Stock Instrument, the Loan Stock, any Asset Sale Contract, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the Swap Agreement and any agreement with PFPLC referred to in Clause 6.2.2(p) of the Deed of Charge (each as defined in the Master Definitions Schedule). The Deed of Charge contains provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto. After service of an Enforcement Notice, amounts payable to any Receiver and the Trustee, amounts payable to the Administrator (including fees, out-of-pocket expenses and commissions), amounts payable to the Substitute Administrator (including any commitment fee payable under the Substitute Administrator Agreement), amounts payable to the Swap Provider, amounts of all commissions (if any) paid by insurance companies to each of PFPLC, PPF, PCF and Universal pursuant to Clause 11.2 of the Administration Agreement and amounts due and payable to Class A Noteholders and the Class B Noteholders will rank in priority to payments on the Class C Notes.

Terms and Conditions

1. Form, Denomination and Title

The Class C Notes are serially numbered and are issued in bearer form in the denomination of £10,000 each with, at the date of issue, interest coupons ("Interest Coupons") and principal coupons ("Principal Coupons") (severally or together "Coupons") and talons ("Talons") attached. Title to the Class C Notes, the Coupons and the Talons shall pass by delivery.

The holder of each Coupon (each a "Couponholder") and each Talon (whether or not the Coupon or the Talon is attached to a Class C Note) in his capacity as such shall be subject to and bound by all the provisions contained in the relevant Class C Note.

To the extent permitted by applicable law, the Issuer, the Trustee and the Paying Agents may treat the holder of any Class C Note, Coupon or Talon as the absolute owner thereof (whether or not such Class C Note, Coupon or Talon shall be overdue and notwithstanding any notice to the contrary or writing thereon or any notice of previous loss or theft thereof or of trust or other interest therein) for the purpose of making payment and for all other purposes.

2. Status and Relationship between the Class A Notes, the Class B Notes and the Class C Notes

The Class C Notes and the Coupons are secured by fixed and floating security over all of the assets (as more particularly described the Deed of Charge) of the Issuer and rank *pari passu* and rateably without any preference or priority among themselves.

Payments of principal and interest on the Class C Notes are subordinated to, *inter alia*, payments of principal and interest on the £210,000,000 Class A Asset Backed Floating Rate Notes due 2013 of the Issuer (the "Class A Notes") and payments of principal and interest on the £70,000,000 Class B Asset Backed Floating Rate Notes due 2013 of the Issuer (the "Class B Notes") in accordance with the provisions of Class C Condition 7, the Trust Deed and the Deed of Charge.

The Class C Notes are secured by the same security that secures the Class A Notes and the Class B Notes, but the Class A Notes, the Class B Notes and certain other obligations of the Issuer will rank in point of security in priority to the Class C Notes in the event of the security being enforced.

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 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, the Class C Noteholders and other persons entitled to the benefit of the Security (as defined in the Master Definitions Schedule) and subject thereto to have regard only to the interests of the Class B Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class B Noteholders, and the interests of the Class C Noteholders and the other persons entitled to the benefit of the Security and subject thereto 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 other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

(A) So long as any of the Class A Notes, the Class B Notes or the Class C Notes remains outstanding (as defined in the Master Definitions Schedule), the Issuer shall not, save to the extent permitted by the Relevant Documents (as defined below) or with the prior written consent of the Trustee:

- (1) carry on any business other than as described in the Offering Circular dated 12th June 1998 relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (and then only in relation to the Portfolio Assets and the related activities described in any Loan Agreement, Car Finance Agreement or Vehicle Agreement (each as defined in the Master Definitions Schedule)) 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;
 - (b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Class C Notes, the Coupons and Talons, the Class A Notes and the Class B Notes and any principal coupons, interest coupons and talons appertaining respectively thereto, the subscription agreements relating to each of the Class A Notes, the Class B Notes and the Class C Notes and the other agreements relating to the issue of the Class A Notes, the Class B Notes and the Class C Notes (or any of them), any Asset Sale Contract, the Agency Agreement, the Trust Deed, the Loan Stock and the Loan Stock Instrument, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Subordinated Loan Agreement, the Portfolio Assets, the Deed of Charge, the Collection Account Declarations of Trust, the Swap Agreement, the VAT Declaration of Trust, the Services Letter, any insurances in which the Issuer at any time has an interest, the Scottish Trusts and all other agreements and documents comprised in the security for the Class A Notes, the Class B Notes and the Class C Notes (all as defined in the Master Definitions Schedule) (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, *inter alia*, 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 the Class C Notes, the Class A Notes or the Class B Notes in accordance with their respective terms and conditions; and
 - (e) perform any act incidental to or necessary in connection with (a), (b), (c) or (d) above;
- (2) 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, in particular, indebtedness under the Deed of Charge, the Fee Letter, the Services Letter, the Swap Agreement, the VAT Declaration of Trust and indebtedness incurred on the issue of Loan Stock and excluding any borrowing in accordance with the provisions of the Subordinated Loan Agreement;
 - (3) 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;
 - (4) 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 consumer loans, motor vehicle finance agreements and motor vehicle dealer stocking agreements and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes, the Class B Notes and the Class C Notes and the performance and observance of every covenant in the Trust Deed and in these Class C Conditions on the part of the Issuer to be performed or observed;
 - (b) immediately after giving effect to such transaction, no Event of Default (as defined in Class C Condition 10) shall have occurred and be continuing;
 - (c) the Trustee is satisfied that the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;
 - (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 Class A Notes, the Class B Notes and the Class C Notes are not adversely affected;
 - (5) 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;
 - (6) in a manner which adversely affects the then current ratings of the Class A Notes, the Class B Notes or the Class C Notes, have any employees or premises or have any subsidiary; or
 - (7) have an interest in any bank account, other than the Transaction Account, the VAT Account and the Collection Accounts (each as defined in the Master Definitions Schedule), unless such account or interest is charged to the Trustee on terms acceptable to it.

(B) So long as any of the Class C Notes remains outstanding the Issuer will procure that there will at all times be an administrator of the Portfolio Assets (the “Administrator”). Any appointment of an Administrator is subject to the prior written approval of the Trustee and must be of a person with experience of the administration of consumer loans, motor vehicle finance contracts and motor vehicle dealer stocking arrangements in England, Wales, Scotland and Northern Ireland. The Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of the Administrator may be terminated by the Trustee if, *inter alia*, the 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. Upon the termination of the appointment of the Administrator, and in the absence of appointment of any other substitute administrator, Barclays will act as administrator pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the Subordinated Loan Agreement, the Repurchase Deed, the Warranty Deed or any Asset Sale Contract.

4. Interest

(a) Interest Payment Dates

Each Class C Note bears interest on its Principal Amount Outstanding (as defined in Class C Condition 5(b)) from and including 16th June 1998 or such later date as may be agreed between the Issuer and J.P. Morgan Securities Ltd. (the "Closing Date"). Provided certification of non-U.S. beneficial ownership has been received with respect to the Class C Notes, interest in respect of such Class C Notes is (subject to Class C Condition 7) payable quarterly in arrear on the last Business Day falling in September, December, March and June in each year (each an "Interest Payment Date"). To the extent that the funds available to the Issuer to pay interest on the Class C Notes on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall ("Deferred Interest") which will be borne by each Class C Note in a proportion equal to the proportion that the Principal Amount Outstanding of that Class C Note bears to the aggregate Principal Amount Outstanding of the Class C Notes (in each case as determined on the Interest Payment Date on which such Deferred Interest arises), will not then fall due but will instead, subject to Class C Condition 7, be deferred until the first Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available (after allowing for the Issuer's liabilities of a higher priority) to the Issuer to pay such Deferred Interest to the extent of such available funds. Such Deferred Interest will accrue interest ("Additional Interest") at the Rate of Interest (as defined below) applicable from time to time to the Class C Notes and, subject to Class C Condition 7, payment of any Additional Interest will also be deferred until the Interest Payment Date immediately succeeding the earliest Principal Determination Date thereafter on which funds are available to the Issuer to pay such Additional Interest to the extent of such available funds. To the extent that any such Deferred Interest or Additional Interest is not subsequently paid, the Issuer's obligation to the Class C Noteholders in respect of any such Deferred Interest and/or Additional Interest will be subject to Class C Condition 7. As used in these Class C Conditions except Class C Condition 6, "Business Day" means a day (other than a Saturday or Sunday) on which banks are open for sterling business in London.

The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next Interest Payment Date is called an "Interest Period". Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 365 (or 366 in the case of an Interest Period or other period ending in a leap year) day year. The first interest payment will be made on the last Business Day falling in September 1998 in respect of the period from (and including) the Closing Date to (but excluding) the last Business Day falling in September 1998.

Interest shall cease to accrue on any part of the Principal Amount Outstanding of a Class C Note as from (and including) the due date for redemption of such part unless, upon due presentation of the relevant Principal Coupon, payment of principal due is improperly withheld or refused, whereupon interest shall continue to accrue on such principal at the Rate of Interest from time to time applicable to the Class C Notes until the moneys in respect thereof have been received by the Trustee or the Principal Paying Agent and notice to that effect is given in accordance with Class C Condition 13.

(b) Coupons and Talons

On issue, Coupons and Talons applicable to Class C Notes in definitive form are attached to the Class C Notes. A Talon may be exchanged for further Coupons and, if applicable, a further Talon on or after the Interest Payment Date for the final Coupon on the relevant Coupon sheet by surrendering such Talon at the specified office of any Paying Agent. Interest payments on the Class C Notes will be made against presentation and surrender of the appropriate Coupons in accordance with Class C Condition 6, except as provided therein.

(c) Rate of Interest

The rate of interest applicable from time to time to the Class C Notes (the "Rate of Interest") will be determined by Morgan Guaranty Trust Company of New York 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) On the Closing Date (an "Interest Determination Date") in respect of the first Interest Period, the Reference Agent will determine the interest rate on the linear interpolation between sterling deposits

for a period of three months and sterling deposits for a period of four months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Closing Date being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. On each Interest Payment Date thereafter (each also an “Interest Determination Date”) in respect of each subsequent Interest Period, the Reference Agent will determine the interest rate on sterling deposits for a period of three months quoted on the Telerate Screen Page 3750 (or any other page on which Telerate is for the time being posting offered rates quoted by prime banks in the London interbank sterling market) at or about 11.00 a.m. (London time) on the Interest Determination Date in question being, if more than one rate is quoted and the rates quoted are not the same, the arithmetic mean (rounded to five decimal places) of the rates so quoted. The Rate of Interest applicable for the Interest Period beginning on the relevant Interest Determination Date shall be the aggregate of such interest rate (or such arithmetic mean (rounded, if necessary) as aforesaid) as determined by the Reference Agent and the margin of 1.30% per annum up to and including the Interest Period ending in June 2004 and thereafter 3.00% per annum.

- (ii) If, on any Interest Determination Date, no such rates are being quoted on the Telerate Screen Page 3750 (or such other appropriate page) at such time and on such date, the Reference Agent will request the principal London office of each of Barclays, Lloyds Bank PLC, Midland Bank plc, Morgan Guaranty Trust Company of New York and National Westminster Bank Plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (the “Reference Banks”) to provide the Reference Agent with its offered quotation to leading banks for three-month sterling deposits or, in the case of the first Interest Period, for three-month and four-month sterling deposits, of £10,000,000 in London for same day value as at 11.00 a.m. (London time) on the Interest Determination Date in question. The Rate of Interest for the relevant Interest Period shall be determined, as in sub-paragraph (i), on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three or four only of the Reference Banks provide such offered quotations to the Reference Agent, the Rate of Interest for the relevant Interest Period shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, one only or none of the Reference Banks provides the Reference Agent with such an offered quotation, the Reference Agent shall forthwith consult with the Trustee and the Issuer for the purpose of agreeing two banks (or, where one only of the Reference Banks provides such a quotation, one additional bank) to provide such a quotation or quotations to the Reference Agent (which bank or banks is or are in the opinion of the Trustee suitable for such purpose) and the Rate of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does not or do not provide such a quotation or quotations, then the Rate of Interest for the relevant Interest Period shall be the Rate of Interest in effect for the last preceding Interest Period to which sub-paragraph (i) or the foregoing provisions of this sub-paragraph (ii) shall have applied.
- (iii) There shall be no maximum or minimum Rate of Interest.

(d) Determination of Rate of Interest, Calculation of Interest Payments, Deferred Interest and Additional Interest

The Reference Agent will, as soon as practicable after 11.00 a.m. (London time) on each Interest Determination Date, determine the Rate of Interest applicable to, and calculate the amount of interest payable, subject to Class C Condition 7, on, the Class C Notes (an “Interest Payment”) for the relevant Interest Period. The Interest Payment for the Class C Notes shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of the Class C Notes taking into account any payment of principal due on such Interest Determination Date, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). On (or as soon as practicable after) each Principal Determination Date (as defined in Class C Condition 5(a)), the Issuer shall determine (or cause the Administrator to determine) the actual amount of interest which will be paid on each Class C Note on the Interest Payment Date next following such Principal Determination Date and the amount of Deferred Interest (if any) on each Class C Note in respect of the Interest Period ending on (but excluding) such Interest Payment Date and the amount of Additional Interest (if any) which will be paid on such Interest Payment

Date. The amount of Additional Interest shall be calculated by applying the relevant Rate of Interest to the Deferred Interest relating to the Class C Notes and any Additional Interest from prior Interest Periods which remains unpaid, multiplying by the actual number of days in the relevant Interest Period and dividing by 365 or, in the case of an Interest Period ending in a leap year, 366 and rounding the resultant figure to the nearest penny (half a penny being rounded upwards). In the event that on any Principal Determination Date funds then available to the Issuer are insufficient to pay in full the Interest Payment, any outstanding Deferred Interest and any Additional Interest due on the Interest Payment Date next following such Principal Determination Date such funds will be applied first to the payment of any Interest Payment, secondly to the payment of any outstanding Deferred Interest and thereafter to the payment of any Additional Interest.

(e) Publication of Rates of Interest, Interest Payments, Deferred Interest and Additional Interest

The Reference Agent will cause the Rate of Interest and the Interest Payment applicable to the Class C Notes for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Trustee, the Paying Agents, the Administrator and, for so long as the Class C Notes are listed on the Official List of the London Stock Exchange Limited (the “London Stock Exchange”), the London Stock Exchange, and will cause the same to be published in accordance with Class C Condition 13 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) and the Additional 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 Notes are listed on the London Stock Exchange) the London Stock Exchange, and will cause the same to be published in accordance with Class C Condition 13 no later than the fourth Business Day prior to the relevant Interest Payment Date. The Interest Payment, Deferred Interest, Additional 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 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 or the Additional Interest (if any) in accordance with paragraph (d) above, the Trustee shall determine the Rate of Interest for the Class C 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 or the Additional Interest (if any) for the Class C 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 C Notes remains outstanding, at all times there will be at least 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 the Class C 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 prior written 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 approved by the Trustee has been appointed.

5. Redemption and Purchase

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

The Class C Notes shall be subject to mandatory redemption in part on any Interest Payment Date if on the Principal Determination Date (as defined below) relating thereto there are any Class C Available Redemption Funds (as defined below). The principal amount so redeemable in respect of each Class C Note prior to the service of an Enforcement Notice (each a “Principal Payment”) on any Interest Payment Date shall be the amount of the Class C Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date divided by the number of Class C Notes then outstanding (as defined in the Master Definitions Schedule) (rounded down to the nearest pound sterling); provided always that no Principal Payment may exceed the Principal Amount Outstanding of a Class C Note.

The Principal Determination Date relating to an Interest Payment Date means the ninth day or, if earlier, the fifth Business Day prior to such Interest Payment Date.

“Available Redemption Funds” on any Principal Determination Date (the “Relevant Date”) means the aggregate of:

- (A) the amount (if any) left when the amount (if any) of Available Purchase Funds (as defined below) at the Relevant Date, which the Issuer has notified to the Administrator, pursuant to Clause 6.1 of the Administration Agreement, that it then intends to apply in purchasing Loans and/or Car Finance Contracts and/or Dealer Stocking Vehicle Contracts and any relevant Motor Vehicles at any time during the period from (and including) the Relevant Date to (and including) the fourth anniversary of the Closing Date (the “Allocated Purchase Funds”) is subtracted from Available Purchase Funds at that Principal Determination Date; and
- (B) any Available Redemption Funds on the preceding Principal Determination Date not applied in redeeming the Notes of any class during the period from (and including) the immediately preceding Principal Determination Date to (but excluding) the Relevant Date; and
- (C) any part of the amount (if any) deducted pursuant to (D) below in determining Available Redemption Funds on the preceding Principal Determination Date which was not applied in purchasing and cancelling Class A Notes during the preceding Collection Period; less
- (D) the amount notified by the Issuer to the Administrator as the amount which the Issuer then intends to apply, during the Collection Period commencing on that Principal Determination Date, in purchasing Class A Notes during that Collection Period pursuant to the Class A Conditions,

provided that in respect of the first Principal Determination Date, the “preceding Principal Determination Date” shall be 20th May 1998.

“Available Purchase Funds” means on any Principal Determination Date (the “Relevant Date”) the aggregate (avoiding double counting) of:

- (i) the aggregate amount (the “Portfolio Principal Received”) of all principal (or, in relation to Portfolio Car Finance Products, principal equivalent) credits made by the Administrator to the Debtor Ledger pursuant to Clause 7.11 of the Administration Agreement during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date in respect of any loan or car finance product that was a Portfolio Asset at any time during such period; and
- (ii) any Allocated Purchase Funds on the preceding Principal Determination Date; and
- (iii) any part of the amount deducted, pursuant to paragraph (a) below, in determining Available Purchase Funds on the preceding Principal Determination Date which was not applied in paying interest on the Class A Notes (or, in the case of the first Principal Determination Date, repaying amounts outstanding under the Facility Agreement) or in payment of any amount (each a “Swap Termination Amount”) payable pursuant to the Swap Agreement following any termination thereof in whole or in part, if and to the extent that such amount would not have been payable in the absence of that termination (including any interest payable on such amount) on the preceding Interest Payment Date; and
- (iv) any amount credited by the Administrator to the Principal Deficiency Ledger on the Interest Payment Date preceding the Relevant Date in accordance with paragraph (j) of Clause 6.2.2 of the Deed of Charge; and
- (v) any amount credited by the Administrator to the Spread Requirement Ledger on the Interest Payment Date preceding the Relevant Date in accordance with paragraph (k) of Clause 6.2.2 of the Deed of Charge; and
- (vi) the aggregate of all amounts advanced to the Issuer during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 2(B) of the Subordinated Loan Agreement; and
- (vii) the aggregate (as determined pursuant to the last sentence of Clause 7.1 of the Administration Agreement) of all payments, made into the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date, which are not income payments and which do not fall within (i) to (vi) (inclusive) above (including without limitation such portion of each amount (the “Repurchase Price”) paid to the Issuer by PFPLC in respect of the repurchase of Portfolio Assets pursuant to and calculated in accordance with the Repurchase Deed during that period which corresponds to the principal (or its equivalent)

amount of a Portfolio Asset and (on the first Principal Determination Date) the net proceeds of the issue of the Notes, to the extent not applied in repayment of amounts owing under the Facility Agreement or in purchasing Loans or Car Finance Contracts on the Closing Date),

less the aggregate (avoiding double counting) of:

- (a) the amount calculated on the Relevant Date by the Administrator in accordance with Schedule 2 of the Administration Agreement as being the estimated potential shortfall (if any) in the funds that will be available to the Issuer on the next Interest Payment Date to make interest payments on Class A Notes and items of a higher priority and payments of Swap Termination Amounts (the “Potential Interest Shortfall Amount”), such estimate to be made on the basis and the assumptions to be set out in the Administration Agreement;
- (b) the aggregate (as determined pursuant to the last sentence of Clause 7.1 of the Administration Agreement) of all payments, made out of the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 6.2.1, Clause 6.3(d) or Clause 6.4 of the Deed of Charge, which are (i) not income payments or (ii) income payments to the extent that they are stated in Clause 6.2.1 or Clause 6.4 of the Deed of Charge to reduce the Available Purchase Funds on the date of payment; and
- (c) the aggregate amount paid in cash and not by the issue of Loan Stock during the period commencing on and including the preceding Principal Determination Date to (but excluding) the Relevant Date in purchasing Further Loans and/or Further Car Finance Contracts and/or Dealer Stocking Vehicle Contracts and/or Motor Vehicles during such period in accordance with Clause 6 of the Administration Agreement,

provided that there shall be subtracted from the figure determined by applying the above definition (the “Pre-PDL Principal Amount”) an amount equal to the lesser of (i) the absolute value of the Adjusted PDL Requirement (as defined in the Master Definitions Schedule) on the Relevant Date, and (ii) the Pre-PDL Principal Amount; and provided further that when applying the above definition in respect of the first Principal Determination Date, the “preceding Principal Determination Date” shall be 20th May 1998 and the “preceding Interest Payment Date” and the “Interest Payment Date preceding the Relevant Date” shall be 29th May 1998.

“Available Revenue Funds” means at any Principal Determination Date (the “Relevant Date”) the aggregate (avoiding double counting) of:

- (i) the aggregate amount (the “Portfolio Income Received”) of all income (or, in relation to Portfolio Car Finance Products, income equivalent) credits made by the Administrator to the Debtor Ledger pursuant to Clause 7.11 of the Administration Agreement during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date in respect of any asset that was a Portfolio Asset at any time during such period; and
- (ii) the aggregate (as determined pursuant to the last sentence of Clause 7.1 of the Administration Agreement) of any other net income paid into the Transaction Account during the period commencing on the preceding Principal Determination Date to (but excluding) the Relevant Date (including without limitation all net receipts under the Swap Agreement, to the extent that any such receipt does not fall within paragraph (vii) of the definition of Available Purchase Funds (above) on that Principal Determination Date, interest earned on the Transaction Account, any income earned on any Authorised Investment made pursuant to Clause 4.7 of the Administration Agreement, and the portion of each Repurchase Price paid to the Issuer during that period which does not correspond to the principal (or principal equivalent) amount of a Portfolio Asset); and
- (iii) the amount subtracted from Available Purchase Funds at the Relevant Date pursuant to the proviso to the definition of Available Purchase Funds (above); and
- (iv) any provisions, not being transfers to the First Loss Fund or the Spread Requirement Ledger, made on the preceding Interest Payment Date pursuant to Clause 6.2.2 of the Deed of Charge, to the extent that the payments for which such provisions were made have not been made; and
- (v) the aggregate of all amounts (if any) transferred on the preceding Interest Payment Date from the Interest Shortfall Ledger to be added to the Available Revenue Funds pursuant to Clause 7.14 and Clause 7.15 of the Administration Agreement; and

(vi) the amount (if any) transferred on the preceding Interest Payment Date from the First Loss Fund to be added to the Available Revenue Funds pursuant to Clause 7.9 of the Administration Agreement; and

(vii) any Available Revenue Funds on the preceding Principal Determination Date,

less the aggregate (avoiding double counting) of:

(a) all income amounts paid out of the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 6.2.1, Clause 6.2.2 or Clause 6.4 of the Deed of Charge, to the extent that each such amount is there stated to reduce the Available Revenue Funds on the date of payment and all provisions (including without limitation to any fund or ledger) made on the preceding Interest Payment Date in accordance with Clause 6.2.2 of the Deed of Charge; and

(b) all principal amounts paid out of the Transaction Account during the period commencing on (and including) the preceding Principal Determination Date to (but excluding) the Relevant Date pursuant to Clause 6.2.1 of the Deed of Charge, to the extent that each such amount is there stated to reduce the Available Revenue Funds on the date of payment,

provided that in respect of the first Principal Determination Date, the “preceding Principal Determination Date” shall be 20th May 1998 and the “preceding Interest Payment Date” shall be 29th May 1998.

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”, the “Subordinated Available Redemption Funds”, the “Class B Available Redemption Funds” and the “Class C Available Redemption Funds” as at such Principal Determination Date.

The Class A Available Redemption Funds shall equal:

(i) on any Principal Determination Date falling prior to the occurrence of the Determination Event (being the first Interest Payment Date on which the ratio of (I) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes and the aggregate Principal Amount Outstanding (as defined in Class C Condition 5(b)) of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class A Notes) of the Class A Notes, the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes is 180:300 or more), all of the Available Redemption Funds determined as at such Principal Determination Date; 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) where such Principal Determination Date falls prior to the occurrence of the Determination Event or on any Principal Determination Date thereafter on which it is determined by the Issuer that there will be a debit balance on the Principal Deficiency Ledger on the immediately following Interest Payment Date after the application of Available Revenue Funds on such Interest Payment Date in accordance with Clause 6.2.2 of the Deed of Charge, nil;

(ii) on any other Principal Determination Date on which Class A Notes are outstanding, that amount of the Available Redemption Funds 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 sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes, the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes (but deducting from such aggregate the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 180:300; provided that if any part of Available Redemption Funds being applied in accordance with the above would result in the sum of the aggregate Principal Amount Outstanding of the Class B Notes and the aggregate Principal Amount Outstanding of the Class C Notes after such application being reduced below £11,000,000, the Subordinated Available Redemption Funds shall be reduced by an amount equal to such part of the Available Redemption Funds.

If the Issuer does not for any reason determine the aggregate principal amount of the Class A Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

The Class B Available Redemption Funds:

- (i) on any Principal Determination Date on which there are Class A Notes outstanding, shall be determined in accordance with the following formula:

$$\text{BARF} = \text{SARF} \times 70/90$$

where:

- (a) “BARF” means the Class B Available Redemption Funds on such Principal Determination Date; and
- (b) “SARF” means the Subordinated Available Redemption Funds on such Principal Determination Date; and
- (ii) on any Principal Determination Date on which there are no Class A Notes outstanding shall equal the lesser of the Available Redemption Funds and the aggregate Principal Amount Outstanding of the Class B Notes on such date.

The Class C Available Redemption Funds:

- (i) on any Principal Determination Date on which there are Class A Notes outstanding, shall be determined in accordance with the following formula:

$$\text{CARF} = \text{SARF} \times 20/90$$

where:

- (a) “CARF” means the Class C Available Redemption Funds on such Principal Determination Date; and
- (b) “SARF” has the meaning given to that term above; and
- (ii) on any Principal Determination Date on which there are Class B Notes outstanding, but no Class A Notes outstanding, shall equal nil; and
- (iii) on any Principal Determination Date on which there are no Class A Notes and no Class B Notes outstanding shall equal the lesser of the Available Redemption Funds and the aggregate Principal Amount Outstanding of the Class C Notes on such date.

If the Issuer does not for any reason determine the aggregate principal amount of Class C Notes to be redeemed on any Interest Payment Date in accordance with the preceding provisions, the Issuer shall provide the requisite information to the Trustee, which shall thereupon determine the same in accordance with the preceding provisions, and each such determination shall be deemed to have been made by the Issuer.

Capitalised terms, not otherwise defined in this Class C Condition 5, have the respective meanings given to those terms in the Master Definitions Schedule.

(b) Calculation of Principal Payments, Principal Amount 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 Class C Note due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class C Note on the first day of the next following Interest Period (after deducting any Principal Payment due to be made in respect of each Class C Note on the next Interest Payment Date) and (z) the fraction in respect of each Class C Note expressed as a decimal to the sixth point (the “Pool Factor”), of which the numerator is the Principal Amount Outstanding of a Class C Note (as referred to in (y) above) and the denominator is 10,000. Each determination by or on behalf of the Issuer of any Principal Payment, the Principal Amount Outstanding of a Class C 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 Class C Note on any date shall be the principal amount of

that Class C Note upon issue less the aggregate amount of all Principal Payments in respect of that Class C Note that have become due and payable (whether or not paid) prior to such date.

- (ii) The Issuer will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified forthwith to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class C Notes are listed on the London Stock Exchange) the London Stock Exchange and will immediately cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class C Condition 13 by not later than the first Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date. If no Principal Payment is due to be made on the Class C Notes on any Interest Payment Date a notice to this effect will be given to the Class C Noteholders.
- (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; or the Pool Factor in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) Redemption for Taxation or Other Reasons

If the Issuer satisfies the Trustee immediately prior to giving the notice referred to below that either (i) on the next Interest Payment Date the Issuer would be required to deduct or withhold from any payment of principal or interest in respect of any Class C Notes 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 political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest (or equivalent revenue charges) in relation to any of the Portfolio Assets for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, provided that on the Interest Payment Date on which such notice expires either there are no Class A Notes or Class B Notes outstanding or the Issuer redeems in full all of the Class A Notes and the Class B Notes outstanding in accordance with the terms and conditions thereof and provided that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class C Notes (including the full amount of interest payable on the Class C Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class C Condition 7(a)) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class C Notes or the Trustee is otherwise directed by Extraordinary Resolution (as defined in the Trust Deed) of the Class C Noteholders, at any time at its option, having given not more than 60 nor less than 30 days' notice in accordance with Class C Condition 13, redeem all, but not some only, of the Class C Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption on any subsequent Interest Payment Date subject, in the case of a redemption pursuant to such an Extraordinary Resolution, to Class C Condition 7.

(d) Optional Redemption in Full

On giving not more than 60 nor less than 20 days' notice to the Trustee and the Class C Noteholders, and provided that, on the Interest Payment Date on which such notice expires, either there are no Class A Notes or Class B Notes outstanding or the Issuer redeems in full all of the Class A Notes and the Class B Notes outstanding in accordance with the terms and conditions thereof and provided further that no Enforcement Notice has been served following an Event of Default, and provided further that the Issuer will be in a position on such Interest Payment Date to discharge (and will so certify to the Trustee) all its liabilities in respect of the Class C Notes (including the full amount of interest payable on the Class C Notes on the Interest Payment Date on which redemption is to be made and the full amount of any Deferred Interest and Additional Interest which has not been paid on any previous Interest Payment Date pursuant to Class C Condition 7(a)) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class C Notes or the Trustee is otherwise directed by Extraordinary Resolution of the Class C Noteholders, the Issuer may, on any Interest Payment Date falling in or after [June 2001] (the "Coupon Call Date") or, if earlier, falling on or after the date on which all the Class A Notes and the Class B Notes are redeemed in full, redeem all (but not some only) of the Class C Notes at their Principal Amount Outstanding together with accrued interest to the date of redemption, subject, in the case of a redemption pursuant to such an Extraordinary Resolution, to Class C Condition 7.

(e) Redemption on Maturity

If not otherwise redeemed, the Class C Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in June 2013, subject to Class C Condition 7.

(f) Purchases

The Class C Notes may not be purchased by the Issuer.

(g) Cancellation

All Class C Notes redeemed in full will be cancelled forthwith, together with all unmatured and unused Coupons and Talons attached thereto or surrendered therewith, and may not be resold or reissued.

(h) Certification

For the purposes of any redemption made pursuant to Class C Condition 5(c) or Class C Condition 5(d), as the case may be, the Trustee may rely upon any certificate of two Directors of the Issuer that the Issuer will be in a position to discharge all its liabilities in respect of the Class C Notes and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class C Notes and such certificate shall be conclusive and binding on the Issuer and the holders of the Class C Notes.

6. Payments

Subject to Class C Condition 7, Interest Payments and Principal Payments on Class C Notes will be made against presentation and surrender of, or, in the case of partial redemption, endorsement of, respectively, Interest Coupons and Principal Coupons relating to Class C Notes (except where, after such surrender, the unpaid principal amount of a Class C Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Class C Note) in which case such Principal Payment will be made against presentation and surrender of such Class C Note). Payments of principal other than Principal Payments (except as provided in the preceding sentence) will be made against presentation and surrender of Class C Notes. Presentation must be made at the specified office of any Paying Agent provided that no payment of interest will be made by, or upon presentation of any Class C Note or Coupon to, any Paying Agent in the United States of America. Payments will be made by pounds sterling cheque drawn on a branch in the City of London of, or transfer to a pounds sterling account maintained by the payee with, a bank in the City of London, subject in all cases to any fiscal or other laws or regulations applicable in the place of payment.

The initial Principal Paying Agent is Morgan Guaranty Trust Company of New York at its office at 60 Victoria Embankment, London EC4Y 0JP.

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. 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 Class C Condition 13.

Upon the date on which the Principal Amount Outstanding of a Class C Note is due to be reduced to zero, unmatured and unused Coupons and Talons relating thereto (whether or not attached) shall become void and no payment or exchange shall be made in respect thereof. If the due date for redemption in full of a Class C Note is not an Interest Payment Date, the interest accrued in respect of the period from the preceding Interest Payment Date (or from the Closing Date as the case may be) shall be payable only against presentation or surrender of the relevant Class C Note.

If the due date for payment of any amount of principal or interest in respect of any Class C Note or Coupon is not a Business Day then payment will not be made until the next succeeding Business Day and the holder thereof shall not be entitled to any further interest or other payment in respect of such delay.

In this Class C Condition 6 the expression "Business Day" means any day (other than a Saturday or a Sunday) on which banks are open for business in the place where the specified office of the Paying Agent at which the Class C Note or Coupon is presented for payment is situated and (in the case of payment by transfer to an account maintained by the payee in London) in London and, prior to the exchange of the entire Permanent Global Class C Note for definitive Class C Notes, on which both Euroclear and Cedel Bank are open for business.

If interest is not paid in respect of a Class C Note on the date when due and payable (other than because the due date is not a Business Day) such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to the Class C Notes until such interest and interest thereon is available for payment and notice thereof has been duly given in accordance with Class C Condition 13.

7. Subordination

(a) Interest

Interest on the Class C Notes shall be payable in accordance with the provisions of Class C Conditions 4 and 6 subject to the terms of this Class C Condition.

In the event that the aggregate funds, if any, (computed in accordance with the provisions of the Deed of Charge), available to the Issuer on any Interest Payment Date for application in or towards the payment of interest which is, subject to this Class C Condition, due on the Class C Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class C Condition as the “Residual Amount”) are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Class C Condition, due on the Class C Notes on such Interest Payment Date, there shall be payable on such Interest Payment Date, by way of interest on each Class C Note, a *pro rata* share of the Residual Amount on such Interest Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest paid on the Class C Notes on any Interest Payment Date in accordance with this Class C Condition falls short of the aggregate amount of interest payable on the Class C Notes on that date pursuant to Class C Condition 4. Such shortfall shall accrue interest in accordance with the provisions of Class C Condition 4.

(b) Principal

The Class C Noteholders will not be entitled to any repayment of principal in respect of the Class C Notes prior to the occurrence of the Determination Event. If, on any Interest Payment Date on which Class C Notes are to be redeemed in full pursuant to Class C Conditions 5(e) or pursuant to an Extraordinary Resolution as contemplated by Class C Condition 5(c) or 5(d), there is any debit balance on the Principal Deficiency Ledger (as defined in the Master Definitions Schedule), then notwithstanding any other provisions of these Conditions the principal amount payable on such redemption of each Class C Note shall be its Principal Amount Outstanding less the amount if any (divided by the number of Class C Notes outstanding on such redemption) by which the then Principal Deficiency exceeds the balance of the First Loss Fund on such redemption. “Principal Deficiency” means the debit balance on the Principal Deficiency Ledger. None of the foregoing shall prejudice the obligation of the Issuer to pay Class C Available Redemption Funds in redemption in whole or in part of the Class C Notes in accordance with Class C Condition 5(a).

(c) General

In the event that the security for the Class C Notes and Coupons is enforced and the proceeds of such enforcement are insufficient, after payment of all other claims ranking in priority to or *pari passu* with the Class C Notes and Coupons under the Deed of Charge, to pay in full all principal and interest (including interest on interest) and other amounts whatsoever due in respect of the Class C Notes, then the Class C Noteholders and Couponholders shall have no further claim against the Issuer in respect of any such unpaid amounts, which claim shall be extinguished.

8. Taxation

All payments in respect of the Class C 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 to make any payment in respect of the Class C 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 Class C Notes or Coupons in respect of such withholding or deduction.

9. Prescription

A Principal Coupon shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon. A Class C Note shall become void in its entirety unless surrendered for payment within ten years of the Relevant Payment Date in respect of any payment thereon the effect of which would be to reduce the Principal Amount Outstanding of such Class C Note to zero. An Interest Coupon shall become void unless surrendered for payment within five years of the Relevant Payment Date in respect thereof. After the date on which a Class C Note or a Coupon becomes void in its entirety, no claim may be made in respect thereof.

As used in this Class C Condition 9, the “Relevant Payment 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 Class C Condition 13.

10. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter of the aggregate of the Principal Amount Outstanding of the Class C Notes outstanding or if so directed by an Extraordinary Resolution of the Class C Noteholders (subject, in each case, to being indemnified to its satisfaction and to restrictions contained in the Trust Deed to protect the interests of the Class A Noteholders and the Class B Noteholders) 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 while any Class A Notes are outstanding or, if there are no Class A Notes outstanding, to the interests of the Class B Noteholders while any Class B Notes are outstanding or, if there are 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 C Notes, only if the Trustee shall have certified in writing that 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 Class C Notes are, and each Class C Note shall, if notice is, or has already been, given that the Class A Notes are due and payable pursuant to the terms and conditions of the Class A Notes, or if there are no Class A Notes then outstanding, if notice is, or has already been given, that the Class B Notes are due and payable pursuant to the terms and conditions of the Class B Notes, or if there are no Class B Notes then outstanding, accordingly forthwith become, immediately due and repayable subject to Class C Condition 7 at its Principal Amount Outstanding, together with accrued interest (including any Deferred Interest and Additional Interest) 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 Class C 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 Class C Notes or any of them; or
- (ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class 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 Class C 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 Class C Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied; or
- (v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its

liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Fee Letter and the Loan Stock) or otherwise becomes insolvent; or

- (vi) notice is given to the Issuer pursuant to the Trust Deed that the Class A Notes or the Class B Notes are immediately due and repayable.

11. Enforcement

At any time after the Class C Notes become due and repayable at their Principal Amount Outstanding, subject to Class C 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 Class C Notes and Coupons and to enforce repayment of the Class C Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been so directed by an Extraordinary Resolution of the Class C Noteholders or so requested in writing by Class C Noteholders holding at least one-quarter of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding and (ii) it shall have been indemnified to its satisfaction. Notwithstanding the foregoing but provided that all of the Class A Notes and all of 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 repayable pursuant to these Class C 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 the Couponholders 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 the Couponholders and any other amounts payable by the Issuer ranking in priority thereto or *pari passu* therewith. No Class C Noteholder or Couponholder 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.

12. Replacement of Class C Notes, Coupons and Talons

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

13. Notices

All notices, other than notices given in accordance with the next following paragraph, to Class C Noteholders shall be deemed to have been duly given if published in a leading daily newspaper printed in the English language and with general circulation in London (which is expected to be the *Financial Times*) or, if this is not practicable, in another leading English language newspaper having general circulation in Europe previously approved by the Trustee. Any 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.

Any notice specifying an Interest Payment Date, a Rate of Interest, an Interest Payment, a Principal Payment (or absence thereof), a Principal Amount Outstanding or a Pool Factor shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen (presently page PGCJ) or such other medium for the electronic display of data as may be approved by the Trustee and notified to the Class C Noteholders (the "Relevant Screen"). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph then notice of the matters referred to in this Class C Condition shall be given in accordance with the preceding paragraph.

The Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Class C Noteholders in accordance with this Class C Condition 13.

14. Meetings of Class C Noteholders; Modifications; Consents; Waiver

The Trust Deed contains provisions for convening meetings of Class C Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of the Class C Noteholders of a modification of the Class C Notes (including these Class C Conditions) or the provisions of any of the Relevant Documents, provided that no modification of certain terms including, *inter alia*, the date of maturity of the Class C Notes, or a modification which would have the effect of postponing any day for payment of interest on the Class C Notes, reducing or cancelling the amount of principal payable on the Class C Notes or the rate of interest applicable to the Class C Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of the Class C Notes or the Coupons or any alteration of the date or priority of redemption of the Class C Notes (any such modification being referred to below as a “Basic Terms Modification”) shall be effective except that, if the Trustee is of the opinion that such a Basic Terms Modification is being proposed by the Issuer as a result of, or in order to avoid, an Event of Default, such Basic Terms Modification may be sanctioned by Extraordinary Resolution of the Class C Noteholders as described below. The quorum at any meeting of Class C Noteholders for passing an Extraordinary Resolution shall be two or more persons holding or representing over 50% of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding or, at any adjourned meeting, two or more persons being or representing Class C Noteholders whatever the aggregate Principal Amount Outstanding of the Class C Notes 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 shall be two or more persons holding or representing 75%, or at any adjourned such meeting, 25%, or more of the aggregate Principal Amount Outstanding of the Class C Notes then outstanding. The Trust Deed contains provisions limiting the powers of the Class C Noteholders and the Class B Noteholders, *inter alia*, 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. 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 C Noteholders and the Class B Noteholders, irrespective of the effect on their interests. An Extraordinary Resolution passed at any meeting of Class C Noteholders shall not be effective for any purpose unless either (i) the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders or the interests of the Class B Noteholders or (ii) it is sanctioned by an Extraordinary Resolution of the Class A Noteholders and an Extraordinary Resolution of the Class B Noteholders but, subject thereto, it shall be binding on all Class C Noteholders, whether or not they are present at the meeting, and on all Couponholders. The majority required for an Extraordinary Resolution shall be 75% of the votes cast on that Extraordinary Resolution. An Extraordinary Resolution passed at any meeting of the Class A Noteholders or at any meeting of the Class B Noteholders shall be binding on all Class C Noteholders and Couponholders, irrespective of its effect upon such holders or their interests.

The Trustee may agree, without the consent of the Class C Noteholders or Couponholders, (i) to any modification (except a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of the Class C Notes (including these Class C Conditions) or any of the Relevant Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Class C Noteholders or (ii) to any modification of the Class C Notes (including these Class C 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 Class C Noteholders or the Couponholders, 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 Class C Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Class C Noteholders in accordance with Class C Condition 13 as soon as practicable thereafter.

15. 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 Class C Notes unless 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 the Administrator or any of its affiliates or by clearing organisations or their operators or by any person on behalf of the Trustee.

16. 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 Class C Notes and the Coupons, whether by the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator 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, the Principal Paying Agent, the other Paying Agents (if any) and all Class C Noteholders and Couponholders and (subject as aforesaid) no liability to the Issuer, the Administrator or the Class C Noteholders or Couponholders shall attach to the Reference Banks (or any of them), the Reference Agent, the Issuer, the Administrator or the Trustee in connection with the exercise or non-exercise by them of their powers duties and discretions.

17. Governing Law

The Class C Notes, the Coupons, the Talons, the Trust Deed and the Deed of Charge are governed by, and shall be construed in accordance with, English law other than such provisions thereof as are particular to Scots law, which are governed by and shall be construed in accordance with the laws of Scotland and as are particular to Northern Irish law, which are governed by and shall be construed in accordance with the laws of Northern Ireland.

Use of Proceeds

The gross proceeds from the issue of the Class A Notes will be £210,000,000, those from the issue of the Class B Notes will be £70,000,000 and those from the issue of the Class C Notes will be £20,000,000. Commissions of 0.225% of the principal amount of the Class A Notes, of 0.35% of the principal amount of the Class B Notes and of 0.5% of the principal amount of the Class C Notes will be payable on the issue of the Notes. These commissions, together with certain other expenses of the Issuer, will be paid on behalf of or reimbursed to the Issuer by PFPLC as described in “The Issuer — Fee Letter” below. The proceeds from the issue of the Notes, which, taking into account such payment or reimbursement, will be approximately £300,000,000, will be applied in repayment to Morgan Guaranty Trust Company of New York of loans made to the Issuer under the Facility Agreement to assist in the acquisition of the Existing Portfolio Loans and to acquire Loans, Car Finance Products and the related Motor Vehicles on or (as described in the next sentence) during the four years immediately after the Closing Date. It is expected that approximately £30,000,000 of the net proceeds of the Notes will not be applied in repayment of the Facility Agreement or in acquiring Loans, Car Finance Products and the related Motor Vehicles on the Closing Date but will be applied in the acquisition of Loans, Car Finance Products and the related Motor Vehicles during the four years immediately after the Closing Date.

Ratings

The Class A Notes are expected on issue to be assigned an Aaa rating by Moody's, the Class B Notes are expected on issue to be assigned an A2 rating by Moody's and the Class C Notes are expected on issue to be assigned a Baa3 rating by Moody's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

The Issuer

Introduction

The Issuer was incorporated in England, with registered number 3203932, as a private limited company under the Companies Act 1985 on 24th May 1996 under the name Finance for Home Loans (32) Limited. It changed its name to Auto Loans Direct Limited on 16th September 1996, and then re-registered as a public limited company and simultaneously changed its name to Finance for People (No.3) PLC on 2nd March 1998. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The Issuer is a wholly owned subsidiary of PGC, whose registered office is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The ordinary share capital of PGC is listed on the London Stock Exchange.

The Issuer has no subsidiaries.

The principal objects of the Issuer are set out in Clause 4 of its Memorandum of Association and are, *inter alia*, to borrow or raise money, to secure the repayment of such money upon its assets, to lend money and to invest in, deal in, acquire and dispose of consumer loans and other similar investments.

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its registration and re-registration as a public company under the Companies Act 1985, the borrowing of funds from Morgan Guaranty Trust Company of New York under the Facility Agreement to assist in the acquisition of the Existing Portfolio Loans, the acquisition of the Existing Portfolio Loans, the authorisation of the issue of the Notes and the matters contemplated in this Offering Circular, obtaining a standard licence under the Consumer Credit Act 1974, registering under the Data Protection Act 1984, applying to join the Paragon VAT Group and the authorisation and execution of the other documents referred to in this Offering Circular to which it is a party.

Directors and Secretary

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

Name	Business Address	Other Principal Activities
Nicholas Keen	28 King Street London EC2V 8EH	Finance Director of PGC, PFPLC, PPF, PCF, PDF and Universal
Richard Shelton	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Solicitor and Company Director of PFPLC, PPF, PCF, PDF and Universal
John Gemmell	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Director of Financial Accounting and Group Company Secretary, Company Director and Company Secretary of PFPLC, PPF, PCF, PDF and Universal
Anthony Raikes	Cannon Centre 78 Cannon Street London EC4P 5LN	Managing Director of SPV Management Limited
John Saffery	46 Amesbury Road Moseley Birmingham B13 8LE	Chartered Accountant

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

The Issuer has no employees.

Management and Activities

Pursuant to the Administration Agreement and a letter agreement from the Issuer to PFPLC to be dated on or before the Closing Date (the "Services Letter"), PFPLC will, unless and until certain events occur, undertake the day to day management and administration of the business of the Issuer.

The Issuer will covenant to observe certain restrictions on its activities which are detailed in "Description of the Class A Notes, the Global Class A Notes and the Security — Covenants of the Issuer", "Description of the Class B Notes, the Global Class B Notes and the Security — Covenants of the Issuer" and "Description of the Class C Notes, the Global Class C Notes and the Security — Covenants of the Issuer" above.

Fee Letter

PFPLC has agreed to arrange the issue of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issue of the Notes and of documents for approval by the Issuer and has liaised with professional advisers and the Managers. PFPLC will pay, on behalf of the Issuer, or reimburse to the Issuer, the management and underwriting commissions and selling commissions due to the Managers referred to in “Subscription and Sale” below and any expenses payable by the Issuer in connection with the issue of the Notes. Furthermore, PFPLC negotiated the terms (as set out in the Facility Agreement) of the bridge financing from Morgan Guaranty Trust Company of New York for the acquisition of the Existing Portfolio Loans (the “Bridging Facility”). In particular, PFPLC negotiated the terms of the financing documents for approval by the Issuer, and liaised with professional advisers. PFPLC paid, on behalf of the Issuer, or reimbursed to the Issuer, all fees, costs, commissions and expenses payable by the Issuer in connection with the Bridging Facility.

The Issuer will agree under the Fee Letter that it will pay PFPLC an arrangement fee of 0.4% of the sum of the aggregate principal amount of the Notes. It has also agreed under the Fee Letter that it will repay PFPLC all commissions and expenses paid by PFPLC in connection with the issue of the Notes and the Bridging Facility referred to in the preceding paragraph. Those amounts will be payable in instalments on each Interest Payment Date over a period of four years from the Closing Date.

Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR payable in arrear on each Interest Payment Date. Amounts owing to PFPLC under the Fee Letter will be subordinated in the manner described in “Summary — Priority of Payments” above.

Subordinated Loan Facility from PFPLC

By the Subordinated Loan Agreement (which will be made between PFPLC, the Issuer and the Trustee and dated on or before the Closing Date) PFPLC will agree to make available to the Issuer a loan facility, under which an amount or amounts will be drawn down by the Issuer on the Closing Date, to repay amounts borrowed by the Issuer under a subordinated loan agreement dated 17th March 1998 between PFPLC and the Issuer with which it, *inter alia*, established and supplemented the First Loss Fund and made certain advances in respect of Unamortised Commissions for Existing Portfolio Loans. Under the terms of the Subordinated Loan Agreement, PFPLC has also agreed to make advances available to the Issuer so that it can make a further credit to the First Loss Fund on the Closing Date in respect of Portfolio Assets that are to be acquired on or after the Closing Date using Note proceeds. Under the terms of the Subordinated Loan Agreement, PFPLC has also agreed to make advances available to the Issuer if and to the extent that the Issuer accepts an Offer to Sell and is required to reimburse the Seller of the relevant Portfolio Asset for any commissions that such Seller has paid but which have not been amortised under the relevant loan or car financing arrangement. The Issuer may from time to time borrow further sums from PFPLC or others on the terms of the Subordinated Loan Agreement. Amounts owing to PFPLC and any Subordinated Lenders under the Subordinated Loan Agreement will be subordinated in the manner described in “Summary — Priority of Payments” above.

Interest under the Subordinated Loan Agreement is payable by the Issuer on or after the seventh day after each Interest Payment Date commencing with the Interest Payment Date falling in September 1998. Interest will accrue at the rate of 4% per annum above LIBOR. Principal will be repayable on the first day on which there are no Notes outstanding. Payments of interest under the Subordinated Loan Agreement may only be made by the Issuer if after applying its net income receipts (other than principal or its equivalent) in making a number of other payments or provisions, the Issuer still has sufficient funds for the purpose as more particularly described in “Summary — Priority of Payments” above.

Loan Stock

The Notes will be issued simultaneously with Loan Stock, the terms and conditions of which will be set out in the Loan Stock Instrument. The initial tranche of Loan Stock (which will be issued in an amount sufficient to enable the Issuer to repay certain outstanding loan stock (and interest accrued thereon) that was issued to assist in the acquisition of the Existing Portfolio Loans and to establish the initial rating of the Notes by Moody's) will be subscribed for by PFPLC. The Loan Stock will bear interest at a rate of 4% per annum above LIBOR, payable with effect from the Closing Date, on or after the business day after each Interest Payment Date. The Loan Stock will not be admitted to the Official List of the London Stock Exchange.

No payment in cash of principal in respect of, or purchase by the Issuer of, the Loan Stock will be made while any Note remains outstanding. The Issuer may elect to defer the whole or any part of the interest which would otherwise be due on the Loan Stock on any Interest Payment Date (without any interest accruing thereon)

until any later Interest Payment Date and may elect to satisfy its obligation to pay interest due and payable on the Loan Stock by the issue of additional Loan Stock credited as fully paid.

The Notes and the Loan Stock will share the same security, but the Loan Stock will be subordinated to the Notes in point of payment and the Notes will rank in priority to the Loan Stock in the event of the security being enforced.

Hedging Arrangements

The purpose of all hedging arrangements to which the Issuer is or will become a party is to hedge the mismatch between its floating rate interest payment obligations under the Notes and its essentially fixed rate income under Portfolio Loans and Portfolio Car Finance Products. On 17th March 1998 the Issuer entered into hedging arrangements (including interest rate swap and interest rate cap agreements) with the Swap Counterparty in accordance with Moody's requirements in order to hedge the Loans acquired by the Issuer on that day. On 5th May, 1998 the Issuer entered into hedging arrangements (again interest rate swap and interest rate cap agreements) with the Swap Counterparty in accordance with Moody's requirements in order to hedge the Loans acquired by the Issuer on that day.

It is a continuing requirement of Moody's in order to maintain the rating of the Notes that such hedging arrangements are maintained in relation to the Portfolio Assets. Such hedging arrangements may be amended or added to in accordance with the Administration Agreement on the acquisition of Further Loans or Further Car Finance Contracts. Any amendment or addition must always meet Moody's requirements.

In order to meet Moody's requirements, the Loans that the Issuer has acquired since 17th March 1998 have a weighted average interest rate that is at least 10% higher than the rate (the "Loan Hedging Rate") payable by the Issuer under such hedging arrangements as amended or added to from time to time.

Any Further Loans will be acquired on the basis that hedging arrangements are entered into on acquisition, where necessary, so that such Further Loans' weighted average interest rate is at least 10% higher (or such other figure as Moody's shall agree from time to time) than the Loan Hedging Rate.

On the Closing Date, the Issuer will have entered into further hedging arrangements in accordance with Moody's requirements, such that the weighted average of the interest rates used to calculate the hire purchase payments and rental payments under Car Finance Contracts acquired on the Closing Date will be at least 5% higher than the rate (the "Car Product Hedging Rate") payable by the Issuer under such hedging arrangements.

Any Further Car Finance Contracts will be acquired on the basis that hedging arrangements are entered into on acquisition, where necessary, so that the weighted average of the interest rates used to calculate the hire purchase or rental payments thereunder is at least 5% higher (or such other figure as Moody's shall agree from time to time) than the Car Product Hedging Rate.

There are no such hedging requirements imposed by Moody's or stated in any contract to which the Issuer is a party in relation to Portfolio Dealer Stocking Vehicle Contracts.

Termination of any such arrangements which are entered into may occur independently of an Event of Default. Such termination may amount to a partial termination of such hedging arrangements and be effected by the Issuer in order to reflect the changing characteristics of the Portfolio Assets and the weighted average rate of return on the Portfolio Loans and the Portfolio Car Finance Contracts. This may give rise to a termination payment due either to or from the Issuer, which payment obligations (if an obligation of the Issuer) will rank in order of priority as described in "Summary — Priority of Payments" above.

Hedging arrangements may be provided by any bank or financial institution provided that on the date on which it makes such arrangements available to the Issuer, such bank or financial institution has a rating for its long term or short term debt obligations sufficient to maintain the then ratings of the Notes unless such arrangements are guaranteed by a guarantor of appropriate credit rating or other arrangements are entered into at the time which are sufficient to maintain the then ratings of the Notes. After payment of or provision for items (i) to (xii) in "Summary — Priority of Payments" above, the Issuer may make a provision for funds on an Interest Payment Date to enable it to enter into other hedging arrangements (and related guarantees as necessary) in the succeeding Interest Period.

Determination of Assumed Residual Values

In relation to Portfolio Car Finance Contracts comprising motor vehicle lease agreements or motor vehicle contract purchase agreements, the assumed residual value of the relevant Portfolio Motor Vehicle will have been determined by PCF in accordance with a method that Moody's has or will confirm would not, if applied, adversely affect the rating assigned to any class of Notes.

Capitalisation

The capitalisation of the Issuer as at the date of this Offering Circular, adjusted for the issue on the Closing Date of the Notes and the Loan Stock and the prepayment of the Issuer's existing loan stock and other indebtedness, is as follows:

Share capital

Authorised	£
50,000 "A" Ordinary Shares of £1 each	
Issued	
50,000 "A" Ordinary Shares of £1 each (2 fully paid and 49,998 25p paid).....	12,501.50

Loan Capital

£210,000,000 Class A Asset Backed Floating Rate Notes due 2013	210,000,000
(now being issued)	
£70,000,000 Class B Asset Backed Floating Rate Notes due 2013	70,000,000
(now being issued)	
£20,000,000 Class C Asset Backed Floating Rate Notes due 2013	20,000,000
(now being issued)	
£3,000,000 ¹ Floating Rate Cumulative Secured Subordinated Loan Stock 2013 (loan capital created)	3,000,000
Total capitalisation	<u>303,012,501.50</u>

Save for the matters summarised in this Offering Circular, at the date of this document, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

The current financial period of the Issuer will end on 30th September 1998. The balance sheet of the Issuer as at 30th September 1997 is set out in "General Information" below.

1. This figure is illustrative only. The Loan Stock will be issued on the Closing Date to repay existing loan stock and to ensure that the initial rating of the Notes is obtained and therefore may be issued in a greater or lesser amount.

The Paragon VAT Group

The Issuer is a member of the Paragon VAT Group (consisting of PFPLC and certain of its related companies, as more particularly described in the Administration Agreement). At present, PFPLC as representative member of the Paragon VAT Group is the entity primarily responsible for the VAT affairs of the Paragon VAT Group. However, for such period as the Issuer is a member of the Paragon VAT Group it will be, under current VAT legislation, jointly and severally liable with the other members of the Paragon VAT Group for any amount of VAT due from the Paragon VAT Group to H.M. Customs & Excise. PFPLC has established a VAT fund held in an account at National Westminster Bank Plc (the “VAT Account”) to be used to pay amounts owing to H.M. Customs & Excise if the company primarily responsible fails to pay the relevant amount. Morgan Guaranty Trust Company of New York is the trustee of the fund which currently amounts to approximately £426,000. The Issuer is one of the beneficiaries of the trust over the VAT Account (the “VAT Declaration of Trust”).

Morgan Guaranty Trust Company of New York

Morgan Guaranty Trust Company of New York (“Morgan Guaranty”) is a wholly owned subsidiary and the principal asset of J.P. Morgan & Co. Incorporated, a Delaware corporation whose principal office is located in New York. Morgan Guaranty is a commercial bank offering a wide range of banking services to its customers both domestically and internationally. Its business is subject to examination and regulation by Federal and New York State banking authorities.

Portfolio Assets

A. PORTFOLIO ASSETS

Origination of the Portfolio Assets

All of the Portfolio Loans forming part of the initial security for the Notes were originated by Universal or PPF. Both Universal and PPF are private companies and are wholly owned subsidiaries of PGC. The ordinary share capital of PGC is listed on the London Stock Exchange. Universal's principal activity is to originate unsecured consumer loans. PPF's principal activities are to originate, and acquire from third parties, unsecured consumer loans.

Both Universal and PPF currently distribute personal loans through more than one distribution channel. Universal currently distributes loans both through the United Kingdom finance broker market and via direct channels including arrangements with affinity partners and timeshare developers. Under an affinity programme, Universal's unsecured loan products are marketed in conjunction with an introducer (to date, Universal has worked with three such partners) which already has an extensive customer database for its business. PPF currently distributes loans through credit brokers and other intermediaries and also via direct channels.

Any Further Loans to be acquired by the Issuer will have been originated by Universal, PPF or PFPLC. PFPLC is a public company and also a wholly owned subsidiary of PGC. PFPLC's activities include origination, acquisition from third parties and administration of unsecured consumer loans and car finance products.

All of the Portfolio Car Finance Contracts that are expected to form part of the initial security for the Notes and any Further Car Finance Contracts have or will have been originated by PCF. PCF is a private company and also a wholly owned subsidiary of PGC. PCF's principal activities are to originate, and acquire from third parties, car finance contracts.

PCF currently distributes car finance contracts through the car dealer network and also via direct channels.

All of the Dealer Stocking Vehicle Contracts to be acquired by the Issuer will have been originated by PDF. PDF is a private company and also a wholly-owned subsidiary of PGC. PDF's principal activities are to originate dealer stocking vehicle contracts and otherwise provide support to vehicle dealerships for the purpose of facilitating the stocking by those dealerships of vehicle showrooms.

For a description of the acquisition of Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts, see "Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts" below.

Acquisition of Portfolio Assets

Loans

On 17th March 1998, the Issuer acquired from Universal a pool of unsecured consumer loans and on 5th May 1998, the Issuer acquired from each of Universal and PPF a further pool of unsecured consumer loans (for a description of the loans, see "Information on the Portfolio Assets" below). The Loans acquired on these dates were acquired pursuant to Loan Sale Contracts made between the Issuer and Universal and PPF, respectively, which incorporated an agreed set of standard terms and conditions. These Loan Sale Contracts were concluded as a result of the acceptance by the Issuer of written offers issued to it by Universal or, as the case may be, PPF to sell the benefit of those Loans.

On the Closing Date, the Issuer is expected to acquire an additional pool of unsecured consumer loans, pursuant to additional Loan Sale Contracts.

Under these Loan Sale Contracts, the Issuer acquired (or, in the case of Loan Sale Contracts (if any) entered into on the Closing Date, will acquire) Universal's or, as the case may be, PPF's right, title and benefit in and to each Loan the subject thereof and the corresponding Loan Agreement, which includes, without limitation:

- (a) all amounts of principal, interest and any other amount payable by the Borrower under the corresponding Loan Agreement and the right to demand, sue for and recover any such amounts payable thereunder and the right to sue on all covenants, obligations and undertakings on the part of the Borrower thereunder; and
- (b) the right to exercise all rights, powers and discretions of Universal or PPF, as the case may be, thereunder.

Pursuant to these Loan Sale Contracts, the Issuer also acquired (or will acquire, as the case may be):

- (a) all causes and rights of action of Universal or PPF, as the case may be, against any person arising in connection with each Loan the subject thereof;
- (b) all causes and rights of action of Universal or PPF, as the case may be, against any person arising in connection with particular claims or rights exercised by each Borrower under the CCA in connection with each Loan the subject thereof; and
- (c) the benefit of all guarantees, indemnities, insurance and security interests given to or held by Universal or PPF, as the case may be, in connection with the repayment of each Loan the subject thereof.

In relation to Loans which are Scottish Loans and in accordance with the relevant Loan Sale Contract, Universal and PPF each executed a declaration of trust in favour of the Issuer (or will execute such a declaration of trust, as the case may be), pursuant to which Universal or PPF, as the case may be, holds or will hold all of its right, title and benefit in and to each such Loan and the corresponding Loan Agreement and all other rights and causes of action therein and all amounts received by it in respect of such Loan in trust absolutely for the Issuer.

Morgan Guaranty Trust Company of New York is a party to the Loan Sale Contracts in respect of the Existing Portfolio Loans in its capacity as security trustee for the secured parties under the Bridging Facility. The rights and obligations (if any) of Morgan Guaranty Trust Company of New York under the Loan Sale Contracts in that capacity will be novated to the Trustee (which is also Morgan Guaranty Trust Company of New York, in its capacity as trustee for, *inter alios*, the Noteholders) pursuant to a novation agreement to be entered into on or prior to the Closing Date between parties to the relevant Loan Sale Contracts and the Trustee (the "Novation Agreement").

Car Finance Contracts

On the Closing Date, the Issuer is expected to acquire a pool of motor vehicle hire purchase agreements, motor vehicle leasing agreements and motor vehicle contract purchase agreements (together, in each case, with the relative Motor Vehicles) from PCF (for a description of these agreements, see "Information on the Portfolio Assets" below). The Car Finance Contracts and Motor Vehicles to be acquired by the Issuer on this date would be acquired pursuant to a Car Finance Sale Contract made between the Issuer and PCF which would incorporate an agreed set of standard terms and conditions. Such Car Finance Sale Contract would be concluded as a result of the acceptance by the Issuer of a written offer issued to it by PCF to sell the benefit of specified Car Finance Contracts, together with the relative Motor Vehicles.

Under such a Car Finance Sale Contract, the Issuer would acquire all of PCF's right, title and benefit in and to the specified Car Finance Contracts and the corresponding Motor Vehicles, which would include, without limitation:

- (a) all amounts of principal (or principal equivalent), interest (or equivalent revenue charges) and any other amount payable by the Hirer or Lessee under the relevant Car Finance Contract and the right to demand, sue for and recover any such amounts payable thereunder and the right to sue on all covenants, obligations and undertakings on the part of the relevant Hirer or Lessee thereunder; and
- (b) the right to exercise all rights, powers and discretions of PCF thereunder.

Pursuant to such a Car Finance Sale Contract, the Issuer would also acquire:

- (a) all causes and rights of action of PCF against any person arising in connection with each specified Car Finance Contract, including without limitation the benefit of all manufacturer's or other warranties in relation to the related Motor Vehicle;
- (b) all causes of action of PCF against any person arising in connection with particular claims or rights exercised by the relevant Hirer or Lessee under the CCA in connection with each specified Car Finance Contract;
- (c) the benefit of all guarantees, indemnities, insurance and security interests given to or held by PCF in connection with the discharge of the relevant Obligor's obligations under each specified Car Finance Contract; and
- (d) all legal and beneficial ownership rights, title and interest of PCF in and to the related Motor Vehicles.

In relation to Car Finance Contracts which are Scottish Car Finance Contracts, PCF would execute a declaration of trust in favour of the Issuer, pursuant to which PCF would hold all of its right, title and benefit in and to each such Scottish Car Finance Contract and all other rights and causes of action therein and all amounts received by it in respect of such Scottish Car Finance Contract (but not in relation to the related

Motor Vehicle, legal title to which would have passed to the Issuer pursuant to the relevant Car Finance Sale Contract) in trust absolutely for the Issuer.

Dealer Stocking Vehicle Contracts

The Issuer will not acquire the benefit of any Dealer Stocking Vehicle Contracts, or any related Motor Vehicles, on the Closing Date. As confirmed below under “Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts”, Portfolio Assets (including without limitation Dealer Stocking Vehicle Contracts and the related Motor Vehicles) may be purchased by the Issuer within the period of four years beginning on the Closing Date. Any such acquisition of a Dealer Stocking Vehicle Contract and the related Motor Vehicle would be made pursuant to a Dealer Stocking Vehicle Sale Contract made between the Issuer and PDF which would incorporate an agreed set of standard terms and conditions. Such Dealer Stocking Vehicle Sale Contract would be concluded as a result of the acceptance by the Issuer of a written offer issued to it by PDF to sell the benefit of specified Dealer Stocking Vehicle Contracts and each related Motor Vehicle.

Under such a Dealer Stocking Vehicle Sale Contract, the Issuer would acquire all of PDF’s right, title and benefit in and to the specified Dealer Stocking Vehicle Contracts and the corresponding Motor Vehicles, which would include, without limitation:

- (a) all amounts of principal equivalent, handling fees, any other revenue charges and any other amount payable by the Dealer under the relevant Dealer Stocking Vehicle Contract and the right to demand, sue for and recover any such amounts payable thereunder and the right to sue on all covenants, obligations and undertakings on the part of the relevant Dealer thereunder; and
- (b) the right to exercise all rights, powers and discretions of PDF thereunder.

Pursuant to such a Dealer Stocking Vehicle Sale Contract, the Issuer would also acquire:

- (a) all causes and rights of action of PDF against any person arising in connection with each specified Dealer Stocking Vehicle Contract, including without limitation the benefit of all manufacturer’s or other warranties in relation to the relevant Motor Vehicles;
- (b) the benefit of all guarantees, indemnities, insurance and security interests given to or held by PDF in connection with the relevant Dealer’s obligations under each specified Dealer Stocking Vehicle Contract; and
- (c) all legal and beneficial ownership rights, title and interest of PDF in and to the related Motor Vehicles (which may be recharacterised as security over, rather than ownership in, the related Motor Vehicle and, hence, not vested in PDF — see “Special Considerations” above).

In relation to Dealer Stocking Vehicle Contracts which are Scottish Dealer Stocking Vehicle Contracts, PDF would execute a declaration of trust in favour of the Issuer pursuant to which PDF would declare that it holds all of its rights, title and interest in and to each such Scottish Dealer Stocking Vehicle Contract and all the rights, title and causes of action therein and all amounts received by it in respect of such Scottish Dealer Stocking Vehicle Contract (but not in relation to the related Motor Vehicle, legal title to which would have passed to the Issuer pursuant to the relevant Dealer Stocking Vehicle Sale Contract — provided the recharacterisation as security referred to above has not taken place) on trust absolutely for the Issuer.

Information on the Portfolio Assets

Portfolio Loans

No Portfolio Loan has or will have an original maturity later than 30th June 2012. There are no obligations to make further advances under any of the Portfolio Loans. All of the Portfolio Loans will be governed by either English, Scottish or Northern Irish law.

Particular Types of Universal Loans

Four types of loan either have been in the past or are currently offered by Universal. Of these, the first is no longer offered.

Flexiloan

Historically Universal offered a product called Flexiloan aimed at the tenant market but this product was discontinued in February 1997 and replaced with the Premierplan product described below.

Premierplan

This is an unsecured loan product originated by Universal and aimed at the homeowner market.

Timeshare

Unsecured loans are marketed, generally at the point of sale, to United Kingdom customers wishing to acquire a timeshare week or weeks. Universal has established links with developers of timeshare properties in the United Kingdom, the Mediterranean (predominantly Spain and Portugal), the Canary Islands and the United States. Universal's strategy has been to focus on developing strong relationships with developers selected because of the quality of their operations.

Affinity/Direct

Under an Affinity programme, Universal's unsecured loan products are marketed in conjunction with an introducer who already has an extensive customer database for its business.

Particular Types of PPF Loans

PPF currently offers a single loan product. This is an unsecured loan which is not made for any specified purpose.

Car Finance Contracts

No Portfolio Car Finance Contract has or will have an original maturity later than 30th June 2012. There are no obligations on PCF to enter into further Car Finance Contracts with any Hirer or Lessee. All of the Portfolio Car Finance Contracts will be governed by either English, Scottish or Northern Irish law.

The Car Finance Contracts are of three types: motor vehicle lease agreements, motor vehicle hire purchase agreements and motor vehicle contract purchase agreements. Motor vehicle contract purchase agreements are a form of hire purchase agreement where the final payment is a balloon payment (instead of a nominal amount) payable at the option of the hirer at the end of the contract term, in order to take ownership of the vehicle.

Car Finance Contracts are currently marketed by PCF to individuals, partnerships and corporate bodies in the United Kingdom, subject to their ability to satisfy the relevant credit criteria outlined below under "Credit Assessment".

Dealer Stocking Vehicle Contracts

Under motor vehicle dealer stocking arrangements between PDF and Dealers, each Dealer may from time to time offer to sell to PDF a motor vehicle purchased by the Dealer for the showroom floor. Title to the relevant vehicle is intended to pass to PDF upon delivery, which occurs upon payment by PDF of the agreed purchase price. As a result of PDF's acceptance of the Dealer's offer, a Dealer Stocking Vehicle Contract is constituted between PDF and the Dealer. The essence of each Dealer Stocking Vehicle Contract is that the Dealer agrees, first, to repurchase the vehicle from PDF at the same price upon the happening of certain events. The principal events that would trigger the Dealer's repurchase obligation are the entering into by the Dealer of an agreement to sell the vehicle to a third party, the Dealer's insolvency and the passage of a specified period of time. The length of this period will be agreed on a Dealer-by-Dealer basis but will be no longer than six calendar months from the date of the purchase by PDF of the relevant Motor Vehicle in the case of a corporate Dealer and no longer than three calendar months in the case of a Dealer who is an individual or which is a partnership. However, such three calendar months period may be extended upon, or immediately before, expiry by PDF, with the Issuer's consent. If no other event has happened during such period so as to oblige the Dealer to repurchase the relevant Motor Vehicle, the Dealer will be obliged to repurchase it at the end of that period. If the Dealer defaults in its repurchase obligation, PDF is entitled to retain the relative Motor Vehicle and all proceeds of sale thereof. Under a Dealer Stocking Vehicle Contract the Dealer is also obliged to pay certain handling fees calculated by reference to the period prior to the repurchase by the Dealer of the relevant Motor Vehicle.

Warranties

Portfolio Loans

Under a Warranty Deed (the "Warranty Deed") to be made on or about the Closing Date between PFPLC, the Issuer and the Trustee, PFPLC will give certain representations and warranties in favour of the Issuer in relation to the Portfolio Loans as at the Closing Date (which shall include the Existing Portfolio Loans, but only in relation to facts and circumstances existing no more than five business days before the Issuer acquired such Existing Portfolio Loans). These warranties will also be given in relation to any Further Loans sold to the Issuer by any Seller. Each such warranty will be given as at, or as at a date no more than five business days before, the date on which the Issuer acquires (or, in relation to the Existing Portfolio Loans, acquired) the relevant Loan. The warranties given by PFPLC to the Issuer under the Warranty Deed as at the relevant date include warranties as to the following: that subject to certain statutory and regulatory provisions, the Loan

Agreements are valid and binding obligations of the relevant Borrower (except that for Further Loans acquired on or after 1st October 1998, such statutory and regulatory qualification will not apply to such warranty); that no right of set-off has arisen under any Portfolio Loan (except for any set-offs exercisable by virtue of claims arising under Sections 56 or 75 of the CCA); that PFPLC is not on notice of any claims arising under Section 56 or Section 75 of the CCA; that the relevant Seller held the appropriate licences and registrations at all material times; as to any information provided in respect of the Portfolio Loans as part of the relevant Offer to Sell; as to the records maintained by each relevant Seller; as to the unfettered beneficial entitlement and rights to assign of each relevant Seller in respect of each Portfolio Loan; and that no Borrower is a company.

Subject to certain conditions, PFPLC will be required pursuant to the Warranty Deed to perform its purchase obligations under the Repurchase Deed (see “Repurchase of Portfolio Assets” below) in the event of, *inter alia*, any material breach of any of the warranties given by PFPLC to the Issuer therein or the occurrence of a CCA Event in relation to a Portfolio Loan acquired by the Issuer before 1st October 1998. These obligations are subject to the minimum and maximum thresholds described below.

Car Finance Contracts

Under the Warranty Deed, PFPLC will also give certain representations and warranties in favour of the Issuer in relation to any Car Finance Contract and the related Motor Vehicle acquired on the Closing Date. Those warranties will be given as at, or as at a date not more than five business days before, the Closing Date. Those warranties will also be given in relation to any Further Portfolio Car Finance Contract and related Motor Vehicle as at, or as at a date no more than five business days before, the date on which the Issuer acquires the relevant Further Car Finance Contract and relative Motor Vehicle. The warranties to be given by PFPLC to the Issuer under the Warranty Deed in relation to Portfolio Car Finance Contracts (including Further Car Finance Contracts) include warranties as to the following: that the Portfolio Car Finance Contracts constitute the valid and binding obligations of the relevant Obligor; that no right of set-off has arisen under any Portfolio Car Finance Contract; that no Portfolio Car Finance Contract that is regulated by the CCA is subject to rights of cancellation under the CCA and that PCF has not done anything that would cause any Portfolio Car Finance Contract to be invalid or revocable; that each Portfolio Car Finance Contract that is regulated by the CCA complies with the CCA and the delegated legislation made thereunder; that the terms of each Car Finance Agreement would be acceptable to a reasonably prudent lender; as to the information provided in relation to each Portfolio Car Finance Contract; as to any warranties given in respect of any related Portfolio Motor Vehicle to a Hirer or Lessee; as to the unfettered ownership and rights to assign of PCF in respect of each Portfolio Car Finance Contract and related Portfolio Motor Vehicle (subject to limited exceptions); and that Portfolio Car Finance Contracts in favour of any single company (or group of companies) or partnership will not exceed £250,000 in aggregate.

Subject to certain conditions, PFPLC will be required pursuant to the Warranty Deed to perform its purchase obligations under the Repurchase Deed (see “Repurchase of Portfolio Assets” below) in the event of, *inter alia*, any material breach of any of the warranties given therein by PFPLC to the Issuer in respect of Portfolio Car Finance Contracts.

Dealer Stocking Vehicle Contracts

Under the Warranty Deed, PFPLC will also give certain representations and warranties in favour of the Issuer in relation to any Portfolio Dealer Stocking Vehicle Contracts and related Portfolio Motor Vehicle. Those warranties will be given as at, or as at a date not more than five business days before, the date on which the Issuer acquires the relevant Portfolio Dealer Stocking Vehicle Contract and related Motor Vehicle. The warranties to be given by PFPLC to the Issuer under the Warranty Deed in relation to Portfolio Dealer Stocking Vehicle Contracts include warranties as to the following: that the Portfolio Dealer Stocking Vehicle Contracts constitute the valid and binding obligations of the relevant Dealer; that no right of set-off has arisen under any Portfolio Dealer Stocking Vehicle Contract; as to the information provided in relation to each Portfolio Dealer Stocking Vehicle Contract; that the terms of any Dealer Stocking Vehicle Agreement would be acceptable to a reasonably prudent lender; as to the unfettered ownership of PDF in and to each Portfolio Dealer Stocking Vehicle Contract and the related Portfolio Motor Vehicle; and that the aggregate of all repurchase prices payable under each Portfolio Dealer Stocking Vehicle Contract in favour of a single Dealer will not exceed £500,000.

Subject to certain conditions, PFPLC will be required pursuant to the Warranty Deed to perform its purchase obligations under the Repurchase Deed (see “Repurchase of Portfolio Assets” below) in the event of, *inter alia*, any material breach of any of the warranties given therein by PFPLC to the Issuer in respect of Portfolio Dealer Stocking Vehicle Contracts and the related Portfolio Motor Vehicles.

Repurchase of Portfolio Assets

Under the Repurchase Deed, PFPLC will agree to purchase, or procure that another purchaser purchases, a Portfolio Asset if, on any date after the date of the Repurchase Deed:

- (a) if the Portfolio Asset comprises a Portfolio Loan acquired by the Issuer before 1st October 1998, a CCA Event occurs in relation to that Portfolio Asset; or
- (b) it becomes apparent that any warranty given by PFPLC under the Warranty Deed in relation to or affecting that Portfolio Asset was untrue or materially incorrect when given in any material respect,

and such matter is not capable of remedy or is not remedied within 30 days of notice from the Issuer (which notice the Trustee can require the Issuer to give). PFPLC will be required to repurchase the relevant Portfolio Asset (or procure its repurchase) subject to the following paragraph, two business days after the expiry of such 30 day period.

PFPLC will not be required to repurchase any of the Initial Portfolio Loans (being Portfolio Loans acquired by the Issuer on or before the Closing Date (and not subsequently sold or redeemed in full)):

- (a) unless and until the aggregate of the Repurchase Prices (as defined below) of all Initial Portfolio Loans to be repurchased exceeds £1,000,000 (whereupon PFPLC will be obliged to repurchase all of the Initial Portfolio Loans that it would, but for such minimum threshold, have been obliged to repurchase); nor
- (b) if the aggregate of Repurchase Prices of all Initial Portfolio Loans that it has already repurchased exceeds £20,000,000.

This limitation will not apply to Further Loans acquired after the Closing Date or Car Finance Products acquired at any time.

The Repurchase Price of a Portfolio Asset will be the aggregate (avoiding double counting) of:

- (a) the Current Balance on the date it is repurchased (including, without limitation, any amount that is irrecoverable due to a CCA Event); and
- (b) any Unamortised Commission on the date it is repurchased; and
- (c) any accrued interest (or its equivalent) on the Portfolio Asset that is not then due and payable,

less the aggregate (avoiding double counting) of:

- (i) the amount (if any) of interest (or, in relation to Portfolio Car Finance Products, its equivalent) accrued on that Portfolio Asset as at the Effective Date of its purchase by the Issuer which was not then payable which the relevant Seller specified at such time as being excluded from the sale (the excluded amount being “Excluded Accruals” and the net amount included in the sale being the “Purchased Accruals”) to the extent that such Excluded Accruals have not been received by the relevant Seller before the date on which such Portfolio Asset is repurchased; and
- (ii) that part of the Current Balance of the Portfolio Asset at its Effective Date which was then due but unpaid but which the relevant Seller specified at such time as being excluded from the sale (“Excluded Arrears”) to the extent that such Excluded Arrears have not been received by the relevant Seller before the date on which such Portfolio Asset is repurchased.

PFPLC will pay, or procure the payment of, the Repurchase Prices directly to the Transaction Account.

Any sale of a Portfolio Asset by the Issuer in accordance with the Repurchase Deed will be free from all security created by the Deed of Charge and will be performed pursuant to a repurchase memorandum in the form attached to the Repurchase Deed. The Issuer will give no warranties in respect of such sale. The repurchase memorandum will, if it relates to Repurchase Prices of £60,000 or more, be executed and retained by or on behalf of the parties in Jersey.

PFPLC will appoint the Issuer and the Trustee jointly and severally as its attorney to execute any repurchase memorandum, if PFPLC fails to do so when required.

Further Loans, Further Car Finance Contracts and Dealer Stocking Vehicle Contracts

In accordance with standard terms and conditions of sale agreed on the Closing Date between, in the case of Further Loans, PFPLC, PPF, Universal, the Issuer and the Trustee, in the case of Further Car Finance Contracts, PCF, the Issuer and the Trustee and in the case of Dealer Stocking Vehicle Contracts, PDF, the Issuer and the Trustee (each “Standard Terms and Conditions”), the Sellers may, but are not obliged to, from time to time, make offers to sell Further Loans, Further Car Finance Contracts or Dealer Stocking Vehicle

Contracts, as the case may be, to the Issuer. The Issuer may, but is not obliged to, accept such offers on any business day on or before the fourth anniversary of the Closing Date.

However, any purchase of a Further Loan, Further Car Finance Contract or Dealer Stocking Vehicle Contract (and the purchase of any Loan or Car Finance Contract to be purchased on the Closing Date) will be conditional on, *inter alia*, none of the following events having occurred or being about to occur as a result of the proposed purchase:

- (a) the relevant Seller being unable to repay its debts within the meaning of s.123(1)(a), (b), (c) or (d) of the Insolvency Act 1986;
- (b) the relevant Seller defaulting in repayment of any financial indebtedness of £250,000 or more in aggregate;
- (c) PFPLC having notified Moody's at any time on or after the Closing Date that PGC or PFPLC is unable to repay its debts within s.123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 or PGC or PFPLC defaulting in repayment of any financial indebtedness of £250,000 or more in aggregate;
- (d) in the case of any Offer to Sell made by PCF or PDF, the sum of the aggregate Current Balances of the Portfolio Car Finance Products exceeding 12½% of the aggregate Current Balances of the Portfolio Assets; or
- (e) in the case of any Offer to Sell made by PDF, the aggregate Current Balances of Portfolio Dealer Stocking Vehicle Contracts exceeding £5,000,000,

and will be further conditional on Moody's not having notified the relevant Seller and the Issuer that the rating assigned to any class of Notes by Moody's will not be adversely affected as a result of the Issuer accepting any such offer. If any Excluded Arrears are excluded from such purchase, it will be a further condition to such purchase that Moody's shall have first notified the Issuer that the rating assigned to any class of Notes will not be adversely affected as a result of the Issuer accepting such offer.

The purchase price for a Further Loan, Further Car Finance Contract (and the relevant Motor Vehicle) or Dealer Stocking Vehicle Contract (and the relevant Motor Vehicle) (and any Loan or Car Finance Contract (and the relevant Motor Vehicle) acquired on the Closing Date) will be the aggregate of:

- (a) its Current Balance on its Effective Date;
- (b) any Purchased Accruals; and
- (c) any Unamortised Commission,

less the aggregate of:

- (i) any provision in respect of unpaid amounts; and
- (ii) any Excluded Arrears.

The Issuer, or the Administrator on the Issuer's behalf, may withdraw amounts from the Transaction Account to pay the purchase price for a Further Loan, Further Car Finance Contract (and the relevant Motor Vehicle) or Dealer Stocking Vehicle Contract (and the relevant Motor Vehicle), as the case may be. Such withdrawals may be made on any business day but only to the extent of Available Purchase Funds on that day.

The Further Loan, Further Car Finance Contract (and the relevant Motor Vehicle) or Dealer Stocking Vehicle Contract (and the relevant Motor Vehicle), as the case may be, will be transferred on completion of an offer and acceptance in Jersey by payment of the purchase price. The offer and acceptance will constitute an Asset Sale Contract (being a Loan Sale Contract, a Car Finance Sale Contract or, as the case may be, a Dealer Stocking Vehicle Sale Contract) which will incorporate the relevant Standard Terms and Conditions by reference. Simultaneously with the offer and acceptance in Jersey, the relevant Seller will deliver certain documentation confirming the calculation of the purchase price to the Issuer. That delivery will take place in the United Kingdom. If the aggregate of the purchase prices of Further Loans, Further Car Finance Contracts (and the relevant Motor Vehicles) or Dealer Stocking Vehicle Contracts (and the relevant Motor Vehicles), as the case may be, that are the subject of an offer is equal to or less than £60,000, the offer and acceptance may take place in the United Kingdom.

Any Scottish Loans, Scottish Car Finance Contracts or Scottish Dealer Stocking Vehicle Contracts will, on conclusion of the relevant sale contract, be held on trust for the Issuer, pursuant to a declaration of trust by the relevant Seller, substantially in the form specified in the Standard Terms and Conditions (each, a "Scottish Declaration of Trust").

Each relevant Seller is under a duty to account to the Issuer for any amounts received in respect of a Further Loan, Further Car Finance Contract or Dealer Stocking Vehicle Contract, as the case may be (including amounts received between its Effective Date and the date it is acquired by the Issuer), once it has been acquired by the Issuer. Such amounts will be held on trust for the Issuer by the relevant Seller.

Notice to Obligors

Although notice to the relevant Obligor of assignment to the Issuer is required to perfect the Issuer's title in any Portfolio Asset (other than Portfolio Motor Vehicles) no such notice will be given unless, *inter alia*:

- (a) the Administrator has failed to make any payment on its due date (subject to a grace period of two business days) under the Administration Agreement, the Administrator defaults in performance of an obligation under the Administration Agreement and the default is materially prejudicial to the Noteholders or the Administrator, PGC or PFPLC is unable to pay its debts within the meaning of that term in the Insolvency Act 1986 or becomes subject to certain insolvency proceedings; or
- (b) the Trustee has given notice that it intends to enforce its security for the Notes; or
- (c) the Trustee certifies to the Issuer and PFPLC that the security for the Notes is in jeopardy; or
- (d) PFPLC is in breach of its repurchase obligations under the Repurchase Deed but in this case notice will only be given to the Obligor under each Portfolio Asset which should have been, but was not, repurchased.

B. OTHER

Creditor Insurance

Some, but not all of the Borrowers, Hirers and Lessees from (respectively) PPF and PCF have the benefit of insurance with London General Insurance Company Limited and Combined Life Assurance Company Limited under which the relevant insurer is required to make payment in the event of the death, total disability or unemployment of any such Borrower, Hirer or Lessee. PPF and PCF (as the case may be) do not have an interest in any of these policies. Nevertheless, under each policy the insurer has provided an undertaking to the assured that it will pay the benefit of any claims made by the assured directly to PPF or PCF (as the case may be).

Some, but not all Borrowers from Universal also have the benefit of this type of insurance with London and Edinburgh Insurance Company Limited and London and Edinburgh Life Assurance Company Limited. This insurance entitles Universal to receive from the insurers the proceeds of any claims made by the assured under the policy.

The proceeds of any claims received by PPF, PCF and Universal are applied by them in reducing (respectively) the relevant Borrower's, Hirer's or Lessee's liability to PPF, PCF and Universal (as the case may be).

Product Liability Insurance

PCF and PDF have the benefit of insurance which covers them against claims made by third parties following accidental bodily injury, illness and/or accidental loss of or damage to property for which PCF or PDF (as the case may be) may be held legally liable. This includes liability arising from defects in goods manufactured, supplied, repaired, tested, serviced or processed by PCF or PDF (as the case may be).

The Issuer is included as an additional assured in respect of this insurance and the insurers will be notified of the assignment of the Issuer's interest in the relevant policy to the Trustee by way of security on the Closing Date. Any claim made under such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

Other Miscellaneous Insurances

PPF, PCF, PDF, PFPLC and Universal have the benefit of insurance which covers them against loss arising from negligent acts, errors or omissions and dishonesty or fraud by the assured's staff, negligence or breach of duty by its directors and officers and fraudulent interference with computer systems or data.

The Issuer is included as an assured under these policies and the insurers will be notified of the assignment of the Issuer's interest in the policies to the Trustee by way of security on the Closing Date. Any claim made under such insurances will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

Credit Assessment

This section aims to give a broad understanding of the various methods used by the Sellers to assess an applicant's creditworthiness. The procedures outlined are not the only assessment methods employed by the Sellers and are subject to change in line with the then current practice of the relevant Seller. Universal, PPF, PFPLC, PDF and PCF will have used and may in the future use one of or a combination of the methods described below in coming to the decision as to whether to enter into a Loan Agreement, Car Finance Agreement or Dealer Stocking Vehicle Agreement with an applicant.

Credit Scoring

Credit scoring is a statistical method of credit assessment which is designed to remove inconsistencies produced by traditional subjective underwriting methods. It is based upon an analysis of the extent to which individual characteristics of a borrower (for example, the length of time in a current job and whether the applicant is a home owner) have tended historically to be predictive of actual credit performance. These individual characteristics are given certain weightings on a scorecard which is used to generate a credit score for each applicant. The credit score is checked against a predetermined cut-off level.

Credit Search

A Credit Search may be made on an applicant to try to establish their credit profile using information recorded against current and previous addresses. Information revealed on the search may include electoral information which will confirm current and previous residency, court information such as County Court Judgements and Administration Orders, Credit Industry Fraud Avoidance System information, Council of Mortgage Lenders Possessions Register information (which will give details of house repossessions) and payment history on current and completed credit agreements.

Bureau Score

This is a score which is intended to indicate creditworthiness. It is provided by a credit reference agency.

Income Tests

The relevant Seller may, having enquired about the applicant's income, carry out analysis in order to ascertain the likelihood that the applicant will be able to discharge all obligations under the proposed agreement.

Other Information

The relevant Seller may request references and/or any other information deemed necessary in connection with an application. These may include employer's or bank references, bank statements, company accounts, searches of the register maintained by the Registrar of Companies in England and Wales, the computerised index of winding up petitions, or a search of the manual index of High Court petitions for administration orders at the Central Registry of Winding Up Petitions.

The Provisional Pool

The information given in this section relates to the Provisional Pool (as defined above in “Summary — Initial Portfolio Assets”). It is stated as at 30th April 1998 (the “Provisional Pool Date”). The Loans included in the Provisional Pool (the “Provisional Loan Pool”) had an aggregate Current Balance of £280,553,130.76 as at close of business on the Provisional Pool Date comprising £271,817,346.15 in respect of Loans originated by Universal and £8,735,784.61 in respect of Loans originated by PPF. This aggregate Current Balance will have been reduced by repayments and redemptions of such Loans during the period from 30th April 1998 to the Closing Date. The Car Finance Contracts in the Provisional Pool (the “Provisional Car Finance Contract Pool”) had an aggregate Current Balance of £12,995,446.20 as at the Provisional Pool Date. This aggregate Current Balance will have been reduced by payments of principal equivalent, and possibly early termination or settlement, of such Car Finance Contracts during the period from 30th April 1998 to the Closing Date. All of the Existing Portfolio Loans included in the Provisional Loan Pool as at the Provisional Pool Date will have been sold to the Issuer with the benefit of the warranties given by PFPLC in the Warranty Deed at or within five business days of the date of their purchase by the Issuer. The Assets to be purchased by the Issuer on the Closing Date may also contain other Loans and Car Finance Contracts which, because they were originated since 30th April 1998, are not comprised in the respective provisional pools but in respect of which the warranties in the Warranty Deed will be given on the Closing Date if the Issuer acquires them.

The following statistical information is given in relation to the provisional pools as at the Provisional Pool Date. All percentages have been taken to two decimal places.

Portfolio Loans Originated by Universal

Portfolio Loans Key Features

Average current balance outstanding	£5,688.94
Weighted average seasoning	30.27 months
Weighted average annual yield	19.39%
Weighted average original term	83.87 months
Weighted average remaining term	80.34 months

Portfolio Loans Distribution by Original Loan Advance (Universal Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
Under £2,000	5,405	11.31%	7,377,468.38	2.71%
£2,000 to £3,999	10,521	22.02%	29,004,410.65	10.67%
£4,000 to £5,999	11,720	24.53%	52,906,601.31	19.46%
£6,000 to £7,999	7,040	14.73%	44,958,349.99	16.54%
£8,000 to £9,999	3,362	7.04%	26,979,129.12	9.93%
£10,000 to £11,999	5,440	11.39%	52,542,471.41	19.33%
£12,000 to £13,999	1,086	2.27%	12,582,707.65	4.63%
£14,000 to £15,999	3,205	6.71%	45,458,664.17	16.72%
£16,000 and above	1	0.00%	7,543.47	0.00%
	<hr/> 47,780 <hr/>		<hr/> 271,817,346.15 <hr/>	

Portfolio Loans Distribution by Current Balance Outstanding (Universal Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
Under £2,000	10,817	22.64%	10,454,760.83	3.85%
£2,000 to £3,999	10,088	21.11%	30,153,046.85	11.09%
£4,000 to £5,999	9,059	18.96%	44,726,871.38	16.45%
£6,000 to £7,999	5,743	12.02%	39,771,570.99	14.63%
£8,000 to £9,999	4,598	9.62%	41,466,747.88	15.26%
£10,000 to £11,999	2,196	4.60%	24,039,326.09	8.84%
£12,000 to £13,999	1,789	3.74%	23,351,787.62	8.59%
£14,000 to £15,999	2,604	5.45%	38,245,251.54	14.07%
£16,000 and above	886	1.85%	19,607,982.97	7.21%
	47,780		271,817,346.15	

Portfolio Loans Distribution by Annual Yield to Issuer (Universal Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
Under 10.00%	6,470	13.54%	27,753,397.61	10.21%
10.00% to 12.99%	834	1.75%	4,369,557.48	1.61%
13.00% to 14.99%	6,746	14.12%	41,668,098.95	15.33%
15.00% to 16.99%	5,522	11.56%	20,202,310.26	7.43%
17.00% to 19.99%	4,855	10.16%	36,245,372.86	13.33%
20.00% to 22.99%	8,964	18.76%	67,070,672.62	24.67%
23.00% to 25.99%	7,905	16.54%	39,656,769.38	14.59%
26.00% to 28.99%	134	0.28%	543,998.35	0.20%
29.00% to 31.99%	326	0.68%	3,989,845.39	1.47%
32.00% to 34.99%	1,059	2.22%	9,658,055.86	3.55%
35.00% and above	4,965	10.39%	20,659,267.39	7.60%
	47,780		271,817,346.15	

Portfolio Loans Distribution by Original Scheduled Term (Universal Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
0 to 12 months	767	1.61%	2,707,598.10	1.00%
13 to 24 months	994	2.08%	1,135,042.48	0.42%
25 to 36 months	8,533	17.86%	21,588,538.98	7.94%
37 to 48 months	3,200	6.70%	12,711,430.59	4.68%
49 to 60 months	15,540	32.52%	83,174,918.37	30.60%
61 to 72 months	56	0.12%	345,803.98	0.13%
73 to 84 months	5,023	10.51%	45,252,990.41	16.65%
85 to 96 months	96	0.20%	821,645.55	0.30%
97 to 108 months	42	0.09%	252,284.96	0.09%
109 to 120 months	13,529	28.32%	103,827,092.73	38.20%
Over 120 months	0	0.00%	0.00	0.00%
	47,780		271,817,346.15	

Portfolio Loans Distribution by Remaining Term (Universal Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
0 to 12 months	3,900	8.16%	2,248,914.57	0.83%
13 to 24 months	4,023	8.42%	7,298,835.86	2.69%
25 to 36 months	4,679	9.79%	13,818,994.65	5.08%
37 to 48 months	4,489	9.40%	19,783,283.66	7.28%
49 to 60 months	5,044	10.56%	29,109,177.66	10.71%
61 to 72 months	2,599	5.44%	17,345,766.08	6.38%
73 to 84 months	2,750	5.76%	21,273,073.52	7.83%
85 to 96 months	1,781	3.73%	10,877,745.34	4.00%
97 to 108 months	2,608	5.46%	17,245,887.29	6.34%
109 to 120 months	4,991	10.45%	43,155,631.93	15.88%
Over 120 months	10,916	22.85%	89,660,035.59	32.99%
	47,780		271,817,346.15	

Portfolio Loans Distribution by Geographical Regions (Universal Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
North	2,670	5.59%	16,379,270.87	6.03%
North West	4,648	9.73%	26,506,089.91	9.75%
Yorkshire	3,469	7.26%	21,645,422.65	7.96%
East Midlands	3,188	6.67%	18,559,313.85	6.83%
West Midlands	3,913	8.19%	23,124,319.97	8.51%
East Anglia	2,100	4.40%	12,639,310.10	4.65%
South East (excluding Greater London)	11,189	23.42%	62,748,563.70	23.08%
South West	4,020	8.41%	21,964,967.53	8.08%
Greater London	2,665	5.58%	13,894,157.63	5.11%
Wales	2,735	5.72%	14,486,638.35	5.33%
Scotland	4,717	9.87%	26,540,441.01	9.76%
Nth. Ireland	390	0.82%	2,660,935.17	0.98%
Unallocated*	2,076	4.34%	10,667,915.41	3.92%
	47,780		271,817,346.15	

Portfolio Loans Distribution by Seasoning (Universal Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
0 to 12 months	12,333	25.81%	82,561,939.21	30.37%
13 to 24 months	12,200	25.53%	72,565,392.65	26.70%
25 to 36 months	7,644	16.00%	35,975,136.67	13.24%
37 to 48 months	5,375	11.25%	26,635,527.61	9.80%
49 to 60 months	3,417	7.15%	16,644,397.46	6.12%
61 to 72 months	2,108	4.41%	10,931,107.26	4.02%
73 to 84 months	1,214	2.54%	7,958,996.87	2.93%
85 to 96 months	1,250	2.62%	7,561,862.89	2.78%
97 to 108 months	924	1.93%	5,389,574.46	1.98%
109 to 120 months	635	1.33%	2,947,823.76	1.08%
Over 120 months	680	1.42%	2,645,587.31	0.97%
	47,780		271,817,346.15	

*These loans have no recorded borrower postcode and remain unallocated as to their geographical region.

Portfolio Loans Number of Months In Arrears (Universal Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
<=1 month	35,376	74.04%	194,822,501.67	71.67%
> 1 <=2 months	1,815	3.80%	10,364,824.47	3.81%
> 2 <=3 months	1,359	2.84%	8,233,013.92	3.03%
> 3 <=4 months	1,117	2.34%	6,902,905.35	2.54%
> 4 <=5 months	926	1.94%	5,501,401.58	2.02%
> 5 <=6 months	764	1.60%	4,758,203.74	1.75%
> 6 <=7 months	660	1.38%	3,785,951.97	1.39%
> 7 <=8 months	609	1.27%	3,598,520.59	1.32%
> 8 <=9 months	516	1.08%	3,020,920.06	1.11%
> 9 <=10 months	445	0.93%	2,699,187.47	0.99%
> 10 <=11 months	395	0.83%	2,483,309.42	0.91%
> 11 <=12 months	350	0.73%	1,984,118.15	0.73%
> 12 months	3,448	7.22%	23,662,487.76	8.71%
	47,780		271,817,346.15	

Portfolio Loans Number Of Months In Arrears by Product Type (Universal Originated Loans Only)

	Flexiloan Current Balance	Premierplan Current Balance	Timeshare Current Balance	Affinity Current Balance
<=1 month	24,425,734.55	109,924,503.01	29,167,771.16	31,304,492.95
> 1 <=2 months	2,810,615.07	6,062,482.18	380,295.88	1,111,431.34
> 2 <=3 months	2,517,426.80	4,827,044.74	198,573.15	689,969.23
> 3 <=4 months	2,203,758.98	4,016,264.70	180,758.03	502,123.64
> 4 <=5 months	2,019,327.29	2,838,796.24	110,262.39	533,015.66
> 5 <=6 months	1,976,820.91	2,382,435.15	122,660.15	276,287.53
> 6 <=7 months	1,545,657.16	1,878,080.99	81,563.21	280,650.61
> 7 <=8 months	1,591,219.63	1,693,647.86	76,563.42	237,089.68
> 8 <=9 months	1,251,056.40	1,475,739.38	48,169.09	245,955.19
> 9 <=10 months	1,187,502.56	1,338,911.67	44,795.73	127,977.51
> 10 <=11 months	1,080,553.66	1,263,150.60	17,124.21	122,480.95
> 11 <=12 months	988,944.29	797,634.04	45,355.91	152,183.91
> 12 months	12,473,288.78	9,835,534.59	121,297.92	1,232,366.47
	56,071,906.08	148,334,225.15	30,595,190.25	36,816,024.67

Weighted Average Annual Yield	23.42%	19.98%	14.91%	14.63%
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Portfolio Loans Originated by PPF

Portfolio Loans Key Features

Average current balance outstanding	£6,213.22
Weighted average seasoning	4.21 months
Weighted average annual yield	19.97%
Weighted average original term	68.85 months
Weighted average remaining term	64.15 months

Portfolio Loans Distribution by Original Loan Advance (PPF Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
Under £2,000	187	13.30%	210,194.08	2.41%
£2,000 to £3,999	323	22.97%	841,852.09	9.64%
£4,000 to £5,999	241	17.14%	1,097,785.74	12.57%
£6,000 to £7,999	224	15.93%	1,409,856.49	16.14%
£8,000 to £9,999	109	7.75%	911,036.33	10.43%
£10,000 to £11,999	93	6.61%	937,021.66	10.73%
£12,000 to £13,999	84	5.97%	1,028,285.54	11.77%
£14,000 to £15,999	101	7.18%	1,503,329.87	17.21%
£16,000 and above	44	3.13%	796,422.81	9.12%
	1,406		8,735,784.61	

Portfolio Loans Distribution by Current Balance Outstanding (PPF Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
Under £2,000	254	18.07%	330,648.93	3.78%
£2,000 to £3,999	314	22.33%	938,234.65	10.74%
£4,000 to £5,999	268	19.06%	1,369,641.51	15.68%
£6,000 to £7,999	169	12.02%	1,144,496.83	13.10%
£8,000 to £9,999	115	8.18%	1,028,719.82	11.78%
£10,000 to £11,999	88	6.26%	952,889.28	10.91%
£12,000 to £13,999	66	4.69%	846,174.94	9.69%
£14,000 to £15,999	90	6.40%	1,359,404.54	15.56%
£16,000 and above	42	2.99%	765,574.11	8.76%
	1,406		8,735,784.61	

Portfolio Loans Distribution by Annual Yield to Issuer (PPF Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
19.97%	1,406	100.00%	8,735,784.61	100.00%
	1,406		8,735,784.61	

Portfolio Loans Distribution by Original Scheduled Term (PPF Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
0 to 12 months	43	3.06%	54,733.76	0.63%
13 to 24 months	123	8.75%	271,488.30	3.11%
25 to 36 months	349	24.82%	1,166,810.77	13.36%
37 to 48 months	156	11.10%	840,549.10	9.62%
49 to 60 months	502	35.70%	3,747,209.57	42.89%
61 to 72 months	30	2.13%	265,341.12	3.04%
73 to 84 months	39	2.77%	406,464.20	4.65%
85 to 96 months	13	0.92%	148,867.57	1.70%
97 to 108 months	4	0.28%	43,678.00	0.50%
109 to 120 months	147	10.46%	1,790,642.22	20.50%
Over 120 months	0	0.00%	0.00	0.00%
	1,406		8,735,784.61	

Portfolio Loans Distribution by Remaining Term (PPF Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
0 to 12 months	44	3.13%	55,933.60	0.64%
13 to 24 months	129	9.17%	282,671.90	3.24%
25 to 36 months	344	24.47%	1,159,901.75	13.28%
37 to 48 months	158	11.24%	865,660.62	9.91%
49 to 60 months	498	35.42%	3,716,623.63	42.54%
61 to 72 months	30	2.13%	265,341.12	3.04%
73 to 84 months	39	2.77%	406,464.20	4.65%
85 to 96 months	13	0.92%	148,867.57	1.70%
97 to 108 months	4	0.28%	43,678.00	0.50%
109 to 120 months	147	10.46%	1,790,642.22	20.50%
Over 120 months	0	0.00%	0.00	0.00%
	1,406		8,735,784.61	

Portfolio Loans Distribution by Geographical Regions (PPF Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
North.....	71	5.05%	523,920.70	6.00%
North West	152	10.81%	856,212.29	9.80%
Yorkshire	120	8.53%	767,458.89	8.79%
East Midlands	93	6.61%	553,911.67	6.34%
West Midlands	130	9.25%	750,113.28	8.59%
East Anglia	57	4.05%	316,986.61	3.63%
South East (excluding Greater London)...	379	26.96%	2,455,544.15	28.11%
South West	107	7.61%	627,101.15	7.18%
Greater London.....	115	8.18%	696,056.63	7.97%
Wales.....	64	4.55%	423,038.00	4.84%
Scotland.....	118	8.39%	765,441.24	8.76%
Nth. Ireland	0	0.00%	0.00	0.00%
	1,406		8,735,784.61	

Portfolio Loans Distribution by Seasoning (PPF Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
0 to 12 months	1,406	100.00%	8,735,784.61	100.00%
	1,406		8,735,784.61	

Portfolio Loans Number of Months In Arrears (PPF Originated Loans Only)

	Number	Per cent.	Current Balance	Per cent.
<=1 month	1,315	93.53%	8,256,539.07	94.51%
> 1 <=2 months	32	2.28%	183,561.99	2.10%
> 2 <=3 months	14	1.00%	84,802.05	0.97%
> 3 <=4 months	17	1.21%	75,370.40	0.86%
> 4 <=5 months	10	0.71%	41,958.74	0.48%
> 5 <=6 months	8	0.57%	39,674.94	0.45%
> 6 <=7 months	4	0.28%	21,505.66	0.25%
> 7 <=8 months	2	0.14%	16,704.38	0.19%
> 8 <=9 months	2	0.14%	7,342.38	0.08%
> 9 <=10 months	1	0.07%	5,048.69	0.06%
> 10 <=11 months	1	0.07%	3,276.31	0.04%
> 11 months	0	0.00%	0.00	0.00%
	1,406		8,735,784.61	

Portfolio Car Finance Contracts

Portfolio Car Finance Contracts Key Features

Average current balance outstanding	£6,504.23
Weighted average seasoning	2.64 months
Weighted average annual yield	15.04%
Weighted average original term	45.98 months
Weighted average remaining term	43.33 months

Portfolio Car Finance Contracts Distribution by Original Scheduled Term (PCF Originated Assets Only)

	Number	Per cent.	Current Balance	Per cent.
0 to 12 months	34	1.70%	112,523.20	0.87%
13 to 24 months	214	10.71%	920,266.91	7.08%
25 to 36 months	611	30.58%	3,502,290.79	26.95%
37 to 48 months	683	34.18%	4,659,197.64	35.85%
49 to 60 months	456	22.82%	3,801,167.66	29.25%
Over 60 months	0	0.00%	0.00	0.00%
	1,998		12,995,446.20	

Portfolio Car Finance Contracts Distribution by Remaining Term (PCF Originated Assets Only)

	Number	Per cent.	Current Balance	Per cent.
0 to 12 months	34	1.70%	112,523.20	0.87%
13 to 24 months	221	11.06%	944,569.64	7.27%
25 to 36 months	609	30.48%	3,513,255.70	27.03%
37 to 48 months	681	34.08%	4,639,568.74	35.70%
49 to 60 months	453	22.67%	3,785,528.92	29.13%
61 to 72 months	0	0.00%	0.00	0.00%
73 to 84 months	0	0.00%	0.00	0.00%
85 to 96 months	0	0.00%	0.00	0.00%
97 to 108 months	0	0.00%	0.00	0.00%
109 to 120 months	0	0.00%	0.00	0.00%
Over 120 months	0	0.00%	0.00	0.00%
	1,998		12,995,446.20	

Portfolio Car Finance Contracts Distribution by Geographical Regions (PCF Originated Assets Only)

	Number	Per cent.	Current Balance	Per cent.
North.....	10	0.50%	78,746.76	0.61%
North West	90	4.50%	656,114.07	5.05%
Yorkshire	203	10.16%	1,060,380.23	8.16%
East Midlands	59	2.95%	437,844.79	3.37%
West Midlands	284	14.21%	1,791,458.72	13.79%
East Anglia	28	1.40%	180,251.05	1.39%
South East (excluding Greater London)...	736	36.84%	5,235,088.26	40.28%
South West	85	4.25%	501,211.52	3.86%
Greater London.....	159	7.96%	1,238,519.95	9.53%
Wales.....	139	6.96%	712,997.15	5.49%
Scotland.....	205	10.26%	1,102,833.70	8.49%
Nth. Ireland	0	0.00%	0.00	0.00%
	1,998		12,995,446.20	

Portfolio Car Finance Contracts Distribution by Original Loan Advance (PCF Originated Assets Only)

	Number	Per cent.	Current Balance	Per cent.
Under £2,000	52	2.60%	74,186.00	0.57%
£2,000 to £3,999	391	19.57%	1,125,451.20	8.66%
£4,000 to £5,999	617	30.88%	2,907,733.10	22.38%
£6,000 to £7,999	380	19.02%	2,493,658.21	19.19%
£8,000 to £9,999	233	11.66%	1,995,884.52	15.36%
£10,000 to £11,999	131	6.56%	1,356,435.01	10.44%
£12,000 to £13,999	79	3.95%	967,302.82	7.44%
£14,000 to £15,999	40	2.00%	575,442.76	4.43%
£16,000 and above	75	3.75%	1,499,352.58	11.54%
	1,998		12,995,446.20	

*Portfolio Car Finance Contracts Distribution by Current Balance Outstanding
(PCF Originated Assets Only)*

	Number	Per cent.	Current Balance	Per cent.
Under £2,000	86	4.30%	136,096.40	1.05%
£2,000 to £3,999	449	22.47%	1,406,922.87	10.83%
£4,000 to £5,999	593	29.68%	2,949,314.05	22.69%
£6,000 to £7,999	362	18.12%	2,488,398.33	19.15%
£8,000 to £9,999	223	11.16%	1,988,982.99	15.31%
£10,000 to £11,999	118	5.91%	1,285,490.04	9.89%
£12,000 to £13,999	66	3.30%	854,821.36	6.58%
£14,000 to £15,999	38	1.90%	567,564.98	4.37%
£16,000 and above	63	3.15%	1,317,855.18	10.14%
	1,998		12,995,446.20	

Portfolio Car Finance Contracts Distribution by Annual Yield to Issuer (PCF Originated Assets Only)

	Number	Per cent.	Current Balance	Per cent.
Under 10.00%	36	1.80%	459,607.63	3.54%
10.00% to 12.99%	441	22.07%	3,814,933.14	29.36%
13.00% to 14.99%	449	22.47%	3,019,490.40	23.23%
15.00% to 16.99%	337	16.87%	2,070,820.74	15.93%
17.00% to 19.99%	458	22.92%	2,358,276.03	18.15%
20.00% to 22.99%	190	9.51%	932,455.52	7.18%
23.00% to 25.99%	60	3.00%	258,704.04	1.99%
26.00% to 28.99%	18	0.90%	60,303.68	0.46%
29.00% to 31.99%	8	0.40%	18,567.38	0.14%
32.00% to 34.99%	1	0.05%	2,287.64	0.02%
35.00% and above	0	0.00%	0.00	0.00%
	1,998		12,995,446.20	

Portfolio Car Finance Contracts Distribution by Seasoning (PCF Originated Assets Only)

	Number	Per cent.	Current Balance	Per cent.
0 to 12 months	1,998	100.00%	12,995,446.20	100.00%
	1,998		12,995,446.20	

Portfolio Car Finance Contracts Number of Months in Arrears (PCF Originated Assets Only)

	Number	Per cent.	Current Balance	Per cent.
<=1 month	1,949	97.55%	12,662,245.13	97.44%
> 1 <=2 months	34	1.70%	223,506.39	1.72%
> 2 <=3 months	4	0.20%	25,225.65	0.19%
> 3 <=4 months	5	0.25%	33,666.79	0.26%
> 4 <=5 months	4	0.20%	28,394.93	0.22%
> 5 <=6 months	0	0.00%	0.00	0.00%
> 6 <=7 months	1	0.05%	10,147.94	0.08%
> 7 <=8 months	0	0.00%	0.00	0.00%
> 8 <=9 months	1	0.05%	12,259.37	0.09%
> 9 months	0	0.00%	0.00	0.00%
	1,998		12,995,446.20	

Portfolio Car Finance Contracts by Product Type (PCF Originated Assets Only)

	Number	Per cent.	Current Balance	Per cent.
Motor Vehicle Hire Purchase Agreements	1,933	96.75%	12,208,213.08	93.94%
Motor Vehicle Contract Purchase Agreements.....	64	3.20%	770,144.26	5.93%
Motor Vehicle Leasing Agreements	1	0.05%	17,088.86	0.13%
	1,998		12,995,446.20	

Portfolio Asset Administration

Introduction

PFPLC will be appointed by, *inter alios*, each of the Issuer and the Trustee under the Administration Agreement to be their agent (according to their respective interests) to administer the Portfolio Assets. PFPLC will administer the Portfolio Assets with the same diligence and skill as would a reasonably prudent lender administering its own unsecured consumer loans, car finance contracts and dealer stocking arrangements, subject to the provisions of the Administration Agreement. PFPLC will undertake that in its role as administrator, it will comply with any proper directions, orders and instructions which the Issuer or the Trustee may from time to time give to PFPLC in accordance with the provisions of the Administration Agreement. The services to be provided by PFPLC under the Administration Agreement include the sale on behalf of the Issuer of Portfolio Motor Vehicles which are (a) subject to Car Finance Contracts which are motor vehicle hire-purchase agreements or motor vehicle contract purchase agreements and in respect of which the option to purchase of the Hirer is not exercised; or (b) repossessed upon default by the Hirer/Lessee or Dealer. Save as provided therein, the Administration Agreement is conditional upon the issue of the Notes taking place. PFPLC's appointment as administrator can be terminated by the Trustee in the event of, *inter alia*, a breach by PFPLC of the terms of the Administration Agreement which, in the opinion of the Trustee, is materially prejudicial to the interests of the Noteholders (subject, in the case of conflict between the interests of Noteholders of different classes, to the provisions of the Trust Deed which require the Trustee to have regard first to the interests of the Class A Noteholders, then to the interests of the Class B Noteholders and then to the interests of the Class C Noteholders) or in the event of PFPLC's insolvency.

As at 31st March 1998, PFPLC employed approximately 325 people in loan and car finance origination and administration.

Portfolio Asset Interest Rate

After the issue of the Notes and pursuant to the Administration Agreement, PFPLC (on behalf of the Issuer and the Trustee) will set or calculate the rates of interest (or other equivalent charges) applicable to the Portfolio Assets, except in certain limited circumstances. In those limited circumstances, the Trustee, the Issuer, a substitute administrator or Barclays, acting in its capacity as administrator of last resort, will be entitled to do so.

In setting the interest rates (or the level of any other equivalent charges) on the Portfolio Assets, PFPLC will be required to obtain the confirmation of Moody's that any proposed change in interest rate (or the level of any other equivalent charges) would not lead to the then current rating of any Note being adversely affected, before making such change, except in relation to Portfolio Dealer Stocking Vehicle Contracts. This requirement for the consent of Moody's, together with the hedging arrangements described above under "Issuer — Hedging Arrangements" and the arrangements for supplementing revenue income of the Issuer with its principal income, provides limited protection for Noteholders against a shortfall as between, on the one hand, the revenue income of the Issuer and, on the other hand, the amount of interest payable on the Notes.

Debtor Ledger/Current Balance

Pursuant to Clause 7.11 of the Administration Agreement, the Administrator will establish and maintain a separate Debtor Ledger for each Portfolio Asset (other than for each Dealer Stocking Vehicle Contract, which Debtor Ledgers will be maintained by APAK (as defined below) on behalf of the Administrator — see "Delegation by Administrator" below). The Administrator will record on each Debtor Ledger: (i) all amounts from time to time due and payable by the Obligor in respect of the relevant Portfolio Asset, as debits; (ii) the Current Balance of that Portfolio Asset as a debit balance; and (iii) all amounts from time to time received from the Obligor in respect of that Portfolio Asset, as credits.

The Current Balance of a Portfolio Loan on any date will be the sum of: (i) the aggregate amount of principal outstanding on that date (whether or not then due and payable); and (ii) all interest and other amounts then due and payable on that date by the Borrower.

The Current Balance of a Portfolio Car Finance Contract on any date will be the sum of: (i) the aggregate of all amounts payable by the Hirer or Lessee throughout the term of the Portfolio Car Finance Contract that the Administrator will attribute to principal equivalent (as described below) that have not been received on or before such date (whether or not then due and payable); (ii) the assumed residual value of the relevant Portfolio Motor Vehicle (in the case of a Portfolio Car Finance Contract comprising a motor vehicle leasing agreement or a motor vehicle contract purchase agreement); and (iii) all amounts of interest (or its equivalent) and other amounts due and payable on that date by the Hirer or Lessee.

The Current Balance of a Portfolio Dealer Stocking Vehicle Contract on any date will be the sum of: (i) the aggregate of all amounts payable by the Dealer throughout the term of the Portfolio Dealer Stocking Vehicle Contract that the Administrator will attribute to principal equivalent (as described below) that have not been received on or before such date (whether or not then due and payable); and (ii) all amounts of handling fee and other amounts then due and payable on that date by the Dealer.

On receipt of a payment from an Obligor, or upon any amount becoming payable by that Obligor, in relation to a Portfolio Asset, the Administrator will apportion such amounts as either principal or interest (or their respective equivalents) receipts.

In apportioning receipts in respect of Portfolio Assets, the Administrator will assume that any payment by an Obligor is made first against outstanding interest (or its equivalent) and thereafter against principal (or its equivalent).

Interest due in respect of a Portfolio Loan is calculated on the basis of the rate of interest applicable to the Portfolio Loan and the then outstanding principal amount of the Portfolio Loan. The amount of interest payable is then debited to the corresponding Debtor Ledger. To the extent that any debit is made to the corresponding Debtor Ledger in respect of interest payable by the Borrower, a receipt from a Borrower will be treated as interest. Any part of a receipt that is not attributable to interest will be treated as principal and will reduce the outstanding principal amount of the Portfolio Loan by way of a credit to the Debtor Ledger.

The equivalent of interest due in respect of a Portfolio Car Finance Contract that is a motor vehicle hire purchase agreement or motor vehicle contract purchase agreement is calculated on the basis of the interest rate applicable to such Portfolio Car Finance Contract and the outstanding balance of the capital amount that was financed under such motor vehicle hire purchase agreement or motor vehicle contract purchase agreement (being the cost of the Portfolio Motor Vehicle, less any deposit, plus any Creditor Insurance premium paid by the relevant Seller to an insurer on behalf of the Hirer). This capital amount is amortised on an annuity basis to the assumed residual value (if any) over the life of the hire purchase agreement or, as the case may be, contract purchase agreement. The amount of interest due and payable is debited to the corresponding Debtor Ledger. To the extent that any debit is made to the corresponding Debtor Ledger in respect of interest equivalent payable by the Hirer, a payment by a Hirer will be treated as interest equivalent. Any part of a payment by a Hirer that is not attributable to interest will be treated as principal equivalent and will reduce the outstanding capital amount of the related Portfolio Car Finance Contract by way of a credit to the Debtor Ledger.

Interest equivalent in respect of a Portfolio Car Finance Contract that is a lease agreement is calculated as being that part of each rental payment that does not amortise the cost of the Portfolio Motor Vehicle. The cost of the Portfolio Motor Vehicle is amortised on a straight line basis to its assumed residual value throughout the term of the relevant Portfolio Car Finance Contract. Accordingly, the amount of each rental payment that amortises the cost of the Portfolio Motor Vehicle is calculated as the cost of the Portfolio Motor Vehicle, less its assumed residual value, plus any insurance premiums funded by the relevant Seller, less any deposit, divided by the number of rental payments. The amount of interest equivalent is debited to the Debtor Ledger on each date on which a rental payment is due. Any part of a rental payment from a Lessee in respect of a Portfolio Car Finance Contract that is not attributable to interest equivalent will be treated as principal equivalent and will amortise the cost of the Portfolio Motor Vehicle by way of credit to the Debtor Ledger.

Interest equivalent in respect of a Portfolio Dealer Stocking Vehicle Contract is calculated as being equal to the handling fee payable by the Dealer. That interest equivalent is debited to the Debtor Ledger as and when it becomes due and payable. Any receipt from a Dealer before that Dealer repurchases the relevant Portfolio Motor Vehicle is treated as interest equivalent. No payments of principal (or its equivalent) are made by a Dealer before it repurchases the relevant Portfolio Motor Vehicle. Hence, no receipts from a Dealer before it repurchases the relevant Portfolio Motor Vehicle are treated as principal equivalent. Any amount received from a Dealer when it repurchases the relevant Portfolio Motor Vehicle, or on sale by or on behalf of the Issuer following a Dealer default, will be appropriated to interest equivalent and principal equivalent in the same manner as the proceeds of the sale of a Portfolio Motor Vehicle on sale or early settlement are appropriated, as described below.

In accordance with the above, the Current Balance of a Portfolio Asset on any date will be the debit balance of the corresponding Debtor Ledger on that date.

For all Portfolio Car Finance Products, any amount received by way of sale proceeds of the relevant Portfolio Motor Vehicle or on termination or early settlement or (in relation to Portfolio Dealer Stocking Vehicle Contracts) on the repurchase of the relevant Portfolio Motor Vehicle, will be applied against and treated as: (i) interest equivalent to the extent that any interest equivalent is outstanding on the date of receipt; (ii) principal

equivalent (if any) to the extent that the remainder after application against outstanding interest equivalent is less than or equal to the outstanding capital amount (in relation to motor vehicle hire purchase agreements and motor vehicle contract purchase agreements) or the unamortised cost of the Portfolio Motor Vehicle (in relation to lease agreements) or the outstanding repurchase price (in relation to dealer stocking vehicle agreements) of the related Portfolio Car Finance Product; and (iii) interest equivalent to the extent of any remainder, after application against outstanding interest equivalent and outstanding principal equivalent in accordance with clauses (i) and (ii).

Payments from Obligor

All direct debit payments made by Obligor will be paid either (i) directly into the Transaction Account or (ii) if such payments cannot be made directly to the Transaction Account without a change of instructions from the relevant Obligor, to the relevant Collection Account. The Administrator will give the instructions necessary for amounts to be debited from Obligor in accordance with the direct debiting scheme. However, the Administrator may agree with the Obligor that the direct debiting scheme need not apply to that Obligor, provided that alternative arrangements apply that are intended to ensure timely payment of amounts due in respect of the relevant Portfolio Asset.

All moneys in respect of Portfolio Assets that are credited to a Collection Account will be transferred on the first business day after being credited to such account, or as soon as practicable thereafter, to the Transaction Account. However, any funds credited to two of Universal's collection accounts with Lloyds Bank PLC will first be transferred to Universal's third collection account with Lloyds Bank PLC before being transferred to the Transaction Account. All such funds will be the subject of Universal's Collection Accounts Declaration of Trust whilst they remain to the credit of Universal's collection accounts.

PFPLC executed a declaration of trust over its collection account at National Westminster Bank Plc and its two collection accounts at Midland Bank Plc in August 1992, which declaration of trust has been amended and supplemented from time to time including by way of a supplemental declaration of trust dated 17th March 1998 (such initial and supplemental declarations of trust, the "PFPLC Collection Accounts Declaration of Trust") under which it declared, *inter alia*, that any credit balance on such collection accounts representing direct debit payments, cheque payments, redemption moneys and certain other sums of money in respect of Portfolio Loans are held on trust for the Issuer until they are applied in the manner described above.

Universal executed a declaration of trust over its collection account at Lloyds Bank PLC on 17th March 1998 and executed a supplemental declaration of trust dated 2nd June 1998 in relation to two further collection accounts at Lloyds Bank PLC in Universal's name, its collection account at National Westminster Bank Plc and its collection account at Girobank plc (such initial and supplemental declarations of trust, the "Universal Collection Accounts Declaration of Trust") under which it declared that any credit balance on such collection accounts representing direct debit payments, cheque payments and certain other sums of money in respect of the Portfolio Loans are held on trust for the Issuer until they are applied in the manner described above.

PPF executed a declaration of trust over its collection account at National Westminster Bank Plc on 5th May 1998 (the "PPF Collection Account Declaration of Trust") under which it declared, *inter alia*, that any credit balance on such collection account representing direct debit payments, cheque payments and certain other sums of money in respect of Portfolio Loans are held on trust for the Issuer until they are applied in the manner described above.

PCF will execute on or before the Closing Date a declaration of trust over its collection account at National Westminster Bank Plc (the "PCF Collection Account Declaration of Trust") under which it will declare that any credit balance on such collection account representing direct debit payments, cheque payments and certain other sums of money in respect of Portfolio Car Finance Contracts will be held on trust for the Issuer until they are applied in the manner described above.

PDF will execute on or before the Closing Date a declaration of trust over its collection account at National Westminster Bank Plc (the "PDF Collection Account Declaration of Trust") under which it will declare that any credit balance on such collection account representing direct debit payments, cheque payments and certain other sums of money in respect of Portfolio Dealer Stocking Vehicle Contracts will be held on trust for the Issuer until they are applied in the manner described above.

Arrears and Default Procedures

The Administrator will endeavour to collect all payments due under or in connection with the Portfolio Assets in accordance with its own standard procedures but having regard to the circumstances of the Obligor in each case. The Administrator may exercise such discretion as would be exercised by a reasonably prudent lender

(or, as the case may be, provider of motor vehicle or dealer stocking finance) in applying the enforcement procedures which may include making arrangements whereby an Obligor's payments may be varied to be payable beyond the original maturity of the Portfolio Asset but only if the Administrator reasonably believes that such Obligor is unable otherwise to meet his or her payment obligations.

The Administrator will be responsible for all litigation relating to Portfolio Assets, whether via its in-house litigation department or via an external panel of solicitors, on those accounts where a balance remains outstanding after the sale of the Motor Vehicle (in the case of Car Finance Contracts and Dealer Stocking Vehicle Contracts) or where enforcement via litigation on Portfolio Assets becomes necessary. The Administrator's collections department will, if appropriate, instruct its in-house litigation department to obtain a money judgement for the balance outstanding, following which the appropriate method of enforcement (such as attachment of earnings) will be considered.

Insurance

The Administrator will, on behalf of the Issuer, administer and maintain all arrangements for insurance in respect of, or in connection with, the Issuer's business and will make claims on behalf of the Issuer under any such insurance policies when necessary.

Reinvestment of Income

The Transaction Account will at all times be maintained with a bank located in the United Kingdom either whose long-term unsecured and unguaranteed debt is rated Aaa by Moody's or whose short-term debt is rated P-1 by Moody's or any of the long-term unsecured and unguaranteed debt of which is rated by Moody's as high as or higher than the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes or, if there are no Class B Notes then outstanding, the Class C Notes and shall not be changed without the prior written consent of the Trustee. If such bank ceases to satisfy the criteria mentioned above, the Administrator will be required to arrange for the transfer of the Transaction Account to another bank which does satisfy such criteria, in accordance with provisions contained in the Administration Agreement.

Sums held to the credit of the Transaction Account (to which payments of interest and interest equivalent and repayments of principal and principal equivalent in respect of Portfolio Assets are to be credited and into and out of which all other payments to and by the Issuer are to be made) must be invested in bank deposits with or any security or other obligations of or rights against entities either whose long term unsecured and unguaranteed debt is rated Aaa by Moody's or whose short term unsecured and unguaranteed debt is rated P-1 by Moody's or, if at the relevant time there are no such entities, any entities previously approved by the Trustee or any other debt represented by the balance on any bank account, or any other security or obligation as would not adversely affect the then current rating of the Class A Notes or, if there are no Class A Notes then outstanding, the Class B Notes or, if there are no Class B Notes then outstanding, the Class C Notes. Such investments and deposits must be denominated in sterling and must always mature on or before the Interest Payment Date immediately following acquisition or deposit.

Such investments will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes.

In addition, the first £50,000 (in principal amount) of the amounts standing to the credit of the Transaction Account or of Authorised Investments at any time must comprise cash deposits repayable on demand and/or investments convertible into cash in either case without premium or penalty.

Delegation by the Administrator

The Administrator may, in certain circumstances, with the consent of the Issuer and the Trustee, subcontract or delegate its obligations under the Administration Agreement. The Administrator may not subcontract or delegate all or substantially all of its obligations under the Administration Agreement without first having obtained from Moody's written confirmation that such subcontracting or delegation will not adversely affect any then current rating of the Notes. Notwithstanding the preceding sentence, the Administrator may delegate all of its obligations in relation to the day to day administration of Portfolio Dealer Stocking Vehicle Contracts (including maintaining the appropriate Debtor Ledgers) to Apak Systems Limited (registered in England and Wales with registration number 1451033) whose registered office is at Apak House, Badminton Court, Station Road, Yate, Bristol BS17 5UZ ("Apak") or any other third party with the consent of the Issuer and the Trustee. Despite any delegation or subcontracting, the Administrator will remain liable for the performance of its obligations under the Administration Agreement.

Administration Fee

The Administration Agreement makes provision for payments to be made to the Administrator. The Issuer will pay to PFPLC as Administrator an administration fee of not more than 1% (inclusive of VAT) per annum on the Current Balances of the Portfolio Assets at the beginning of each Interest Period. That fee will be payable in arrear on each Interest Payment Date. A higher fee at a rate agreed by the Trustee (but which does not exceed the rate then commonly charged by providers of administration services for unsecured consumer loans, motor vehicle finance agreements and dealer stocking vehicle agreements) may be payable to any substitute administrator appointed following termination of PFPLC's appointment. If no substitute administrator can be found, Barclays will act as administrator of last resort receiving a fee calculated in the same manner as stated above for PFPLC, at a rate of 1.5% (exclusive of VAT) per annum.

Each of PFPLC, Universal, PCF and PPF will be entitled to receive from the Issuer for its own account any commissions due to it from insurers out of premiums paid by Obligors as a result of it having placed insurance in relation to the Portfolio Assets with such insurers.

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

Termination of Administrator's Appointment

If, at any time, *inter alia*: (i) the Administrator fails to make any payment when due under the Administration Agreement (subject to a two business day grace period); or (ii) the Administrator defaults in performance of any of its obligations under the Administration Agreement which is materially prejudicial to the Noteholders (subject to a 14 day remedy period, if the breach is remediable); or (iii) the Administrator becomes insolvent or is wound up or proceedings are initiated against it under any applicable insolvency legislation (except where such proceedings are being contested in good faith); or (iv) an administrator or administrative receiver is appointed in respect of the Administrator or its assets, then the Trustee may terminate the Administration Agreement and the appointment of the Administrator.

Upon termination in accordance with the previous paragraph, the Administrator will deliver all relevant data and information relating to the Portfolio Assets (including all such data and information held by Apak on its behalf in relation to Portfolio Dealer Stocking Vehicle Contracts) to the Trustee, who may appoint a substitute administrator substantially on the terms of the Administration Agreement.

The Administrator may resign from its appointment on the expiry of not less than 12 months' notice, provided that: (i) the Trustee and Barclays consent to such resignation; (ii) a substitute administrator (which can be Barclays) is appointed with effect from a date that is no later than the date of expiry of such notice; and (iii) such substitute administrator has experience of administering unsecured consumer loans to, and motor vehicle finance agreements and dealer stocking vehicle agreements with, Obligors in England, Wales, Scotland and Northern Ireland and is approved by the Trustee. The Administrator will continue to be liable to perform its obligations under the Administration Agreement until the substitute administrator has entered into an administration agreement substantially on the terms of the Administration Agreement, unless the substitute administrator is Barclays (since Barclays has agreed to be bound by the Administration Agreement, if appointed as administrator).

United Kingdom Taxation

Taxation of Interest Paid

Under current Inland Revenue practice the Notes will be regarded as bearer securities for the purposes of section 124 of the Income and Corporation Taxes Act 1988 (the “Act”) notwithstanding that they are represented by the Global Notes. Accordingly interest payments on each Note will be treated as interest paid on a “quoted Eurobond” within the provisions of section 124 of the Act, so long as the Notes are represented by the Global Notes and continue to be listed on a recognised stock exchange within the meaning of section 841 of the Act (the London Stock Exchange is currently a recognised stock exchange). Accordingly where the Notes are thus represented and continue to be thus listed, and are held within a recognised clearing system within the meaning of section 841A of the Act (Euroclear, Cedel Bank, European Settlements Office, First Chicago Clearing Centre and the Depository Trust Company of New York have each been designated as a recognised clearing system for this purpose) payments of interest on the Notes may, under current law and practice, be made without withholding or deduction for or on account of United Kingdom income tax (provided that, where payment is made to, or at the direction of a depository for the clearing system, in accordance with regulations made by the Inland Revenue, the depository has given a declaration to the person by or through whom the payment is made or the payer has received notice as mentioned below). This paragraph will not apply if the Notes cease to be represented by the Global Notes.

If the Notes cease to be represented by the Global Notes and definitive Notes are issued, the definitive Notes will constitute “quoted Eurobonds” within the provisions of section 124 of the Act, provided that they continue to be listed on a recognised stock exchange within the meaning of section 841 of the Act and remain in bearer form. Accordingly, under current law and practice, payments of interest on the Notes may in such circumstances be made without withholding or deduction for or on account of United Kingdom income tax where:

- (a) the person by or through whom the payment is made is not in the United Kingdom; or
- (b) the payment is made by or through a person who is in the United Kingdom and either:
 - (i) the Notes and related Coupons are held in a recognised clearing system (as to which see above) and where payment is made to or at the direction of a depository for the clearing system, the depository has made a declaration in the required manner to the person by or through whom the payment is made in respect of payments of interest on the Notes or the Inland Revenue has issued a notice to that person to the effect that the condition in this paragraph (i) is satisfied, or
 - (ii) a person who is not resident in the United Kingdom beneficially owns the Notes and related Coupons (provided that a separate declaration in the required form has been made in advance to the person by or through whom the payment is made in respect of each payment of interest, or the Inland Revenue has issued a notice to that person to the effect that the condition in this paragraph (ii) is satisfied).

In all other cases, interest will be paid under deduction of United Kingdom income tax at the lower rate, currently 20%, subject to any direction to the contrary by the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any appropriate double taxation treaty. If interest is paid under deduction of United Kingdom income tax, the Issuer is not obliged to pay any additional amount in respect of the Notes.

Where:

- (a) any person in the United Kingdom, in the course of a trade or profession:
 - (i) acts as custodian of a Note or Coupon in respect of which he receives any interest or such interest is paid at his direction or with his consent to another person; or
 - (ii) by means of Coupons (including any warrant for or bill of exchange purporting to be drawn or made in payment of interest) collects or secures payment of or receives interest for another person, or otherwise arranges to collect or secure payment for such a person; or
- (b) any bank in the United Kingdom sells or otherwise realises Coupons (including any warrant for or bill of exchange, as above) and pays over the proceeds or carries them into an account; or
- (c) any dealer in coupons in the United Kingdom purchases any Coupons (including any warrant for or bill of exchange, as above) otherwise than from a bank or another dealer in coupons,

that person, bank or dealer (except in the case where acting only to clear a cheque or arrange for the clearance of a cheque) is liable to account for United Kingdom income tax at the lower rate, currently 20% on such interest or proceeds of realisation and is entitled to deduct an amount in respect thereof unless an exemption from such liability is applicable, including where:

- (aa) a person who is not resident in the United Kingdom beneficially owns the Note and is beneficially entitled to the interest or proceeds; or
- (bb) the interest or proceeds arise to trustees of certain discretionary or accumulation trusts where the trustees and each of the beneficiaries are not resident in the United Kingdom; or
- (cc) the person entitled to the interest is eligible under specified provisions for certain relief from United Kingdom tax in respect of the interest (for example, charities or pension funds); or
- (dd) the Notes are held in a recognised clearing system (as to which see above) and the person pays or accounts for interest directly or indirectly to the recognised clearing system; or
- (ee) the Notes are held in a recognised clearing system (as to which see above) for which the person is acting as depositary;

and, in each of (aa) — (dd) above, the person, bank or dealer concerned has received a declaration in the form required by regulations made by the Inland Revenue or the Inland Revenue has given notice to the effect that it considers that one or more of (aa) — (dd) above is satisfied.

The interest on the Notes will have a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Noteholders may be liable to pay further United Kingdom tax on the interest received or be entitled to a refund of all or part of the tax deducted at source, depending on their individual circumstances. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom, except where that person carries on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which that interest is received or to which the Notes are attributable. Subject to exemptions for interest received by certain categories of agent (such as some brokers and investment managers), tax may then be levied on that branch or agency.

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted under an appropriate provision in an applicable double taxation treaty.

Capital Gains and Income Profits

The Notes will constitute “qualifying corporate bonds” within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, neither a chargeable gain nor an allowable loss will arise on a disposal or redemption of the Notes for the purposes of United Kingdom taxation of chargeable gains.

A Noteholder within the charge to United Kingdom corporation tax in respect of a Note (including a Noteholder so chargeable in relation to a branch or agency in the United Kingdom) will, generally, be liable to corporation tax on income on any profits (and obtain relief for permitted losses) on the Notes. Any such profits (including interest) or permitted losses on the Notes will generally be chargeable by reference to accounting periods of the company in accordance with an authorised accounting method. For such Noteholders, the “accrued income scheme” (described below) will not apply to such a Note.

Accrued Income

A Noteholder (other than a Noteholder within the charge to corporation tax in respect of the relevant Note) who is resident or ordinarily resident in the United Kingdom or carrying on a trade in the United Kingdom through a branch or agency with which the ownership of the Note is connected may be chargeable to United Kingdom tax on income on an amount treated (by rules known as the accrued income scheme contained in Chapter II of Part XVII of the Act) as representing interest accrued on the Note at the time of disposal (determined by the Inland Revenue on a just and reasonable basis). A purchaser of a Note will not be entitled to any allowance under the accrued income scheme to set against any deemed or actual interest in respect of the Notes. If for any reason any interest due on an Interest Payment Date is not paid and a Note is subsequently disposed of with the right to receive accrued interest, special rules may apply for the purposes of the accrued income scheme.

Stamp Duty

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Global Notes or on the issue of a Note in definitive form.

The above is not a complete summary of the United Kingdom tax law and practice currently applicable and is subject to changes therein. It relates only to the position of persons who are the absolute beneficial owner of their Notes and related Coupons and some aspects do not apply to certain classes of taxpayer (such as dealers). Prospective Noteholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction outside the United Kingdom should consult their professional advisers.

Subscription and Sale

J.P. Morgan Securities Ltd., Creditanstalt AG, Deutsche Bank AG London, ING Bank N.V., Midland Bank plc and Société Générale (the “Class A Managers”) have, pursuant to a subscription agreement dated the date of this Offering Circular (to which PFPLC, PPF, PCF, PDF and Universal are also party) (the “Class A Subscription Agreement”), jointly and severally agreed, subject to certain conditions, to subscribe for the Class A Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class A Managers for certain of their expenses in connection with the issue of the Class A Notes. The Class A Subscription Agreement entitles the Class A Managers to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A Managers against certain liabilities in connection with the offer and sale of the Class A Notes. The Issuer has agreed to pay the Class A Managers a selling commission of 0.15% of the principal amount of the Class A Notes and a combined management and underwriting commission of 0.075% of the principal amount of the Class A Notes.

J.P. Morgan Securities Ltd. (the “Class B Manager”) has agreed, pursuant to a subscription agreement dated the date of this Offering Circular (to which PFPLC, PPF, PCF, PDF and Universal are also party) (the “Class B Subscription Agreement”) subject to certain conditions, to subscribe for the Class B Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class B Manager for certain of its expenses in connection with the issue of the Class B Notes. The Class B Subscription Agreement entitles the Class B Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class B Manager against certain liabilities in connection with the offer and sale of the Class B Notes. The Issuer has agreed to pay the Class B Manager a selling commission of 0.25% of the principal amount of the Class B Notes and a combined management and underwriting commission of 0.1% of the principal amount of the Class B Notes.

J.P. Morgan Securities Ltd. (the “Class C Manager”) has agreed, pursuant to a subscription agreement dated the date of this Offering Circular (to which PFPLC, PPF, PCF, PDF and Universal are also party) (the “Class C Subscription Agreement”) subject to certain conditions, to subscribe for the Class C Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class C Manager for certain of its expenses in connection with the issue of the Class C Notes. The Class C Subscription Agreement entitles the Class C Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class C Manager against certain liabilities in connection with the offer and sale of the Class C Notes. The Issuer has agreed to pay the Class C Manager a selling commission of 0.3% of the principal amount of the Class C Notes and a combined management and underwriting commission of 0.2% of the principal amount of the Class C Notes.

The Class A Managers, the Class B Manager and the Class C Manager are together referred to in this Offering Circular as the “Managers”.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except in certain transactions exempt from the requirements of the Securities Act. Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or for the account or benefit of a U.S. Person, except in certain transactions permitted by U.S. tax regulations (terms used in this sentence have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder). Each of the Class A Managers, in respect of the Class A Notes, the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has agreed that, except as permitted by the relevant Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date (the “Restricted Period”) within the United States or to, or for the account or benefit of, U.S. Persons, and that it will have sent to each dealer to which it sells Notes during the Restricted Period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by a dealer whether or not participating in the offering may violate the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S of the Securities Act.

Each Class A Manager, in respect of the Class A Notes, the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has represented and agreed that: (i) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part IV of the Financial Services Act 1986 (the “FSA”) except to persons

whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSA; (ii) it has complied and will comply with all applicable provisions of the FSA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and (iii) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Notes, other than any document which consists of or of any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom the document may otherwise lawfully be issued or passed on.

Other than admission of the Notes to the Official List no action is being taken to permit a public offering of the Notes, or possession or distribution of the Offering Circular or other material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Each Class A Manager, in respect of the Class A Notes, the Class B Manager, in respect of the Class B Notes and the Class C Manager, in respect of the Class C Notes, has undertaken not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Offering Circular or any other material relating to the Notes, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

This Offering Circular does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any country or jurisdiction where such an offer or solicitation is not authorised.

General Information

1. It is expected that listing of the Notes on the London Stock Exchange will be granted on 16th June 1998, subject only to the issue of the Temporary Global Notes. The listing of the Notes will be cancelled if the Temporary Global Notes are not issued.

2. The Notes have been accepted for clearance through Euroclear and Cedel Bank and the Common Code Numbers and ISIN numbers are as follows:

- Class A Notes, Common Code Number 8819939; ISIN XS0088199392;
- Class B Notes, Common Code Number 8820031; ISIN XS0088200315; and
- Class C Notes, Common Code Number 8820058; ISIN XS0088200588.

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

3. The following is the text of a report received by the Directors of the Issuer from Deloitte & Touche, Chartered Accountants, the Auditors to the Issuer:

“Finance for People (No. 3) PLC
St Catherine’s Court
Herbert Road
Solihull
West Midlands B91 3QE

12 June 1998

Dear Sirs,

Finance for People (No. 3) PLC

Finance for People (No. 3) PLC (the ‘Company’) was incorporated on 24 May 1996 as Finance for Home Loans (32) Limited. On 16 September 1996 the Company changed its name to Auto Loans Direct Limited. On 2 March 1998 the Company was re-registered as a public company and the Company changed its name to Finance for People (No. 3) PLC.

Between its incorporation and 16 March 1998 the Company did not trade.

The Company has not paid any dividends, nor made any distributions. It has entered in to a number of contracts in connection with the issues of £210,000,000 Class A Asset Backed Floating Rate Notes due 2013, £70,000,000 Class B Asset Backed Floating Rate Notes due 2013 and £20,000,000 Class C Asset Backed Floating Rate Notes due 2013.

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board.

We confirm that we have audited the financial statements of the Company for the period ended 30 September 1997 and have given an unqualified opinion thereon.

We confirm that in our opinion the balance sheet of the Company as at 30 September 1997 set out under ‘General Information’, in the offering circular dated 12 June 1998 relating to the issues of the Notes referred to above, has been properly prepared from the audited financial statements of the Company for the year ended 30 September 1997 upon which we reported, on 27 February 1998, in our opinion gave a true and fair view of the state of the Company’s affairs at 30 September 1997.

At your request we have, without carrying out an examination under auditing standards, undertaken certain limited procedures, principally comprising discussions with the management of the Company and review of its financial information, covering the period between 1 October 1997 and 12 June 1998.

On 17 March 1998 the Company purchased unsecured loans having an aggregate current balance, as at close of business on 13 March 1998, of £269,433,136.06 from a related company. On 5 May 1998 the Company purchased unsecured loans having an aggregate current balance, as at close of business on 30 April 1998, of £19,348,952.89 from related companies. These transactions were financed using a £263,000,000 facility agreement between, *inter alia*, Finance for People (No. 3) PLC, Paragon Finance PLC, J. P. Morgan Securities Ltd. and Morgan Guaranty Trust Company of New York. Since that time the Company has entered into transactions to manage those assets in the normal course of business.

Apart from the above our limited procedures did not identify any other significant changes in the business of the Company between 1 October 1997 and 12 June 1998.

Yours faithfully

Deloitte & Touche
Chartered Accountants”

4. Deloitte & Touche have given and not withdrawn their written consent to the issue of this Offering Circular and authorised contents of that part of the Listing Particulars with their report on the Issuer and references to their name included herein in the form and context in which they appear for the purposes of section 152(1)(e) of the Financial Services Act 1986.

5. The following table sets out the audited balance sheet of the Issuer as at 30th September 1997.

	£
Assets Employed	
Current Assets	
Amount owed by parent company	2
	<hr/>
	2
Financed by	
Equity Shareholders' Funds	
Called up share capital	2
	<hr/>
	2

Accounting Policy

The accounts and notes have been prepared in accordance with applicable accounting standards. The particular accounting policy adopted is described below.

The accounts and notes have been prepared using the historical cost basis of accounting.

So long as the Notes are listed on the London Stock Exchange the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not intend to publish interim accounts from the date hereof.

6. Save as disclosed herein, since 30th September 1997 (being the date of the last audited accounts of the Issuer) there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer.

7. Since the date of its incorporation, the Issuer has entered into the Class A Subscription Agreement, the Class B Subscription Agreement, the Class C Subscription Agreement, the Loan Sale Contracts in relation to the Loans acquired on 17th March 1998 and 5th May 1998, an ISDA Master Agreement with the Swap Counterparty dated 17th March 1998 and interest rate swaps and interest rate caps thereunder, and an eleventh supplemental VAT declaration of trust with Morgan Guaranty Trust Company of New York as trustee to which PFPLC was also a party. It has also entered into the Facility Agreement (and certain fee letters in relation thereto), a deed of sub-charge and assignment between, *inter alios*, the Issuer, Morgan Guaranty Trust Company of New York as security trustee, PFPLC, Universal and PPF, an administration agreement between, *inter alios*, the Issuer and PFPLC, a master definitions schedule between, *inter alios*, the Issuer, Morgan Guaranty Trust Company of New York as security trustee, PFPLC, Universal and PPF, standard terms and conditions of sale between Universal, the Issuer, PFPLC, PPF and Morgan Guaranty Trust Company of New York as trustee relating to the Existing Loans, a warranty deed between PFPLC, the Issuer and Morgan Guaranty Trust Company of New York as trustee relating to the Existing Loans, a repurchase deed between PFPLC, the Issuer and Morgan Guaranty Trust Company of New York as trustee relating to the Existing Loans, a loan stock instrument and related loan stock issued to PFPLC, a subordinated loan agreement with PFPLC as lender, a fee letter addressed to PFPLC and a services letter addressed to PFPLC, each (save as stated) dated 17th March 1998 and each being contracts entered into other than in its ordinary course of business, each of which will either be terminated or discharged on the Closing Date (other than the master definitions schedule referred to above which will be deemed to continue to apply to Loan Sale Contracts entered into before the Closing Date) pursuant to a deed of amendment and termination to be dated the Closing Date between the Issuer, Morgan Guaranty Trust Company of New York as trustee, PFPLC, Universal, PPF, PCF, PDF, Barclays, the Trustee and the Swap Counterparty (the "Deed of Amendment and Termination").

8. The Issuer is not involved in any legal or arbitration proceedings which may have, or have had during the twelve months preceding the date of this Offering Circular, a significant effect on the Issuer's financial position nor, so far as the Issuer is aware, are any such proceedings pending or threatened.

9. The annual report and financial statements of the Issuer for the period from 30th September 1996 until 30th September 1997 have been audited by Deloitte & Touche.

10. Copies of the following documents may be inspected during normal business hours on any weekday (excluding Saturdays and public holidays) at the offices of Slaughter and May, 35 Basinghall Street, London, EC2V 5DB during the period of fourteen days from the date of this Offering Circular:

- (a) the Memorandum and Articles of Association of the Issuer;
- (b) copies of the Class A Subscription Agreement, the Class B Subscription Agreement, the Class C Subscription Agreement, the Master Definitions Schedule, the Offer to Sell from Universal dated 17th March 1998, the Offer to Sell from Universal dated 5th May 1998 and the Offer to Sell from PPF dated 5th May 1998 (each in relation to Loans acquired by the Issuer on those dates), the receipts from each of Universal and PPF in respect of those Offers to Sell, the standard terms and conditions applicable to the Loan Sale Contracts comprising those Offers to Sell and receipts, the PFPLC Collection Accounts Declaration of Trust, the Universal Collection Accounts Declaration of Trust and the PPF Collection Account Declaration of Trust;
- (d) drafts (subject to modification) of the Trust Deed to constitute the Class A Notes, the Class B Notes and the Class C Notes (including the forms of the Global Class A Notes, the Class A Notes, Coupons and Talons, the Global Class B Notes, the Class B Notes, Coupons and Talons and the Global Class C Notes, the Class C Notes, Coupons and Talons), the Deed of Novation, the Deed of Amendment and Termination, the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Warranty Deed, the Standard Terms and Conditions, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the Loan Stock Instrument, the Swap Agreement, the Repurchase Deed, the PCF Collection Account Declaration of Trust, the PDF Collection Account Declaration of Trust and the Agency Agreement; and
- (e) the audited annual report and financial statements of the Issuer for the year ended 30th September 1997.

REGISTERED AND HEAD OFFICE OF THE ISSUER

Finance for People (No.3) PLC

St Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE

ADMINISTRATOR

Paragon Finance PLC

St Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE

TRUSTEE

Morgan Guaranty Trust Company of New York

60 Victoria Embankment
London EC4Y 0JP

**SWAP COUNTERPARTY, REFERENCE AGENT AND
PRINCIPAL PAYING AGENT**

Morgan Guaranty Trust Company of New York

60 Victoria Embankment
London EC4Y 0JP

LEGAL ADVISERS TO THE ISSUER AND THE ADMINISTRATOR

Slaughter and May

35 Basinghall Street
London EC2V 5DB

LEGAL ADVISERS TO THE MANAGERS AND THE TRUSTEE

Sidley & Austin

1 Threadneedle Street
London EC2R 8AW

AUDITORS TO THE ISSUER

Deloitte & Touche

Colmore Gate
2 Colmore Row
Birmingham B3 2BN

LISTING AGENT

J.P. Morgan Securities Ltd.

60 Victoria Embankment
London EC4Y 0JP