OFFERING CIRCULAR

Paragon Mortgages (No. 5) PLC

(Incorporated with limited liability in England and Wales with registered number: 3696169)

£226,250,000
Class A Mortgage Backed Floating Rate Notes Due 2033
Class A1 £50,000,000 Class A2 £176,250,000

Issue price: 100%

£23,750,000
Class B Mortgage Backed Floating Rate Notes Due 2041

Issue price: 100%

The £226,250,000 Class A Mortgage Backed Floating Rate Notes Due 2033 of Paragon Mortgages (No. 5) PLC (the "**Issuer**") will comprise £50,000,000 Class A1 Notes (the "**Class A1 Notes**") and £176,250,000 Class A2 Notes (the "**Class A2 Notes**") (together, the "**Class A Notes**") and will be issued by the Issuer together with the £23,750,000 Class B Mortgage Backed Floating Rate Notes Due 2041 of the Issuer (the "**Class B Notes**") (the Class A Notes and the Class B Notes together being the "**Notes**").

Interest on the Notes will be payable in pounds sterling quarterly in arrear on 7 September 2003 and thereafter on each subsequent 7 December, 7 March, 7 June and 7 September subject to adjustment in the manner described in this Offering Circular (each date as so adjusted, being an "**Interest Payment Date**"). Interest on the Class B Notes will be paid on an Interest Payment Date only if and to the extent that there are sufficient funds available to the Issuer on the Principal Determination Date (as defined herein) applicable to such Interest Payment Date to pay interest on such Notes, as more particularly described herein. To the extent that such funds are not sufficient to pay the full amount of interest on the Class B 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 the 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 Class B 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 (or, in the case of the first Interest Period, by reference to a linear interpolation between two and three month sterling deposits) plus a margin which will differ for each class of Notes. The margins applicable to each class of Notes, and the Interest Periods (as defined herein) for which such margins apply, will be as set out below:

(i) Class A1 Notes: 0.22% per annum up to and including the Interest Period ending in June 2007 and thereafter 0.44% per annum;

(ii) Class A2 Notes: 0.32% per annum up to and including the Interest Period ending in June 2007 and thereafter 0.64% per annum; and

(iii) Class B Notes: 1.35% per annum up to and including the Interest Period ending in June 2007 and thereafter 2.70% per annum.

The first Interest Period is expected to commence on (and include) 26 June 2003 and end on (but exclude) the Interest Payment Date falling in September 2003. 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 herein. In certain other circumstances and at certain times, the Notes may be redeemed at the option of the Issuer at their Principal Amount Outstanding (as defined herein) together with accrued interest on any Interest Payment Date, as more particularly described herein.

The Class B 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 Class B Notes. All the Class A Notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority among themselves except, until enforcement of the security, as to priority of payments of principal. The right to payment of interest on the Class B Notes will be subordinated and may be limited as described herein (see "Summary – Interest" below). As a result, no assurance is given as to the amount (if any) of interest on the Class B 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**") and an AAA rating by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**" (and, together with Moody's, the "**Rating Agencies**")). The Class B Notes are expected, on issue, to be assigned an A2 rating by Moody's and an A rating by Standard & Poor's. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

*Application has been made to the Financial Services Authority in its capacity as United Kingdom Listing Authority (the "**U.K. Listing Authority**") for the Notes to be admitted to the official list maintained by the U.K. Listing Authority (the "**Official List**"). Copies of this Offering Circular, which comprises listing particulars with regard to the Issuer and the Notes in accordance with the listing rules made under Part VI of the Financial Services and Markets Act 2000 ("**FSMA**") by the U.K. Listing Authority, have been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 83 of FSMA. Application has also been made to the London Stock Exchange plc (the "**London Stock Exchange**") for the Notes to be admitted to trading on the London Stock Exchange.*

The Notes of each class will initially be represented by a Temporary Global Note (as defined in "**Summary – Global Notes**" below), without coupons or talons, which will be deposited with a common depositary (the "**Common Depositary**") for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**") at the closing of the issues of the Notes (which is expected to be on 26 June 2003). The Temporary Global Note relating to each class of Notes will be exchangeable 40 days after the closing of the issues 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 Depositary. Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes.

Particular attention is drawn to the section herein entitled "Special Considerations".

Class A1 Notes, Class A2 Notes and Class B Notes Manager

HSBC

The date of this Offering Circular is 23 June 2003.

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 – Trustee" below) or the Manager (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 or that the information contained in this Offering Circular is correct at any time subsequent to its date.

Neither the Trustee nor the Manager 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 the Manager 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 Trustee or the Manager.

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Notes should consult independent professional advisers.

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

No action has been taken by the Issuer or the Manager, other than the applications to the U.K. Listing Authority and 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 Manager has represented that all offers and sales by it have been and will be made on such terms. Persons into whose possession this Offering Circular comes are required by the Issuer and the Manager 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" and "Description of the Class B Notes, the Global Class B Notes and the Security".

The Notes have not been and will not be registered under the United States Securities Act of 1933 (as amended) or with any securities regulatory authority of any state or other jurisdiction of the United States of America. The Notes are in bearer form and are subject to U.S. tax law requirements. Subject to certain exceptions, 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 (subject to matters referred to in "Special Considerations – Matters relating to the European Union").

In connection with the issues of the Notes, HSBC Bank plc (the "Stabilising Manager") (or any person acting for the Stabilising Manager) may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Closing Date. However, there may be no obligation on the Stabilising Manager (or any agent of the Stabilising Manager) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

TABLE OF CONTENTS

	Page
Summary	4
Special Considerations	25
Credit Structure	33
Description of the Class A Notes, the Global Class A Notes and the Security	37
Description of the Class B Notes, the Global Class B Notes and the Security	53
Use of Proceeds	70
Ratings	70
The Issuer	71
The Paragon VAT Group	78
Swap Counterparty	78
The Mortgages	79
Lending Guidelines	84
Insurance Coverage	87
Historical Data relating to Paragon Mortgages Limited's Mortgage Business	89
The Provisional Mortgage Pool	91
Mortgage Administration	95
United Kingdom Taxation	102
Subscription and Sale	103
General Information	105
Glossary of Key Terms and Definitions	107

SUMMARY

The information on the first page, page 2 and the information in this Summary relating to the Notes, the Issuer and the Mortgages is qualified in its entirety by the detailed information appearing elsewhere in this Offering Circular.

Please refer to the Glossary to this Offering Circular to find on which page a capitalised term is defined.

Issuer	Paragon Mortgages (No. 5) PLC, a public company incorporated under the laws of England, registered number 3696169 and a subsidiary of The Paragon Group of Companies PLC ("**PGC**"). The ordinary shares of PGC are listed by the U.K. Listing Authority and traded on the London Stock Exchange.
PFPLC	Paragon Finance PLC ("**PFPLC**" or the "**Administrator**"), a public company incorporated under the laws of England and a wholly owned subsidiary of PGC.
PML	Paragon Mortgages Limited ("**PML**"), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.
PSFL	Paragon Second Funding Limited ("**PSFL**"), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.
Mortgage Originator	All of the Mortgages were, or will have been, originated by PML.
Administrator	PFPLC will be appointed to act as administrator of the Mortgages and to perform certain corporate, administrative and cash management services on behalf of the Issuer.
Trustee	Citicorp Trustee Company Limited (the "**Trustee**") will act as trustee for the Noteholders and will hold the benefit of the security created by the Issuer on trust for, among others, the Noteholders.
The Notes	£226,250,000 Class A Mortgage Backed Floating Rate Notes Due 2033 (comprising £50,000,000 Class A1 Notes and £176,250,000 Class A2 Notes) and £23,750,000 Class B Mortgage Backed Floating Rate Notes Due 2041. All the Class A Notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority except, until enforcement of the security for the Notes, as to priority of payments of principal. **The Notes will be obligations of the Issuer. The Notes will not be obligations or the responsibility of any person other than the Issuer. The Notes will not be guaranteed by any person. In particular, the Notes will not be obligations or the responsibility of PFPLC, PML, PGC, POPLC (as defined in "Post Enforcement Call Option" below), PSFL, any company in the same group of companies as PGC (other than the Issuer), the Trustee, the Manager 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 PFPLC, PML, PGC, POPLC, PSFL, any company in the same group of companies as PGC (other than the Issuer), the Trustee, the Manager 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 certain liabilities in respect of the Class A Notes. The Class B Notes rank after the Class A Notes in point of security.**
Interest	The interest rates applicable to the Notes from time to time will be determined by reference to LIBOR for three month sterling deposits (or, in the case of the first Interest Period, by reference to a linear

interpolation between two month and three month sterling deposits) 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 A1 Notes: 0.22% per annum up to and including the Interest Period ending in June 2007 and thereafter 0.44% per annum;

Class A2 Notes: 0.32% per annum up to and including the Interest Period ending in June 2007 and thereafter 0.64% per annum; and

Class B Notes: 1.35% per annum up to and including the Interest Period ending in June 2007 and thereafter 2.70% per annum.

Interest payments on the Class B Notes will be subordinated to interest payments on the Class A Notes (see "Priority of Payments – prior to enforcement" below). Accordingly, Class B Noteholders will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest then due to Class A Noteholders on that Interest Payment Date have been paid in full.

To the extent that, on any Interest Payment Date, funds are insufficient to pay the interest otherwise due on the Class B Notes on that Interest Payment Date, the deficit will not then be paid but will be deferred and 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 – prior to enforcement") on the relevant Interest Payment Date. Such unpaid interest will accrue interest (at the rate applicable from time to time to the Class B Notes) during the time it remains unpaid.

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 7 September 2003 and thereafter on each subsequent 7 December, 7 March, 7 June and 7 September or, if any such day is either a Saturday or Sunday and/or is not a day on which banks are generally open for business in London (a "**Business Day**"), on the immediately succeeding Business Day.

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 26 June 2003 or such later date as may be agreed between the Issuer and the Manager for each class of Notes (the "**Closing Date**"), and end on (but exclude) the Interest Payment Date falling in September 2003. 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) the Mortgages (as defined in "The Mortgages" below) to be purchased by the Issuer;

(ii) various insurance policies relating to the Mortgages in which the Issuer has an interest;

(iii) the Issuer's rights under the Mortgage Sale Agreement, the Administration Agreement, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the Swap Agreement, the Collection Account Declaration of Trust, the Caps (as defined in "Hedging Arrangements" below) and other hedging arrangements entered into

by the Issuer, the Substitute Administrator Agreement and the VAT Declaration of Trust;

(iv) any investments in which the Issuer may place any cash which it owns; and

(v) 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 B91 3WL (or such other bank account 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 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 (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 undertakings 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 and the Class B 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 Class B 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, any amounts payable to Global Home Loans Limited (the "**Substitute Administrator**") 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 PFPLC and PML under, among other things, the Mortgage Sale Agreement, the Fee Letter and the Services Letter (each as defined in "The Issuer" below) and amounts owing to PFPLC under the Subordinated Loan Agreement referred to below.

Use of Ledgers – the Issuer

The Administrator will be required to maintain in the books of the Issuer certain ledgers in which the Administrator will record all amounts received by or on behalf of the Issuer. These ledgers will include a "**Principal Ledger**" and a "**Revenue Ledger**".

The Administrator will be required to credit to the Principal Ledger all principal amounts received from borrowers in respect of the Mortgages or otherwise paid or recovered in respect of the Mortgages.

The Administrator will be required to credit all other amounts received by the Issuer to the Revenue Ledger (apart from (i) drawings under the Subordinated Loan Agreement which are to be used for the purposes of establishing or increasing the First Loss Fund and the Shortfall Fund referred to below; (ii) drawings under the Subordinated Loan Agreement in order to reduce to zero any debit balance on the Principal Deficiency Ledger (as defined below) and/or to replenish the First Loss Fund to the Required Amount specified in "First Loss Fund" below and thus to enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances (as defined below), which drawings will not form part of the priority of payments prior to enforcement of the security constituted by the Deed of Charge

(see "Priority of Payments – prior to enforcement" below) but will be credited directly, in the case of amounts drawn down to reduce to zero any debit balance on the Principal Deficiency Ledger, to the Principal Deficiency Ledger (as defined below) and will be deemed to be principal received for the purposes of calculating Available Redemption Funds (as defined below) or, in the case of amounts drawn down to replenish the First Loss Fund to the Required Amount, to a separate first loss ledger (the "**First Loss Ledger**") thus increasing to that extent the First Loss Fund; and (iii) drawings under the Subordinated Loan Agreement in order to fund the Issuer when making any Mandatory Further Advances or Discretionary Further Advances, which will be credited to the Principal Ledger.

The Administrator will also be required to maintain a "**Principal Deficiency Ledger**" to which will be debited amounts representing principal losses incurred on the Mortgages and principal receipts which are applied in paying interest on the Class A Notes, in paying amounts (other than Swap Termination Amounts and Withholding Compensation Amounts) under the Swap Agreement or other hedging arrangements entered into by the Issuer and in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Mortgages.

Priority of Payments – prior to enforcement

Moneys in the Transaction Account representing the credit balance on the Revenue Ledger will be applied from time to time (including on an Interest Payment Date) in making payment of certain moneys which properly belong to third parties (such as overpayments by borrowers) and of sums due under obligations incurred in the course of the Issuer's business and in making certain provisions.

Until enforcement of the security for the Notes, the following payments and provisions are required to be made out of such moneys standing to the credit of the Transaction Account and representing the credit balance on the Revenue Ledger on each Interest Payment Date 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):

(i) *pro rata* according to the respective amounts thereof, payment of any amounts due and payable by the Issuer to the Trustee, and payment of amounts due and payable by the Issuer to the Substitute Administrator pursuant to the Substitute Administrator Agreement (other than the commitment fee referred to therein);

(ii) *pro rata* according to the respective amounts thereof, payment of all fees, costs, expenses and commissions due and payable to the Administrator and/or PML and/or any substitute administrator under the Administration Agreement and the commitment fee due and payable to the Substitute Administrator pursuant to the Substitute Administrator Agreement;

(iii) *pro rata* according to the respective amounts thereof, (a) payment of any amounts due and payable to the Swap Counterparty under the Swap Agreement or to any Permitted Hedge Provider under any other hedging arrangements entered into by the Issuer, in each case other than (i) any such amounts due and payable to the Swap Counterparty or any Permitted Hedge Provider in respect of the termination of any hedging agreement entered into pursuant to the Swap Agreement or otherwise where the Swap Counterparty or Permitted Hedge Provider is the Defaulting Party or the sole Affected Party (in each case as defined in the Swap Agreement or, as the case may be, any other hedging arrangement), (each a "**Swap Termination Amount**") and (ii) any Withholding Compensation Amounts; and (b) payment of interest

due and payable and all arrears of interest remaining unpaid on the Class A Notes (irrespective of class) together with (if applicable) interest thereon;

(iv) payment of interest due and payable and all arrears of interest remaining unpaid (including Additional Interest (as defined in the terms and conditions of the Class B Notes below)) on the Class B Notes together with (if applicable) interest thereon;

(v) *pro rata* according to the respective amounts thereof, payment of sums due and payable to third parties under obligations incurred in the course of the Issuer's business and provision for and payment of the Issuer's liability (if any) to value added tax and to corporation tax and the balance, if any, of the value added tax liability of the Paragon VAT Group following a demand being made by H.M. Customs & Excise on the Issuer where the value added tax liability is not satisfied in full in accordance with the Deed of Charge, the Administration Agreement and the VAT Declaration of Trust (see "The Paragon VAT Group" below);

(vi) provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below) on the immediately following Principal Determination Date;

(vii) provision for an amount necessary to replenish the First Loss Fund to the Required Amount specified in "First Loss Fund" below;

(viii) *pro rata* according to the respective amounts thereof, payment of any Withholding Compensation Amounts and any Swap Termination Amounts due and payable to the Swap Counterparty under the Swap Agreement or to any Permitted Hedge Provider under any other hedging arrangements entered into by the Issuer;

(ix) provision for, at the option of the Issuer, a reserve to fund any purchases of Caps and/or other hedging arrangements and/or related guarantees in the next Interest Period;

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

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

(xii) provision for the repayment of the outstanding amount of all advances made under the Subordinated Loan Agreement, subject to a maximum provision of the lesser of (a) the aggregate outstanding amount of all such advances less the Required Amount; and (b) the amount available for application having made in full all provisions and payments referred to in paragraphs (i) to (xi) inclusive above;

(xiii) 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 (including, without limitation, in the Services Letter) 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

(xiv) the balance to the Issuer to enable it to pay or provide for the payment of any dividends or other distributions to be made by the Issuer,

all as set out in a deed of sub-charge and assignment to be entered into between, among other persons, the Issuer, the Trustee, PFPLC, PML, the Administrator, the Swap Counterparty and the Substitute Administrator (the "**Deed of Charge**").

If and to the extent that the provisions specified in paragraphs (x), (xi), (xii) and (xiii) 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 first Business Day after such Interest Payment Date to the extent that the amounts credited to the Transaction Account representing a credit balance on the Revenue Ledger are sufficient for such purpose.

If on any Interest Payment Date, while any Class A Note (irrespective of class) remains outstanding, application of moneys in the Transaction Account representing a credit balance on the Revenue Ledger in the order set out above would result in the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) following such application exceeding the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes (after deducting the amount of any Class B Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date), then, to the extent of such excess, the payments or provisions specified in paragraphs (iv) and (v) shall be postponed and shall instead be paid after any provisions referred to in paragraphs (vi) and (vii) (but prior to any payment referred to in paragraph (viii)).

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

Priority of Payments – post-enforcement

The terms on which the security interests, referred to above in "Security for the Notes", will be held will provide that all moneys received or recovered by or on behalf of the Trustee after the security constituted by or pursuant to the Deed of Charge has become enforceable shall (subject as provided therein) be applied in the following order of priority (in each case, *pro rata* according to the respective amounts thereof):

(i) (a) remuneration payable to any receiver appointed under the Deed of Charge and any costs, charges, liabilities and expenses incurred by such receiver together with interest as provided in the Deed of Charge, (b) amounts due from the Issuer to the Trustee, together with interest thereon as provided in the Deed of Charge and (c) amounts due from the Trustee to borrowers relating to Mandatory Further Advances;

(ii) certain fees and out-of-pocket expenses and commissions of the Administrator, certain commissions previously received by the Issuer which have not previously been paid to PML, and all moneys due and payable under the Substitute Administrator Agreement (including the commitment fee payable to the Substitute Administrator);

(iii) (a) any amounts due and payable by the Issuer to the Swap Counterparty or to any Permitted Hedge Provider, in each case other than (i) any Swap Termination Amounts and (ii) any Withholding Compensation Amounts, (b) all interest unpaid in respect of the Class A Notes (irrespective of class) (together with any unpaid interest thereon), (c) all principal moneys due in respect of the Class A Notes (irrespective of class) and (d) any other amounts due in respect of the Class A Notes (irrespective of class);

(iv) (a) all interest unpaid in respect of the Class B Notes (together with any unpaid interest thereon), (b) all principal moneys due in respect of the Class B Notes and (c) any other amounts due in respect of the Class B Notes;

(v) any Withholding Compensation Amounts and any Swap Termination Amounts due and payable by the Issuer to the Swap Counterparty or to any Permitted Hedge Provider;

(vi) all amounts due and payable by the Issuer (a) to PFPLC under the Fee Letter, the Services Letter, the Deed of Charge and the Subordinated Loan Agreement, (b) to PML under the Mortgage Sale Agreement, the Administration Agreement, the Fee Letter and the Deed of Charge and (c) to any other lender under the Subordinated Loan Agreement; and

(vii) the surplus (if any) to the Issuer.

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 last Business Day of the month preceding that in which such Interest Payment Date falls (each such Business Day, a "**Principal Determination Date**").

Up to and including the later of the Interest Payment Date falling in June 2008 and the Interest Payment Date on which the ratio of the aggregate Principal Amount Outstanding of the Class B Notes to the aggregate Principal Amount Outstanding of the Notes is 47.5:250 or more (such circumstance constituting the "**Determination Event**"), all Available Redemption Funds will be applied in mandatory redemption of the Class A1 Notes until all the Class A1 Notes have been redeemed in full, and thereafter in mandatory redemption of the Class A2 Notes.

After the occurrence of the Determination Event, on each Interest Payment Date, provided that (a) on the immediately preceding Interest Payment Date, after the application of the moneys in the Transaction Account representing the credit balance on the Revenue Ledger in accordance with the priority of payments set out in "Priority of Payments – prior to enforcement" (including any amounts debited from the First Loss Ledger and applied in accordance with the priority of payments as specified in "First Loss Fund" below) on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger, (b) on the immediately preceding Principal Determination Date the then outstanding balance, including arrears of interest and all other sums due and payable but unpaid (the "**Current Balance**") of Mortgages which are more than three months in arrears represents less than 7.5% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time) and (c) on the immediately preceding Principal Determination Date there are no Class A1 Notes then outstanding, Available Redemption Funds will be applied in redemption of the Class A2 Notes and the Class B Notes, where the Class A2 Notes have not been redeemed in full, so as to achieve and then maintain the ratio referred to in the preceding paragraph provided that:

(i) if all Class A Notes have been redeemed in full, all Available Redemption Funds will be applied to redeem the Class B Notes; and

(ii) while any Class A Note remains outstanding, the aggregate Principal Amount Outstanding of the Class B Notes may not be less than £12,000,000.

After the occurrence of a Determination Event, the whole of the Available Redemption Funds will be applied in redemption of the

Class A1 Notes until all the Class A1 Notes have been redeemed in full and thereafter the balance of the Available Redemption Funds not required to be applied in redemption of the Class B Notes will be applied in redemption of the Class A2 Notes.

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

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

(a) the aggregate of:

(i) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Arrears and Accruals relating thereto received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the "**relevant Collection Period**"));

(ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid by the Issuer to PML by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement and (b) the amount applied to establish the First Loss Fund on the Closing Date;

(iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Notes on the Interest Payment Date relative thereto; and

(iv) any part of the amount deducted pursuant to (b)(i), (ii) and (iii) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer in each case on or prior to the preceding Interest Payment Date;

less

(b) the aggregate of:

(i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have

been or will be funded by drawings under the Subordinated Loan Agreement;

(ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;

(iii) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and

(iv) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages,

in each such case (save for (a)(iii) and (a)(iv) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

Optional Redemption of Class A Notes

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 that the Issuer or the Swap Counterparty is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under the Swap Agreement, or in the event of certain other United Kingdom taxation changes then, all (but not some only) of the Class A Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date. The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer has agreed under the Swap Agreement that it will, subject to and in accordance with the agreed order of priority of payments referred to under "Priority of Payments – prior to enforcement" above, pay Withholding Compensation Amounts to the Swap Counterparty (see "The Issuer – Hedging Arrangements"). Furthermore, the Issuer will also be entitled, but not obliged, to redeem all (but not some only) of the Class A Notes of a particular class at their Principal Amount Outstanding together with accrued interest as follows:

(i) Class A1 Notes on any Interest Payment Date falling in or after June 2006; and

(ii) Class A2 Notes on any Interest Payment Date falling in or after June 2006.

No such optional redemption of any Class A2 Note may be made unless none of the Class A1 Notes are then outstanding or all (but not some only) of the Class A1 Notes are redeemed in full at the same time.

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 £42,500,000 provided that all the Class B Notes are to be redeemed in full at the same time.

Optional Redemption of Class B Notes

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 that the Issuer or the Swap Counterparty is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under the Swap Agreement, or in the event of certain other United Kingdom taxation changes then, provided that there are no Class A Notes (irrespective of class) then outstanding or all the Class A Notes (irrespective of class) 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, in whole at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date. The Issuer will not have any obligation to pay additional amounts in respect of any such withholding or deduction save that the Issuer has agreed under the Swap Agreement that it will, subject to and in accordance with the agreed order of priority of payments referred to under "Priority of Payments – prior to enforcement" above, pay Withholding Compensation Amounts to the Swap Counterparty (see "The Issuer – Hedging Arrangements").

Provided that there are no Class A Notes (irrespective of class) then outstanding or all the Class A Notes (irrespective of class) 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 in full at their Principal Amount Outstanding together with accrued interest on any Interest Payment Date falling in or after June 2006 or, if the Class A Notes have already been redeemed in full, on any Interest Payment Date falling on or after the date on which all the Class A Notes were redeemed in full.

Purchase of Notes

The Issuer may not purchase Notes at any time.

Final Redemption

To the extent not otherwise redeemed, (i) the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in December 2033 and (ii) the Class B Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in December 2041.

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 the 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 for each Interest Period and such determination will be published on the Reuters Screen by not later than the fifth Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date, or as soon as practicable thereafter.

The Mortgages

The mortgages, the beneficial interest in which will be acquired by the Issuer and which will form part of the security for the Notes (the "**Mortgages**"), will comprise mortgages which were originated by PML and in respect of which PML remains the legal owner. The borrowers in respect of the Mortgages are either individuals (Mortgages where the borrowers are individuals being "**Individual Mortgages**") or limited liability companies incorporated in England and Wales or Scotland (Mortgages where the borrowers are such limited liability companies being "**Corporate Mortgages**").

The Mortgages will be acquired by the Issuer from PML pursuant to a mortgage sale agreement to be dated on or before the Closing Date,

between the Issuer, PML, the Trustee and PSFL (the "**Mortgage Sale Agreement**") whereby on the Closing Date PML will re-acquire the Mortgages from PSFL (being the subsidiary of PGC which has previously purchased the beneficial interest in such Mortgages as part of PML's bank-financed warehousing arrangements).

Location of the properties secured by the Mortgages

The Mortgages are, or will be, secured by charges (the "**English Mortgages**") over freehold or leasehold residential properties located in England and Wales (the "**English Properties**") or by standard securities (the "**Scottish Mortgages**") over feudal or long leasehold residential properties located in Scotland (the "**Scottish Properties**" and, together with the English Properties, the "**Properties**").

Mortgages purchased by the Issuer may be mortgages which have been originated subsequent to the Provisional Pool Date (as defined in "The Provisional Mortgage Pool" below) and on or prior to the Closing Date.

References herein to freehold property or interests therein and to leasehold property or interests therein shall, in respect of the Scottish Properties, be construed as being references to feudal property or interests therein and long leasehold property or interests therein respectively.

Accruals and arrears in respect of the Mortgages

As at the Closing Date, there will be Mortgages which are to be sold to the Issuer which will have outstanding arrears in excess of one current monthly payment under such Mortgages ("**Arrears Mortgages**"). As at the Provisional Pool Date, Arrears Mortgages comprised £734,085.51 by aggregate Provisional Balance (as defined in the section below headed "The Provisional Mortgage Pool") of the Provisional Mortgage Pool (as defined under "Selection of Mortgages" below). Any arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any Mortgage other than an Arrears Mortgage ("**Retained Pre-Closing Accruals and Arrears**") will not be purchased by the Issuer, and any payments received in respect of such Mortgage after the date of its purchase will be applied first to those arrears, other amounts and accrued interest and will be accounted for to PML.

The maximum aggregate principal amount of Arrears Mortgages which may be purchased by the Issuer is £1,500,000 at the time of purchase.

Any arrears of interest, other amounts which have become due but remain unpaid and interest accrued (but unpaid) in respect of any Mortgage which is an Arrears Mortgage (the "**Purchased Pre-Closing Accruals and Arrears**") will be purchased by the Issuer. Any amount received by the Administrator or by, or on behalf of, the Issuer representing Purchased Pre-Closing Accruals and Arrears will be treated as principal moneys received by the Issuer.

Selection of Mortgages

The Mortgages to be purchased by the Issuer will be selected from the pool of mortgages to which the statistical and other information contained in this Offering Circular relates (see "The Provisional Mortgage Pool" below) and from other mortgages not included in the Provisional Mortgage Pool.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 28 years save for certain Mortgages with a combined maximum principal amount outstanding of £15,000,000 which will have had original maturities of up to 40 years. Principal payments may be made in whole or in part at any time during the term of a Mortgage at the option of the relevant borrower. Any such payments received by the Issuer in respect of a Mortgage (whether or not scheduled) will form part of the moneys

included in the calculation of Available Redemption Funds. The calculation of Available Redemption Funds also includes deductions from the foregoing amounts to the extent of Mandatory Further Advances or Discretionary Further Advances.

All of the Mortgages will comprise Standard Mortgages, Fixed Rate Mortgages, LIBOR-Linked Mortgages and/or Capped Rate Mortgages (see "The Mortgages" below) which met certain lending criteria (see "Lending Guidelines" below) at the time of origination by PML. The Issuer will have the benefit of warranties given by PML in relation to the Mortgages. PML will be required to purchase any Mortgage sold by it in relation to which there is a material breach of warranty.

Further Advances in respect of the Mortgages

Each further advance in respect of a Mortgage representing any part of the original advance retained pending completion of construction or refurbishment is referred to as a "**Mandatory Further Advance**". Any further advance in respect of a Mortgage other than a Mandatory Further Advance is referred to as a "**Discretionary Further Advance**".

Subject to the satisfaction of certain conditions, the Issuer may make or fund Discretionary Further Advances provided that (a) there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date (or, to the extent that there is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the Principal Deficiency Ledger, is sufficient to reduce to zero any such debit balance on the Principal Deficiency Ledger), (b) the First Loss Fund is at least equal to the Required Amount on the immediately preceding Interest Payment Date (or, to the extent that it is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the First Loss Ledger, is sufficient to replenish the First Loss Fund to the Required Amount) and (c) the sum of (i) all Discretionary Further Advances (other than by way of capitalisation of arrears) which have been made since the Closing Date or which are proposed to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made, (ii) all Mandatory Further Advances which have been made since the Closing Date or which are to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made which, in the case of sub-paragraph (i) above and this sub-paragraph (ii), have been or are to be funded by the Issuer out of principal received or recovered or deemed to have been received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose, and (iii) all Mandatory Further Advances which may be required to be made after the making of the relevant Discretionary Further Advance, would not, on the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £41,000,000.

Discretionary Further Advances may only be made in respect of any Mortgage if PML's lending criteria as far as applicable are satisfied at the relevant time subject to such waivers as might be within the discretion of a reasonably prudent mortgage lender, all as will be provided in the Administration Agreement. The Issuer may also make Discretionary Further Advances to the extent that these are funded by advances made to it under the Subordinated Loan Agreement (see "Subordinated Loan Agreement" below).

Conversion of Mortgages

Any Mortgage may, subject to certain conditions, be converted into a different type of mortgage (a "**Converted Mortgage**"). Accordingly,

any Converted Mortgage may differ from the Mortgages described under "The Mortgages" below.

If any Converted Mortgages comprise Fixed Rate Mortgages or Capped Rate Mortgages, the Issuer will on or before the date of conversion have entered into one or more interest rate swap, interest rate cap or other hedging agreements for such Converted Mortgages together with any related guarantees if not to do so would adversely affect any of the then current ratings of the Notes (see "The Issuer – Hedging Arrangements" below).

Receipt of moneys in respect of Mortgages

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages will be paid into a collection account in the name of PML and specified as the "Collection Account" in the Trust Deed (the "**Collection Account**"). All moneys received in respect of the Mortgages will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

Under the Collection Account Declaration of Trust, PML will declare that all direct debit payments made by borrowers under the Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages which are credited to the Collection Account are held on trust for the Issuer until they are applied in the manner described above.

Mortgage Administration

Pursuant to an agreement to be entered into on or before the Closing Date between PFPLC, PML, the Issuer and the Trustee (the "**Administration Agreement**"), PFPLC will administer the Mortgages on behalf of the Issuer. The Administrator will set the rates of interest applicable to the Mortgages (where relevant). The Administrator will receive, in priority to payments of interest on the Notes, an annual fee of not more than 0.30% (inclusive of VAT) on the aggregate interest charging balances of the outstanding Mortgages, payable quarterly in arrear by the Issuer. 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 mortgage administration services. Pursuant to an agreement to be entered into on the Closing Date with the Substitute Administrator (the "**Substitute Administrator Agreement**"), the Substitute Administrator will agree to be administrator of last resort and, in the event that it became the administrator, an annual fee of 0.30% (exclusive of VAT) on the aggregate interest charging balances of the Mortgages payable quarterly in arrear on each Interest Payment Date would be payable by the Issuer.

Under the Administration Agreement, the Administrator is given the duty, on behalf of the Issuer and the Trustee, of taking all reasonable steps to recover sums due to the Issuer, including under the Mortgages, and in respect of the Issuer's and the Trustee's rights in the insurance policies referred to below.

Insurances

Where a Repayment Mortgage or an Interest-only Mortgage (as defined in "The Mortgages" below) has been originated by PML, PML recommends that, in the case of Individual Mortgages, borrowers or, in the case of Corporate Mortgages, guarantors arrange term life assurance but, in the majority of cases, no security will be or has been taken over such assurance. Even if such policies were taken out, in the case of Individual Mortgages, borrowers or, in the case of Corporate Mortgages, guarantors may not have been making payment in full or on time of the premium due on the relevant

policies, which may therefore have lapsed and/or no further benefits may be accruing thereunder.

In addition, with respect to Interest-only Mortgages there is no scheduled amortisation of principal, and consequently, upon the maturity of such a Mortgage, the borrower will be required to make a "bullet" payment that will represent the entirety of the principal amount outstanding. The ability of such a borrower to repay an Interest-only Mortgage at maturity may depend on such borrower's ability to refinance the Property or obtain funds from another source (such as a pension policy or a unit trust or an endowment policy), although the Mortgage Conditions in respect of such Mortgages do not require such borrowers to put in place such alternative funding arrangements (see "Special Considerations" below).

First Loss Fund

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount (the "**1.6% amount**") which equals 1.6% of the aggregate Principal Amount Outstanding of the Class A Notes and the Class B Notes as at the Closing Date and will credit such amount to the First Loss Ledger for the purpose of establishing a fund (the "**First Loss Fund**"). The First Loss Fund will be applied by the Issuer on any Interest Payment Date towards the payment of or provision for the amounts referred to in items (i) to (iii) inclusive and, subject to the next paragraph, items (iv) and (v), and, in any event (and not subject to the next paragraph), item (vi) in the priority of payments set out in "Priority of Payments – prior to enforcement" above where the income of the Issuer and the amount available to the Issuer (if any) on such Interest Payment Date in any Shortfall Fund, as described below, is insufficient to pay such amounts.

The First Loss Fund will not be applied towards payment of items (iv) and (v) in the priority of payments set out in "Priority of Payments – prior to enforcement" above to the extent that the priority of payment of such items is postponed (as set out in "Priority of Payments – prior to enforcement" 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.

On each Interest Payment Date revenue of the Issuer in excess of the amounts required to pay or provide for items (i) to (vi) inclusive (or, to the extent that the priority of the payments or provisions referred to in paragraphs (iv) and (v) in the priority of payments set out in "Priority of Payments – prior to enforcement" above is postponed, items (i) to (iii) inclusive and item (vi)) will be applied to replenish the First Loss Fund to the Required Amount.

Subject as provided in the next paragraph, the Required Amount (the "**Required Amount**") will be the amount of the First Loss Fund on the first Principal Determination Date unless otherwise reduced as described in this paragraph or such other amount (including a reduction thereof) as may have been agreed with the Rating Agencies. If, on any Interest Payment Date falling in or after June 2008, (a) after the application of the moneys in the Transaction Account representing the credit balance on the Revenue Ledger in accordance with the priority of payments set out in "Priority of Payments – prior to enforcement" (including any amounts debited from the First Loss Ledger and applied in accordance with the priority of payments as specified above) on that Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger, (b)

the then Current Balances of Mortgages which are then more than three months in arrears in aggregate comprise less than 6% of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if, at such time, amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised within the 12 months immediately preceding such time) and (c) the amount which is 3.2% of the then Current Balances of the Mortgages (the "**3.2% amount**") is less than the amount of the First Loss Fund on the first Principal Determination Date or, as the case may be, any lower figure to which the Required Amount has been reduced on any previous Interest Payment Date as described in this paragraph, the Required Amount will be reduced on such Interest Payment Date to the 3.2% amount, provided that while any of the Notes remain outstanding the Required Amount may not be less than the greater of £1,000,000 and the amount which is two times the outstanding principal balance of the largest Mortgage owned by the Issuer. If on any such Interest Payment Date the conditions in (a), (b) and (c) of this paragraph are not satisfied, the then current Required Amount will not be reduced but will remain at the Required Amount on the immediately preceding Interest Payment Date.

If at any time, as a result of the rate at which amounts are received in respect of Purchased Pre-Closing Accruals and Arrears, Moody's and/or Standard & Poor's notifies the Issuer that the then current Required Amount would have to be increased to a higher amount (the "**Increased Required Amount**") in order to maintain the then current ratings of the Notes, the Required Amount shall be so increased to such higher amount with effect from the date on which Moody's and/or Standard & Poor's so notifies the Issuer and such Increased Required Amount (or any subsequent Increased Required Amount specified by Moody's and/or Standard & Poor's) shall continue to apply as the Required Amount until such time as Moody's and Standard & Poor's confirms to the Issuer that the Required Amount may be reduced to the amount which would otherwise have applied, or otherwise specifies a new Increased Required Amount. If after application of any funds required to be applied from the First Loss Fund on any Interest Payment Date, there remains on that Interest Payment Date a surplus over the Required Amount in the First Loss Fund, that surplus will be released from the First Loss Fund and applied in repayment of principal amounts outstanding under the Subordinated Loan Agreement.

Shortfall Fund

The Issuer may at any time, with the prior consent of PFPLC, draw down under the Subordinated Loan Agreement for the purpose of establishing a shortfall fund (the "**Shortfall Fund**"). If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account (as to which see "Reinvestment of Income" below) is less than 1.6% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until (and including) the Interest Payment Date falling in June 2007 and 2.0% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case above the LIBOR applicable to the Notes for the then current Interest Period, then the Administrator may do so only if there is a sufficient credit balance in the Shortfall Fund (net of all provisions previously made

during the then current Interest Period) in order to provide for the shortfall which would arise at the end of the then current Interest Period and the Issuer makes a provision in the Shortfall Fund equal to such shortfall.

On each Interest Payment Date, the full amount of the Shortfall Fund will be available to the Issuer to be applied, together with the Issuer's other net income, to the items referred to in "Priority of Payments – prior to enforcement" above.

Hedging Arrangements

On the Closing Date, the Issuer will have entered into a master interest rate exchange agreement (together with any confirmations for specific transactions, the "**Swap Agreement**") with JPMorgan Chase Bank as swap counterparty (the "**Swap Counterparty**" or the "**Swap Provider**") and one or more interest rate swaps or caps or other hedging arrangements thereunder, each in accordance with Moody's and Standard & Poor's requirements to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages that are acquired by it on the Closing Date.

In relation to any Fixed Rate Mortgages or Capped Rate Mortgages arising upon conversion of any Mortgages into Fixed Rate Mortgages or Capped Rate Mortgages, the Issuer will be obliged to enter into hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes.

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 current ratings of the Notes) and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge (any such bank or financial institution being a "**Permitted Hedge Provider**").

Hedging arrangements may, but need not, include one or more interest rate caps (each a "**Cap**") which will be made available to the Issuer by means of one or more cap agreements entered into with a counterparty (a "**Cap Provider**") or may comprise other hedging arrangements entered into with the Swap Provider under the Swap Agreement.

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 and AAA by Standard & Poor's or whose short term debt is rated at least P-1 by Moody's and at least A-1 by Standard & Poor's (or in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes). Any investments made by the Issuer must also satisfy certain further criteria described in "Mortgage Administration – Reinvestment of Income" below.

Until such time as the Notes are redeemed in full, an amount equal to the First Loss Fund must be invested in accordance with the criteria applicable to cash held in the Transaction Account specified in the preceding paragraph, save that the relevant short term debt rating by Standard & Poor's of the entity in which the investment or investments is or are made must, in the case of the First Loss Fund, be at least A-1+ by Standard & Poor's.

Any moneys invested in entities rated A-1 by Standard & Poor's (whether as Authorised Investments or standing as a balance on the Transaction Account) may not be invested for a period of more than 30 days and such investments may not exceed 20% of the Principal Amount Outstanding of the Notes.

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 a common depositary (the "**Common Depositary**") for Euroclear and Clearstream, Luxembourg. Interests in the Temporary Global Note relating to that class will be exchangeable for interests in a permanent global note relating to that particular 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 Depositary. 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 Clearstream, Luxembourg.

While either Global Note of a particular class is outstanding, payments on the Notes of that class represented by either of such Global Notes will be made against presentation of the relevant Global Note by the Common Depositary to the Principal Paying Agent provided certification of non-U.S. beneficial ownership by the Noteholders of that class has been received by Euroclear or Clearstream, Luxembourg. Each of the persons appearing from time to time in the records of Euroclear or of Clearstream, Luxembourg 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, Clearstream, Luxembourg. 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 and between classes of Class A Noteholders

The trust deed constituting the Notes will contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders and the Class B 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 the Class B Noteholders. The trust deed will also contain provisions limiting the powers of the Class B Noteholders to, among other things, 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 be materially prejudicial to the interests of the Class A Noteholders. The

Class B Noteholders will not be entitled to request or direct the Trustee to accelerate payment by the Issuer of the Class B 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, irrespective of the effect thereof upon their interests.

For the relationship between classes of Class A Noteholders, see "Special Considerations" below.

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 liaised with professional advisers and the Manager. PML will pay, on behalf of the Issuer, or reimburse to the Issuer, the management and underwriting commissions and selling commissions due to the Manager referred to in "Subscription and Sale" below and any expenses payable by the Issuer in connection with the issues of the Notes. The Issuer will agree under a fee letter to be entered into 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 PML such commissions and such expenses in 16 quarterly instalments beginning on the first Business Day after the first Interest Payment Date. Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR (or such other rate which PML, PFPLC and the Issuer agree to be a fair commercial rate at the time) payable quarterly in arrear.

Services Letter

PFPLC will agree under a services letter to be entered into on the Closing Date (the "**Services Letter**") to undertake certain management and administration services to the extent that these are not provided pursuant to the Administration Agreement. The Issuer will agree to pay to PFPLC, for the provision of these services, a fee calculated on the basis of an apportionment, according to the average gross value of Mortgages under management during the relevant period, of the costs incurred by PFPLC in respect of the services.

Subordinated Loan Agreement

PFPLC will make available to the Issuer under a subordinated loan agreement to be entered into on or before the Closing Date (the "**Subordinated Loan Agreement**") a subordinated loan facility. An amount or amounts will be drawn down by the Issuer under the Subordinated Loan Agreement on the Closing Date to establish the First Loss Fund and achieve the initial ratings on the Notes.

PFPLC will also agree to make advances available to the Issuer, if and to the extent that the Issuer does not have sufficient Available Redemption Funds, to enable it to make any Mandatory Further Advances which it is required to make. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances. The Issuer shall not be entitled to make a Discretionary Further Advance where it is unable to fund such Discretionary Further Advance accordingly.

In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (subject to the other conditions applicable to the

making of Discretionary Further Advances) to make any Discretionary Further Advances, (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Ledger, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, and/or (iii) to enable the Issuer to make any Discretionary Further Advances when it would otherwise be unable to do so.

PFPLC will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions specified in items (i) to (vii) inclusive in the priority of payments set out in "Priority of Payments – prior to enforcement" above, by paying directly to the Swap Provider or relevant Permitted Hedge Provider any Swap Termination Amounts due and payable on such Interest Payment Date and (ii) at any time where the Issuer, or the Administrator on the Issuer's behalf, waives any prepayment charges applicable to any Mortgage, by paying to the Issuer an amount equal to such waived prepayment charge.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of PFPLC, for the purpose of establishing or increasing the Shortfall Fund. 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.

In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement in order to fund (if necessary) purchases by the Issuer of Caps or other hedging arrangements (and any related guarantee) to hedge the Issuer's interest rate exposure on Fixed Rate Mortgages or Capped Rate Mortgages.

On any Interest Payment Date, sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (see "Priority of Payments – prior to enforcement" above) (provided that an amount equal to the Required Amount may not be repaid while any Notes remain outstanding and provided further that PFPLC and the Issuer may agree that any such repayment may be waived or deferred in whole or in part). For further details of the Subordinated Loan Agreement see "The Issuer – Subordinated Loan Facility from PFPLC" below.

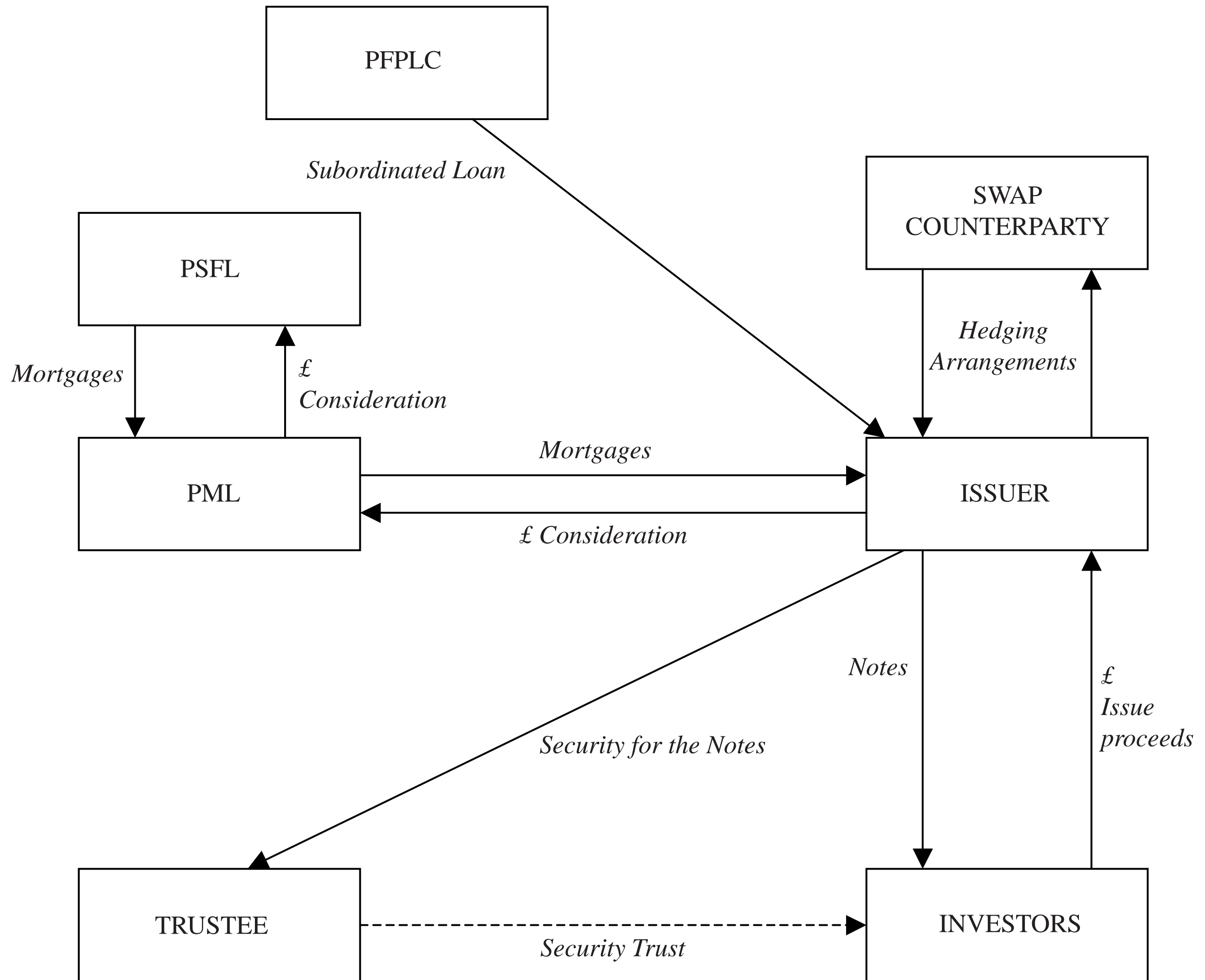
Post Enforcement Call Option

The Trustee will, on the Closing Date, grant to Paragon Options PLC (an indirect subsidiary of PGC) ("**POPLC**") (pursuant to a post enforcement call option deed to be entered into on the Closing Date between POPLC and the Trustee (the "**Post Enforcement Call Option Deed**")) an option to require the transfer to it for a consideration of £0.01 per Class B Note of all (but not some only) of the Class B Notes (together with accrued interest thereon) in the event that the security granted under or pursuant to the Deed of Charge is enforced and, after payment of all other claims ranking in priority to the Class B Notes and the Class B Coupons under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal, interest and other amounts due in respect of the Class B Notes and all other claims ranking *pari passu* therewith (see "Description of the Class B Notes, the Global Class B Notes and the Security – Enforcement and Post Enforcement Call Option"). The Class B Noteholders will be bound by the terms and conditions of the Trust Deed and the Class B Conditions in respect of the post

enforcement call option and the Trustee will be irrevocably authorised to enter into the Post Enforcement Call Option Deed as agent for the Class B Noteholders.

The Issuer will enter into a deed with, among other persons, POPLC (the "**POPLC Deed**") pursuant to which, among other things, POPLC agrees with the Issuer to exercise the options granted in its favour pursuant to the Post Enforcement Call Option Deed.

STRUCTURE DIAGRAM



SPECIAL CONSIDERATIONS

The following is a summary of certain aspects of the issues 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 solely obligations of the Issuer

The Notes will be solely the obligations of the Issuer. The Notes will not be obligations or the responsibility of PFPLC, PML, POPLC, PSFL, PGC, any other company in the same group of companies as PGC (other than the Issuer), the Trustee, the Manager or any other person other than the Issuer. Furthermore, none of PFPLC, PML, POPLC, PSFL, PGC, the Trustee, the Manager nor any 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 Notes will not be guaranteed by any person.

The Issuer's ability to meet its obligations under the Notes

Funds available to the Issuer

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 on funds being received under the Mortgages, the Transaction Account deposit arrangements, any hedging arrangements whether entered into under the Swap Agreement or otherwise, any Caps and any related guarantees, any permitted investments, the Subordinated Loan Agreement and the insurances in which the Issuer has an interest.

Matters relating to the Mortgages

Setting of rates of interest in respect of the Mortgages

The Administrator will, on behalf of the Issuer and the Trustee, set, where relevant, the rates of interest applicable to the relevant Mortgages (other than Fixed Rate Mortgages and Capped Rate Mortgages during the applicable fixed rate or capped rate period and other than LIBOR-Linked Mortgages). The Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages, taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account, is not less than 1.6% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until and including the Interest Payment Date falling in June 2007 and 2.0% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter in each case above the LIBOR applicable to the Notes at that time. The Administrator may set or maintain a lower weighted average mortgage interest rate if and to the extent that the resultant shortfall can be provided for out of an available credit balance in any Shortfall Fund.

In respect of Fixed Rate Mortgages, the Administrator is unable to vary the rate of interest during the fixed rate period set out in the relevant Mortgage Conditions; in respect of Capped Rate Mortgages, the Administrator is unable to increase the rate of interest above the capped rate during the capped rate period set out in the relevant Mortgage Conditions; and in respect of LIBOR-Linked Mortgages, the interest rate is set at a fixed margin over three month LIBOR. As a result, the Issuer may be exposed to the risk of an adverse interest differential between the rate of interest receivable in respect of the Fixed Rate Mortgages, Capped Rate Mortgages and LIBOR-Linked Mortgages, on the one hand, and the rate of interest payable on the Notes on the other hand. In relation to any Fixed Rate Mortgages and/or Capped Rate Mortgages that are acquired by the Issuer on the Closing Date, the Issuer will on the Closing Date have entered into hedging arrangements relating thereto. If, and to the extent that, after the Closing Date Mortgages are converted into Fixed Rate Mortgages or Capped Rate Mortgages, the Issuer will be required to enter into hedging arrangements in respect of the relevant Mortgages but only if not to do so would adversely affect any of the then current ratings of the Notes.

In limited circumstances and other than in relation to Fixed Rate Mortgages and Capped Rate Mortgages during the applicable fixed rate or capped rate period and, other than in relation to the LIBOR-Linked Mortgages, the Trustee or the Issuer or any substitute administrator appointed by the Trustee or the Substitute Administrator (when acting in its capacity as administrator of last resort) will be entitled to set the rates of interest applicable to the Mortgages. 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 authority to set the rates of interest applicable to the Mortgages and/or terminate the appointment of the Administrator.

In view of the arrangements for setting Mortgage rates and in view of the First Loss and Shortfall Funds, the terms and conditions of the Class B 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 or the Class B Notes is or are missed or not paid in full.

Representations and warranties

PML will warrant in the Mortgage Sale Agreement, among other things, that, prior to it making the initial advance to a borrower under a Mortgage, PML received from solicitors or licensed or qualified conveyancers acting for it a report on title or certificate of title to the relevant Property which either initially or after further investigation disclosed nothing which would cause a reasonably prudent lender to decline to proceed with the initial advance on the proposed terms or, where the mortgage loan made in relation to a Property is secured by a Mortgage which was made without there being a contemporaneous purchase of such Property by the borrower, carried out all investigations and searches as would a reasonably prudent mortgage lender and nothing which would cause such a mortgage lender to decline to proceed with the advance on the proposed terms was disclosed. Except as described under "The Mortgages – Acquisition of Mortgages" below, neither the Issuer nor the Trustee has undertaken or will undertake any such investigations, searches or other actions in relation to the Mortgages and each will rely instead on the warranties given in the Mortgage Sale Agreement by PML. For further information on the representations and warranties to be given by PML in respect of the Mortgages, see "The Mortgages – Searches and Warranties in respect of the Mortgages" below.

The sole remedy against PML in respect of breach of warranty shall be to require PML to repurchase any relevant Mortgage provided that this shall not limit any other remedies available if PML fails to repurchase, or procure the repurchase of, a Mortgage when obliged to do so. PML will also agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the Director General of Fair Trading or otherwise, to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, it shall repurchase or procure the repurchase of the Individual Mortgage concerned. There can be no assurance that PML will have the financial resources to meet its obligations to repurchase, or procure the repurchase of, any Mortgage whether such obligation arises because of a breach of warranty or otherwise.

Perfection of title

The sales by PML to the Issuer of the Mortgages will only be perfected in certain circumstances by the execution of transfers and assignations of Mortgages to the Issuer, the carrying out of requisite registrations and recordings and the giving of notice to any borrower or guarantor. In the meantime, neither the Issuer nor the Trustee will acquire legal title to any of the English Mortgages or the Scottish Mortgages and they will not be able to apply to H.M. Land Registry, the Central Land Charges Registry or the Registers of Scotland to register transfers or assignations of the Mortgages to perfect their interests. They will not be giving notice to any borrower or guarantor in respect of any transfer of the Mortgages. For further information, see "The Mortgages – Perfection of title" below.

The effect of the agreement to transfer the Mortgages from PML to the Issuer pursuant to the Mortgage Sale Agreement (and, in relation to Scottish Mortgages, to the execution of a declaration of trust over such Mortgages) remaining unperfected is that the rights of the Issuer (and, therefore, in turn, the Trustee) may be, or may become, subject to equities as well as to the interests of third parties who perfect a legal interest prior to the Issuer acquiring and perfecting its respective legal interests. Furthermore, the Issuer's interests will be or become subject to such equitable and other interests of third parties as may rank in priority to its interests in accordance with the normal rules governing the priority of equitable and other interests in the case of both registered and unregistered land.

Other matters

Third party rights

Third party rights (for example, rights of occupation or rights of a subsequent mortgagee or security holder) may arise subsequent to the completion of the initial advance to a borrower. None of PFPLC, PML, the Issuer or the Trustee has undertaken or will undertake any investigation or search of any kind prior to the making of a Mandatory Further Advance to a borrower or, in some circumstances, the making of a Discretionary Further Advance.

Mandatory Further Advances

In respect of certain of the Mortgages, Mandatory Further Advances are required to be made to borrowers. The Issuer expects to fund Mandatory Further Advances to be made by it for any given period from the moneys referred to in paragraph (A) of the definition of "Available Redemption Funds" in Condition 5(a) of the Class A Notes. The Issuer may not, however, receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off the amounts of any Mandatory Further Advances which the Issuer has failed to make against amounts owing by those borrowers and/or to sue the Issuer for damages for breach of contract. Accordingly, if and to the extent that the Issuer does not have sufficient funds to make any such Mandatory Further Advances, the Issuer will be entitled to borrow further amounts from PFPLC under the Subordinated Loan Agreement and PFPLC will be under an obligation to make any such amounts available to the Issuer.

Relationship between classes of Class A Noteholders

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders and the Class B 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 and other persons entitled to the benefit of the Security (as defined in the Trust Deed) 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 any of the other persons entitled to the benefit of the Security.

Following the giving of an Enforcement Notice all interest, principal and other amounts due to the Class A Noteholders will be paid to them *pro rata* irrespective of the class of Class A Notes which they hold. Circumstances could potentially arise in which the interests of the holders of the Class A1 Notes and the Class A2 Notes as to whether an Enforcement Notice should be given, or whether the Trustee should take or refrain from taking any other action, could differ. The Trust Deed and the terms and conditions of the Class A Notes will, however, provide that any directions given to the Trustee by the holders of any specified percentage of the Class A Notes will not differentiate between the Class A1 Notes and the Class A2 Notes. The Trust Deed will also provide that, except in the case of a Basic Terms Modification (see "Description of the Class A Notes, the Global Class A Notes and the Security – Meetings of Class A Noteholders; Modifications; Consents; Waiver" below), prior to the giving of an Enforcement Notice, any matter to be considered by or resolved at any meeting of the Class A Noteholders will not be required to be passed at separate meetings of the holders of the Class A1 Notes and the Class A2 Notes, and that at any meeting of the Class A Noteholders the same voting rights will attach to both classes of the Class A Notes. The Trust Deed will also provide that the Trustee will at all times regard the Class A Notes as a single class and will not (except as aforesaid) consider the consequences of any action taken or refrained from being taken by it as between the Class A1 Notes and the Class A2 Notes. It should be noted that by virtue of the priority of application of Available Redemption Funds to Class A1 Notes and then to Class A2 Notes, the proportion of the Principal Amount Outstanding of Class A1 Notes to the Principal Amount Outstanding of Class A2 Notes is not expected to be maintained at that proportion subsisting at the Closing Date.

Directors' certificates

The directors of each of PSFL and PML consider the relevant company of which they are directors to be solvent and it is a condition to the closing of the issue of the Notes that a duly authorised officer of the relevant company certify that, (i) in his or her opinion, such company is not unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 and will not become unable to do so within the meaning of that section in consequence of entering into the Relevant Documents (as defined in Condition 3(A)(1)(b) of the Class A Notes below) to which such company is a party and the performance of its obligations under such Relevant Documents and (ii) in his or her opinion, there is no reason to believe this state of affairs will not continue thereafter.

Risks associated with Non-Owner Occupied Properties

As at the Provisional Pool Date, none of the Properties relating to the Mortgages in the Provisional Mortgage Pool were owner occupied. It is intended that all of the Properties will be let by the relevant borrower to tenants but there can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Mortgage is acquired by the Issuer or that any tenancy which is granted will

subsist throughout the life of the Mortgage and/or that the rental income achievable from tenancies of the relevant Property will be sufficient to provide the borrower with sufficient income to meet the borrower's interest obligations in respect of the Mortgage.

Upon enforcement of a Mortgage in respect of a Property which is the subject of an existing tenancy, the Administrator may not be able to obtain vacant possession of the Property in which case the Administrator will only be able to sell the Property as an investment property with one or more sitting tenants. This may affect the amount which the Administrator could realise upon enforcement of the Mortgage and a sale of the Property. However, enforcement procedures in relation to such Mortgages include appointing a receiver of rent (unless the Property is situated in Scotland) in which case such a receiver must collect any rents payable in respect of the Property and apply them accordingly in payment of any interest and arrears accruing under the Mortgage. For further information, see "Mortgage Administration – Arrears and defaults procedures" below.

Risk of losses associated with Interest-only Mortgages

Approximately 79.35% by value of the Mortgages in the Provisional Mortgage Pool constitute Interest-only Mortgages (as defined under "The Mortgages" below). Interest-only Mortgages are originated with a requirement that the borrower pay scheduled interest payments only. There is no scheduled amortisation of principal. Consequently, upon the maturity of an Interest-only Mortgage, the borrower will be required to make a "bullet" payment that will represent the entirety of the principal amount outstanding. The ability of such a borrower to repay an Interest-only Mortgage at maturity frequently may depend on such borrower's ability to refinance the Property or obtain funds from another source such as a pension policy or a unit trust or an endowment policy. The ability of a borrower to refinance the Property will be affected by a number of factors, including the value of the Property, the borrower's equity in the Property, the financial condition of the borrower, tax laws and general economic conditions at the time. Moreover, the Mortgage Conditions in respect of Interest-only Mortgages do not require a borrower to put in place alternative funding arrangements.

Changes to regulatory framework

The Financial Services and Markets Act 2000 ("**FSMA**") introduced a new regime for the regulation of financial services in the United Kingdom. FSMA states that no person may carry on a regulated activity in the United Kingdom, or purport to do so, unless he is an authorised person or an exempt person and that, in certain circumstances, an agreement made after 30 November 2001 by a person in the course of carrying on a regulated activity in contravention of this prohibition is unenforceable against the other party.

Article 61 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended, the "**Regulated Activities Order**") currently contemplates that each of (i) administering a regulated mortgage contract (as defined below) where the contract was entered into by way of business after the coming into force of Article 61 and (ii) entering into a regulated mortgage contract as lender, will at such time as Article 61 comes into force become activities which, if carried on by way of business, are regulated activities for the purposes of FSMA.

The Regulated Activities Order sets out an exclusion to the provisions of Article 61. This states that a person who is not an authorised person does not carry on the regulated activity of administering a regulated mortgage contract as described above where he (i) arranges for another person, being an authorised person with permission to carry on an activity of that kind, to administer the contract or (ii) administers the contract himself during a period of not more than one month beginning with the day on which any such arrangement comes to an end.

In December 2001 H.M. Treasury announced that it proposed that the provision of mortgage advice should also become a regulated activity for the purposes of FSMA. As part of the implementation of this proposal, H.M. Treasury issued in draft form the Financial Services and Markets Act 2000 (Regulated Activities) Amendment (No. 1) Order 2003 (the "**Amendment Regulations**") to amend the Regulated Activities Order by specifying two new regulated activities, namely (i) arranging for another person to enter into or vary the terms of a regulated mortgage contract and (ii) advising a person on entering into or varying the terms of a regulated mortgage contract. The Amendment Regulations are due to be laid before Parliament in June 2003.

The Amendment Regulations also set out certain exclusions to these provisions. These exclusions state that a person ("A") who is not an authorised person does not carry on the regulated activity of (i) advising a person on entering into or varying the terms of a regulated mortgage contract; or (ii) arranging for another person to enter into or vary the terms of a regulated mortgage contract by reason, in either

case, of (a) anything done by an authorised person ("B") in relation to a regulated mortgage contract which B is administering pursuant to arrangements where A arranges for another person, being an authorised person with permission to carry on an activity of that kind, to administer the contract; or (b) anything A does in connection with the administration of a regulated mortgage contract where A administers the contract himself during a period of not more than one month beginning with the day on which any such arrangement as is mentioned in (a) comes to an end.

The Issuer does not itself propose to be an authorised person under FSMA and so if, and when, Article 61 comes into force in its current form it will mean that the Administrator or any substitute administrator will need to be authorised to administer the Individual Mortgages to enable the Issuer to take advantage of the relevant exclusion to Article 61 referred to above. In the same way, if the draft Amendment Regulations come into force in their current form they will mean that the Administrator or any substitute administrator will need to be authorised to administer the Individual Mortgages to enable the Issuer to take advantage of the exclusions referred to in the preceding paragraph, applicable to the two proposed new regulated activities. As a result, the Administration Agreement will contain an undertaking on the part of the Administrator to the effect that, to the extent that the services which it has agreed in the Administration Agreement to perform require it or the Issuer to obtain any authorisation under FSMA and/or the Regulated Activities Order, the Administrator will obtain, and use its reasonable endeavours to keep in force, such an authorisation in respect of itself. The Administration Agreement will also provide that the appointment of the Administrator will, unless the Issuer and the Trustee agree otherwise, be terminated with immediate effect if at any time the Administrator does not have any authorisation under FSMA and/or the Regulated Activities Order which it is required to have in order to perform the services which it has agreed in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in circumstances where the Issuer is itself not so authorised.

It should be noted that Article 61 has not yet come into force and the Amendment Regulations described above remain in draft form. The Regulated Activities Order currently provides that Article 61 is to come into force on such day as H.M. Treasury may specify. In a press notice dated 11 February 2003, H.M. Treasury stated that Article 61 and the Amendment Regulations will come into effect on 31 October 2004. Given that the final form which the Amendment Regulations will eventually take has not yet been finally determined, there can be no assurance that they will not affect the Mortgages, the Issuer or the Noteholders.

It is also possible that under Article 61 the provision of any further advance under a mortgage could, depending on the circumstances in which it is made, constitute entering into a regulated mortgage contract as lender. As a result, as and when Article 61 comes into effect, unless certain authorisation requirements are complied with, a Mandatory Further Advance or Discretionary Further Advance in respect of an Individual Mortgage made after the date on which Article 61 comes into effect, could, if the circumstances are such that the Issuer may be said to be entering into a regulated mortgage contract as lender, be unenforceable in whole or in part against the borrower and/or result in the Issuer carrying on a regulated activity when neither authorised to do so nor exempt from authorisation. It will be a condition to the making of any Mandatory Further Advance or Discretionary Further Advance by the Issuer (or the Administrator or PML on its behalf) in respect of an Individual Mortgage that the making of that advance will not involve the Issuer in carrying on a regulated activity in the United Kingdom if the Issuer would be required to be authorised under FSMA to do so but is not at the relevant time so authorised.

A contract is a "regulated mortgage contract" for the purposes of the Regulated Activities Order if, at the time it is entered into, (i) the contract is one under which the lender provides credit to an individual or to trustees, (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage (or, in Scotland, a first ranking heritable security) on land (other than timeshare accommodation) in the United Kingdom and (iii) at least 40% of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person. Based on this definition, Corporate Mortgages, where credit is provided to limited liability companies incorporated in England and Wales or Scotland and not to an individual or to trustees, and Lettings Mortgages, where the relevant Property is not to be used, and is not intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is the beneficiary of the trust or by a related person, should not be regulated mortgage contracts for these purposes.

Insolvency Act 2000

It should be noted that significant changes to the insolvency regime in England, Wales and Scotland have recently been enacted in the Insolvency Act 2000. Under this Act certain "small" companies (which

are defined, primarily, by reference to certain tests relating to a company's balance sheet, turnover and average number of employees contained in section 247(3) of the Companies Act 1985) proposing to put in place a company voluntary arrangement procedure may be able to obtain protection from their creditors by way of a moratorium for a period of 28 days with the possibility for an extension of a further two months. These provisions were brought into force on 1 January 2003. The Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for a moratorium and can make different provisions for different cases. As a result, the position as to whether or not a company is a "small" company may change and consequently no assurance can be given that the Issuer will not, at any given time, be determined to be a "small" company.

Under this power, on 25 July 2002 the Insolvency Act 1986 (Amendment No. 3) Regulations 2002 (the "**Insolvency Amendment Regulations**") were made. The Insolvency Amendment Regulations came into force on 1 January 2003. The Insolvency Amendment Regulations exclude certain special purpose companies from being eligible as described in the previous paragraph. The Insolvency Amendment Regulations provide that a company is not eligible for a moratorium if it is party to certain capital market arrangements. In broad terms, to fall within this exclusion, the arrangement must involve a party incurring or expecting to incur a debt of at least £10 million and the issue of a capital market investment (as defined in the Insolvency Amendment Regulations, but which is, in broad terms, a debt instrument that is rated, listed or traded or designed to be rated, listed or traded). An arrangement is a "capital market arrangement" if (a) it involves a grant of security to a person holding it as trustee for a person who holds a capital market investment issued by a party to the arrangement; or (b) at least one party guarantees the performance of obligations of another party; or (c) at least one party provides security in respect of the performance of obligations of another party; or (d) the arrangement involves an investment of a kind described in articles 83 to 85 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (options, futures and contracts for differences).

The Insolvency Amendment Regulations also provide that a company is not eligible for a moratorium if it has incurred a liability under an agreement of £10 million or more. A "liability" includes a present or future liability whether, in either case, it is certain or contingent and includes a liability to be paid wholly or partly in a foreign currency.

The moratorium provisions contained in the Insolvency Act 2000 could potentially affect the ability of the Trustee to enforce the Security created under, or pursuant to, the Deed of Charge and the remedies available to the Trustee in enforcing such Security. However, assuming that the moratorium provisions remain in their current form it is likely that the Issuer will not be eligible for a moratorium by virtue of the "capital market arrangement" and "liability under an agreement of £10 million or more" exclusions described above.

Further changes to U.K. insolvency regime – Enterprise Act 2002

On 7 November 2002 the Enterprise Bill received Royal Assent as the Enterprise Act 2002 (the "**Enterprise Act**"). Among other things, the Enterprise Act contains significant reforms of United Kingdom bankruptcy and insolvency law. The implementation of the measures contained in the Enterprise Act is subject to commencement orders. The provisions relating to corporate insolvency, including those described below, are currently expected to be brought into force in September 2003 and remain subject to amendment by statutory instrument. The reforms in relation to corporate insolvency, if brought into force in their current form, will restrict the right of the holder of a floating charge created on or after a date to be appointed by the Secretary of State for Trade and Industry to appoint an administrative receiver and instead will seek to give primacy to collective insolvency procedures and, in particular, administration. The Government's stated aim in proposing these reforms is that, rather than having primary regard to the interests of secured creditors, any insolvency official should have regard to the interests of all creditors, both secured and unsecured, and the primary emphasis will be on rescuing the company. Presently, the holder of a floating charge over the whole or substantially the whole of the assets of a company has the ability to block the appointment of an administrator by appointing an administrative receiver, who is primarily required to act in the interests of the floating charge holder though there are residual duties to the chargor.

The Enterprise Act states that the holder of a qualifying floating charge (as defined in the Enterprise Act, but including the requirement that the charge is over the whole or substantially the whole of a company's property) will be able to appoint an administrator of his choice, and that (if no winding-up order has been made or provisional liquidator appointed) such appointment can be made without going to court. However, the administrator will be acting for the creditors generally and not just his appointor.

Directors of companies will also be able to use the out-of-court route to place the company in administration. There will be a notice period during which the holder of a floating charge can either agree to the proposed appointment by the directors or appoint an alternative administrator, although the company will, immediately after notice is given, gain protection from creditors by way of a moratorium on insolvency proceedings and certain other legal process. If the floating charge holder does not respond to the notice of intention to appoint, the company's appointee will generally take office after the notice period has elapsed.

The Enterprise Act states that the purpose of administration will be to rescue the company or, where that is not reasonably practicable, to achieve a better result for the company's creditors as a whole than would be likely if the company were wound up. These purposes could conflict with the interests of Noteholders. Nevertheless, the Enterprise Act makes it clear that the administrator's statement of proposals cannot include an action which affects the right of a secured creditor to enforce its security.

The Enterprise Act provides that the abolition of administrative receivership will only apply to a floating charge created on or after a date appointed by the Secretary of State for Trade and Industry by order made by statutory instrument. This provision is generally referred to as the "grandfathering provision" as the Secretary of State for Trade and Industry has announced that the appointed date will not be retrospective. If the Enterprise Act is brought into force in its current form, it should therefore continue to be possible to appoint administrative receivers under floating charges created before the appointed date. If the Security created under, or pursuant to, the Deed of Charge is created before the appointed date, the new provisions should not prevent an administrative receiver being appointed under the Deed of Charge.

The Enterprise Act also provides that the abolition of administrative receivership will not extend to certain capital market arrangements. In broad terms, to fall within this exemption (as currently drafted), the arrangement must involve a party incurring or expecting to incur a debt of at least £50 million and the issue of a capital market investment (as defined in the Enterprise Act, but which is, in broad terms, a debt instrument that is rated, listed or traded or designed to be rated, listed or traded). An arrangement is a "capital market arrangement" if (a) it involves a grant of security to a person holding it as trustee for a person who holds a capital market investment issued by a party to the arrangement; or (b) at least one party guarantees the performance of obligations of another party; or (c) at least one party provides security in respect of the performance of obligations of another party; or (d) the arrangement involves an investment of a kind described in articles 83 to 85 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (options, futures and contracts for differences).

The insolvency proposals included within the Enterprise Act potentially affect the ability of the Trustee to enforce the Security created under, or pursuant to, the Deed of Charge by appointing an administrative receiver (or other receiver) and the remedies available to the Trustee in enforcing such Security. If an administrator were to be appointed on the default by the Issuer, then such administrator would not have regard solely to the interests of the beneficiaries of the Security created under, or pursuant to, the Deed of Charge (although the Issuer as a special purpose company will agree not to carry on business or incur any indebtedness for borrowed money other than as permitted by the Relevant Documents).

If, however, the Enterprise Act is brought into force in its current form, it is likely that the Security created under, or pursuant to, the Deed of Charge will be excepted from the abolition of administrative receivership either under the grandfathering provision or under the provisions dealing with capital markets arrangements.

It is not currently possible to determine with certainty the final form which changes to the United Kingdom insolvency regime will take when the Enterprise Act is brought into force. In addition, the new Insolvency Rules which are to set out further details of how the new insolvency provisions of the Enterprise Act will operate were published on 11 June 2003 in draft form. However, these are subject to review and consultation and have not yet been finalised by the Government. Furthermore, the Enterprise Act has been drafted in plain English with the result that there is some uncertainty as to how certain of the new terms used in it will be interpreted. Accordingly, no assurance can be given as to whether the changes to the insolvency regime brought about by the Enterprise Act will be detrimental to the interests of Noteholders.

Matters relating to the European Union

European Monetary Union

It is possible that, prior to the maturity of the Notes, the United Kingdom may become a participating member state in Economic and Monetary Union and the euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Notes and/or the

Mortgages may become payable in euros; (ii) applicable provisions of law may allow the Issuer to redenominate the Notes into euros and take additional measures in respect of the Notes and/or the Mortgages to be redenominated into euros and/or additional measures to be taken in respect of the Mortgages by one or both of the parties thereto; and (iii) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on the Notes and/or the Mortgages or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect the borrower's ability to repay the Mortgages as well as adversely affect investors. It cannot be said with certainty what effect, if any, the adoption of the euro by the United Kingdom would have on investors in the Notes.

Provision of information

Noteholders who are individuals should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a "**paying agent**"), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a "**collecting agent**"), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to the United Kingdom Inland Revenue details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Noteholder is not so resident, the details provided to the United Kingdom Inland Revenue may, in certain cases, be passed by the United Kingdom Inland Revenue to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

CREDIT STRUCTURE

As a condition to their issue, the classes of Notes are to be assigned the following ratings:

	Rating	
Class of Notes	*Moody's*	*Standard & Poor's*
Class A	Aaa	AAA
Class B...	A2	A

A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The structure of the credit arrangements may be summarised as follows:

1. Credit Support for the Notes provided by credit balance on the Revenue Ledger

To the extent that on any Interest Payment Date prior to the enforcement of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions required to be met in priority to item (vi) or, in certain circumstances, item (iv) of the priority of payments specified under "Summary – Priority of Payments – prior to enforcement" above, such excess (after making payments or provisions of a higher priority) is available to be applied towards reducing any debit balance on the Principal Deficiency Ledger. To the extent that on any Interest Payment Date prior to the enforcement of the Notes the credit balance on the Revenue Ledger exceeds the aggregate of the payments and provisions referred to in items (i) to (iii) in the priority of payments specified under "Summary – Priority of Payments – prior to enforcement" above and, save where payment of items (iv) and (v) in such priority of payments is postponed (as to which, see "Summary – Priority of Payments – prior to enforcement" above), items (iv) and (v) in such priority of payments, and in any event (and regardless of any such postponement) item (vi) in such priority of payments, such excess (after making payments or provisions of a higher priority), to the extent that it is sufficient, is available to replenish the First Loss Fund to the Required Amount.

2. First Loss Fund

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount equal to 1.6% of the aggregate of the Principal Amount Outstanding of the Class A Notes and the Class B Notes as at the Closing Date for the purpose of establishing the First Loss Fund. 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 (iii) inclusive in the priority of payments specified under "Summary – Priority of Payments – prior to enforcement" above and, save where payment of items (iv) and (v) in such priority of payments is postponed (as to which, see "Summary – Priority of Payments – prior to enforcement" above and "6. The Class B Notes" below), towards payment of or provision for items (iv) and (v), and in any event (and regardless of any such postponement) towards provision for item (vi) in the priority of payments, where the income of the Issuer, and the amount available to the Issuer on such Interest Payment Date in the Shortfall Fund, is insufficient to pay such amounts.

If, after application of any funds required to be applied from the First Loss Fund towards the items referred to above, there remains on any Interest Payment Date a surplus over the Required Amount in the First Loss Fund, that surplus will be released from the First Loss Fund and applied in repayment of principal amounts outstanding under the Subordinated Loan Agreement.

Amounts may also be drawn, at the discretion of PFPLC, under the Subordinated Loan Agreement in order to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances.

3. Shortfall Fund

The Issuer may at any time, with the prior consent of PFPLC, draw down under the Subordinated Loan Agreement for the purpose of establishing the Shortfall Fund. If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages, taking account of all hedging arrangements entered into by the Issuer and all income received by the Issuer from the investment of funds standing to the credit of the Transaction Account, is less than 1.6% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until (and including) the Interest Payment Date falling in June 2007, and 2.0% (or such higher percentage as the Issuer may from time to time select and notify to the

Trustee) thereafter, in each case above the LIBOR applicable to the Notes at that time, then the Administrator may do so provided that (1) there is a sufficient credit balance in the Shortfall Fund (net of all provisions previously made during the then current Interest Period) in order to provide for the shortfall which would arise at the end of the then current Interest Period and (2) the Issuer makes a provision in the Shortfall Fund equal to such shortfall. On each Interest Payment Date, the full amount of the Shortfall Fund will be available to the Issuer to be applied, together with the Issuer's other net income, to the items referred to in "Summary – Priority of Payments – prior to enforcement" above.

4. Transfer of Funds from the Collection Account

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages will generally be paid into the Collection Account. All moneys received in respect of the Mortgages will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

Under the Collection Account Declaration of Trust, PML will declare that all direct debit payments made by borrowers under the Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages which are credited to the Collection Account are held on trust for the Issuer until they are applied in the manner described above.

5. Principal Deficiency Ledger

The Transaction Account will comprise six ledgers, including the Principal Ledger and the Revenue Ledger.

If on any Interest Payment Date there are insufficient funds standing to the credit of the Revenue Ledger, the First Loss Fund and the Shortfall Fund to pay interest on the Class A Notes, to pay amounts (other than Withholding Compensation Amounts or Swap Termination Amounts) payable to the Swap Counterparty under the Swap Agreement or to any Permitted Hedge Provider under any other hedging arrangements entered into by the Issuer and to meet certain other expenses of the Issuer, the Issuer may apply funds standing to the credit of the Principal Ledger in the payment of such interest, amounts and expenses. In addition, the Issuer may receive an amount in respect of the Mortgages 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 funds standing to the credit of the Principal Ledger. Either of these events may lead to the consequences set out in the following paragraph.

The Issuer will also keep a Principal Deficiency Ledger. Amounts will be debited from the Principal Deficiency Ledger representing principal losses incurred on the Mortgages and funds standing to the credit of the Principal Ledger applied as described in the preceding paragraph in paying interest on the Class A Notes or amounts ranking *pari passu* therewith or in priority thereto, in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Mortgages.

Moneys in the Transaction Account representing the credit balance on the Revenue Ledger shall, after making the payments or provisions required to be met in priority to item (vi) or, in certain circumstances, item (iv) of the priority of payments set out in "Summary – Priority of Payments – prior to enforcement" above, be applied in an amount necessary to reduce to zero any debit balance on the Principal Deficiency Ledger.

Amounts may also be drawn, at the discretion of PFPLC, under the Subordinated Loan Agreement in order to reduce to zero any debit balance on the Principal Deficiency Ledger and thus to enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances.

6. The Class A1 Notes, the Class A2 Notes and the Class B Notes

The Class B Noteholders will not be entitled to receive any payment of interest unless and until all interest amounts then due to the Class A Noteholders have been paid in full, in accordance with the priority of payments set out in "Summary – Priority of Payments – prior to enforcement" above.

In the event that on any Interest Payment Date, while any Class A Note (irrespective of class) remains outstanding, application in the order set out in the priority of payments referred to in the preceding paragraph would result in the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) following such application exceeding the aggregate Principal Amount Outstanding of the Class B Notes (after deducting the amount of any Class B Available Redemption Funds

on the Principal Determination Date relating to such Interest Payment Date), then, to the extent of such excess, the payments or provisions specified in item (iv) (and also item (v) which relates to sums due to third parties and to the Issuer's liability to value added tax and to any corporation tax) of such order of priority of payments shall be postponed and shall instead be paid after any provisions referred to in items (vi) and (vii) (but prior to any payment referred to in item (viii)).

The Class A Notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority among themselves except, until enforcement of the security for the Notes, as to priority of payments of principal. Before the occurrence of the Determination Event (see "Summary – Mandatory Redemption in Part") all Available Redemption Funds will be applied in mandatory redemption of the Class A1 Notes until all the Class A1 Notes have been redeemed in full, and thereafter in mandatory redemption of the Class A2 Notes. After the occurrence of the Determination Event, the whole of the Available Redemption Funds will be applied in redemption of the Class A1 Notes until all the Class A1 Notes have been redeemed in full and thereafter the balance of the Available Redemption Funds not applied in redemption of the Class B Notes (as described in the following paragraph) will be applied in redemption of the Class A2 Notes.

After the occurrence of the Determination Event on each Interest Payment Date provided that certain conditions are satisfied (set out in "Summary – in Mandatory Redemption in Part") Available Redemption Funds are to be applied in redemption of the Class A2 Notes and the Class B Notes, where the Class A2 Notes have not been redeemed in full, so as to achieve and then maintain the ratio of the aggregate Principal Amount Outstanding of the Class B Notes to the aggregate Principal Amount Outstanding of the Notes as 47.5:250 provided that:

(i) if all Class A Notes have been redeemed in full, all Available Redemption Funds will be applied to redeem the Class B Notes; and

(ii) while any Class A Note remains outstanding, the aggregate Principal Amount Outstanding of the Class B Notes may not be less than £12,000,000.

The Class A Notes and the Class B Notes will be constituted by the Trust Deed and will share the same security although, upon enforcement, the Class A Notes will rank in priority to the Class B Notes. Upon enforcement of the security, the Class A Notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority among themselves.

7. Subordinated Loan Agreement

PFPLC will make available to the Issuer a subordinated loan facility under which an amount or amounts will be drawn down by the Issuer on the Closing Date to establish the First Loss Fund and, together with the proceeds of the issue of the Notes, to enable the Issuer to pay the amounts payable by the Issuer by way of purchase price for the Mortgages on the Closing Date, thereby allowing it to achieve the initial rating on the Notes.

PFPLC will also agree to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Ledger, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, and/or (iii) to enable the Issuer to make any Discretionary Further Advances when it would otherwise be unable to do so.

PFPLC will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows:

(i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it, after making the payments and provisions specified in items (i) to (vii) inclusive set out in "Summary – Priority of Payments – prior to enforcement" above, to pay any Swap

Termination Amounts due and payable to the Swap Provider or any Permitted Hedge Provider on such Interest Payment Date; and

(ii) at any time where the Issuer or the Administrator on the Issuer's behalf, waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of PFPLC (1) for the purpose of establishing or increasing the Shortfall Fund, (2) to fund the purchase of Caps or other hedging arrangements (or any related guarantees) to hedge the Issuer's interest rate exposure upon conversion of any Mortgages into Fixed Rate Mortgages or Capped Rate Mortgages. The Issuer may from time to time borrow further sums from PFPLC or other lenders on the terms of the Subordinated Loan Agreement.

On any Interest Payment Date, sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (see "Summary – Priority of Payments – prior to enforcement" above) (provided that an amount equal to the Required Amount may not be repaid while any Notes remain outstanding and provided further that PFPLC and the Issuer may agree that any such repayment may be waived or deferred in whole or in part).

8. Hedging Arrangements

PFPLC, in its capacity as the Administrator, will have responsibility for setting the interest rates on the Mortgages in accordance with the provisions of the Administration Agreement and the terms and conditions of the Mortgages. The interest rates payable by the Issuer with respect to the Notes are calculated as a margin over sterling LIBOR.

On the Closing Date, the Issuer will have entered into hedging arrangements under the Swap Agreement, in accordance with the requirements of the Rating Agencies, to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages which were acquired by it on the Closing Date. In addition, in relation to any Fixed Rate Mortgages or Capped Rate Mortgages which arise upon conversion of any Mortgages subsequent to the Closing Date, the Issuer will be obliged to enter into hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes.

DESCRIPTION OF THE CLASS A NOTES, THE GLOBAL CLASS A NOTES AND THE SECURITY

The issue of the Class A Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on 23 June 2003 and 26 June 2003. The Class A Notes will be constituted by a trust deed (the "**Trust Deed**") expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (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**") and the holders for the time being of the Class B Notes (the "**Class B Noteholders**"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Paragon Mortgages Limited ("**PML**") of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement to be dated the Closing Date (the "**Mortgage Sale Agreement**").

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PFPLC, PML, the Administrator, Global Home Loans Limited (the "**Substitute Administrator**") and the Swap Provider (the "**Deed of Charge**"). The Trust Deed will include the form of the Global Class A Notes and the definitive Class A Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "**Agency Agreement**") expected to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. 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 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 (as defined in the Administration Agreement), the Mortgage Sale Agreement 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, Citigroup Centre, 14th Floor, Canada Square, Canary Wharf, London E14 5LB 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

Each class of 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 £50,000,000 for the Class A1 Notes and £176,250,000 for the Class A2 Notes. Each Temporary Global Class A Note will be deposited on behalf of the subscribers of the relevant class of the Class A Notes with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"), (the "**Common Depositary**") on the Closing Date. Upon deposit of the Temporary Global Class A Note, Euroclear or Clearstream, Luxembourg will credit each subscriber of Class A Notes with the principal amount of Class A Notes of the relevant class for which it has subscribed and paid. Interests in the Temporary Global Class A Notes will be exchangeable 40 days after the Closing Date (provided certification of non-U.S. beneficial ownership by the Class A Noteholders of the relevant class has been received) for interests in the Permanent Global Class A Note relating to such class, in bearer form, without coupons or talons, in an equivalent principal amount to the Temporary Global Class A Note of such class (the expression "**Global Class A Notes**" and "**Global Class A Note**" meaning, respectively, (i) all of the Temporary Global Class A Notes and the Permanent Global Class A Notes or the Temporary Global Class A Note and the Permanent Global Class A Note of a particular class, or (ii) any of the

Temporary Global Class A Notes or Permanent Global Class A Notes, as the context may require). On the exchange of a Temporary Global Class A Note for the Permanent Global Class A Note of the relevant class, 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 Clearstream, Luxembourg. Each of the persons appearing from time to time in the records of Euroclear, or of Clearstream, Luxembourg, 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, Clearstream, Luxembourg. 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 of the relevant class for the Permanent Global Class A Note of that class, 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, the 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, Clearstream, Luxembourg.

For so long as the Class A Notes of any class are represented by a Global Class A Note, each person who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of Class A Notes of that class will be entitled to be treated by the Issuer and the Trustee as a holder of such principal amount of Class A Notes of that class 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 Clearstream, Luxembourg 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 become effective on or after 23 June 2003, 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 relating to the class of Class A Notes represented by each Permanent Global Class A Note in exchange for the whole outstanding interest in the Permanent Global Class A Note of that class 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 will be created pursuant to, and on the terms set out in, the Deed of Charge, which will create in favour of the Trustee on trust for (among other persons) the Class A Noteholders:

(1) a sub-charge over the Mortgages which comprise English Mortgages and an assignation in security of the Issuer's interest in the Mortgages which comprise Scottish Mortgages purchased by the Issuer from PML under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment or assignation in security of the benefit of the guarantee;

(2) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;

(3) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the Services Letter, under the Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the Collection Account Declaration of Trust, under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;

(4) an assignment of the Issuer's rights to all moneys standing to the credit of the Transaction Account and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);

(5) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and

(6) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class A Notes, are referred to as the "**Security**". The Security will also stand as security for any amounts payable by the Issuer to the Class B Noteholders and to any Receiver, the Trustee, the Substitute Administrator, the Administrator, PML, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the Services Letter, the Subordinated Loan Agreement and the Swap Agreement. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto.

Terms and Conditions

If Class A Notes in definitive bearer form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Class A Note of each class would be as set out below (the "**Class A Conditions**"). While the Class A Notes of a class or some of them remain in global form the same terms and conditions govern them, except to the extent that they are appropriate only to Class A Notes of that class in definitive form.

1. Form, Denomination and Title

The £226,250,000 Class A Mortgage Backed Floating Rate Notes Due 2033 of the Issuer comprising £50,000,000 Class A1 Notes (the "**Class A1 Notes**") and £176,250,000 Class A2 Notes (the "**Class A2 Notes**") (together, 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 (as defined in a trust deed (the "**Trust Deed**") dated on or about 26 June 2003 or such later date agreed between the Issuer and the Manager for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders for the time being of the Class A Notes (the "**Class A Noteholders**") and the holders for the time being of the Class B Notes (as defined below) (the "**Class B Noteholders**")) 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 and the Class B 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 a deed of charge (the "**Deed of Charge**") dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, Global Home Loans Limited (the

"**Substitute Administrator**") and the Swap Provider) of the Issuer and (irrespective of class) rank *pari passu* and rateably without any preference or priority among themselves, except, until enforcement of the security for the Class A Notes, as to priority of payments of principal.

If, in the Trustee's opinion, there is a conflict between the interests of the holders of the Class A1 Notes and/or the interests of the holders of the Class A2 Notes, the Trust Deed contains provisions that the Trustee shall be entitled to act or refrain from acting upon directions given by a specified percentage of the Class A Noteholders irrespective of class.

The £23,750,000 Class B Mortgage Backed Floating Rate Notes Due 2041 of the Issuer (the "**Class B 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 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 and the Class B 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 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 or the Class B Notes remains outstanding (as defined in the Trust Deed), 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 23 June 2003 relating to the issues of the Class A Notes and the Class B Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:

(a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;

(b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class A Notes, the Coupons and Talons and the Class B Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes and the Class B Notes and the other agreements relating to the issues of the Class A Notes and the Class B Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declaration of Trust, the Swap Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declaration of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the Security for the Class A Notes and the Class B Notes (all as defined in the Trust Deed, the Deed of Charge or the Mortgage Sale Agreement) (together the "**Relevant Documents**");

(c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, among other things, make claims, payments and surrenders in respect of certain tax reliefs;

(d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem 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, indebtedness under the Deed of Charge, the Trust Deed, the Notes, the Fee Letter, the Services Letter, the Swap Agreement, the Substitute Administrator Agreement and the VAT Declaration of Trust

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 mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes and the Class B 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 shall have occurred and be continuing;

   (c) the Trustee is satisfied that the interests of the Class A Noteholders and the Class B 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 and the Class B 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 or the Class B 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 (as defined in the VAT Declaration of Trust) and the Collection Account (as defined in the Trust Deed), 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 Mortgages (the "**Administrator**"). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. 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, among other things, 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. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement, but will have no liability under the Mortgage Sale Agreement.

4. Interest

(a) Interest Payment Dates

Each Class A Note bears interest on its Principal Amount Outstanding (as defined in Class A Condition 5(b)) from and including the Closing Date. Provided certification of non-U.S. beneficial ownership has been received with respect to Class A Notes of a particular class, interest in respect of such Class A Notes is payable quarterly in arrear on 7 September 2003 and thereafter on each subsequent 7 December, 7 March, 7 June and 7 September (or, if such date is not a Business Day (as defined below), the next succeeding Business Day) (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, irrespective of class, 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 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 Interest Payment Date falling in September 2003 in respect of the period from (and including) the Closing Date to (but excluding) that Interest Payment Date.

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 from time to time applicable to the Class A Notes of that class until the moneys in respect thereof have been received by the Trustee or the Principal Paying Agent (as defined in the Trust Deed) and notice to that effect is given in accordance with Class A Condition 12.

(b) Coupons and Talons

On issue, Coupons and Talons applicable to Class A Notes of a particular class in definitive form are attached to the Class A Notes of that class. 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 each class of the Class A Notes (the "**Rate of Interest**") will be determined by Citibank, N.A., 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 a linear interpolation between sterling deposits for a period of two months and sterling deposits for a period of three months, in each case 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 to the Class A Notes of a particular class 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 as set out below for Class A Notes of that class:

    Class A1 Notes: 0.22% per annum up to and including the Interest Period ending in June 2007 and thereafter 0.44% per annum; and

    Class A2 Notes: 0.32% per annum up to and including the Interest Period ending in June 2007 and thereafter 0.64% 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 Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (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 two month and three 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) above, on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three 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 Class A Notes of each class for the relevant Interest Period shall be the Rate of Interest for such class 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, a Class A Note of each class (an "**Interest Payment**") for the relevant Interest Period. The Interest Payment for a Class A Note shall be calculated by applying the Rate of Interest for Class A Notes of that class to the Principal Amount Outstanding of the relevant Class A Note 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 each class of 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 by the U.K. Listing Authority and admitted to trading on the London Stock Exchange plc (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 a Class A Note of a particular class in accordance with paragraph *(d)* above, the Trustee shall determine the Rate of Interest for such Class A Note at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in paragraph *(c)* above, but subject to the terms of the Trust Deed), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Payment for such Class A Note in accordance with paragraph *(d)* above, and each such determination or calculation shall be deemed to have been made by the Reference Agent.

(g) Reference Banks and Reference Agent

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

5. Redemption and Purchase

(a) Mandatory Redemption in Part from Available Redemption Funds: Apportionment of Available Redemption Funds Between the Class A Notes and the Class B 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 Trust Deed) (rounded down to the nearest pound sterling); provided always that (x) no Principal Payment may exceed the Principal Amount Outstanding of the relevant Class A Note, (y) while any Class A1 Note is, or will after the Interest Payment Date in question remain, outstanding, the Class A Notes referred to above as due for mandatory redemption and as being the divisor in calculating the Principal Payment pursuant to this Condition 5(a) shall only be the Class A1 Notes then outstanding and (z) if, on the Interest Payment Date in question, the Principal Outstanding of all Class A1 Notes is, or is reduced to, nil, the whole or the balance (if any) as the case may be, of the aggregate of the Class A Available Redemption Funds applied to redeem Class A Notes on the Principal Determination Date relating to the Interest Payment Date in question remaining after application towards redemption of the Class A1 Notes shall be applied on such Interest Payment Date towards redemption (to the extent of the lesser of such amount remaining and the Principal Amount Outstanding of all Class A2 Notes) of Class A2 Notes.

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

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

(A) the aggregate of:

(i) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Arrears and Accruals relating thereto received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the "**relevant Collection Period**"));

(ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Class A Notes and the Class B Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid by the Issuer to PML by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement and (b) the amount applied to establish the First Loss Fund on the Closing Date;

(iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes or Class B Notes on the Interest Payment Date relative thereto; and

(iv) any part of the amount deducted pursuant to (B)(i), (ii) and (iii) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, in each case on or prior to the preceding Interest Payment Date;

less

(B) the aggregate of:

(i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;

(ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;

(iii) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and

(iv) the aggregate amount of principal applied during the relevant Collection Period in refunding reclaimed direct debit payments in respect of the Mortgages,

in each such case (save for (A)(iii) and (A)(iv) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

The Available Redemption Funds on a Principal Determination Date shall be apportioned between the Class A Notes and the Class B Notes to determine the "**Class A 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 later of the Interest Payment Date falling in June 2008 and the first Interest Payment Date on which the ratio of (I) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes is 47.5:250 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 Class B Available Redemption Funds determined as at such date.

The Class B Available Redemption Funds shall equal:

(i) where the Principal Determination Date on which the Class B Available Redemption Funds are to be determined falls prior to the occurrence of the Determination Event or (thereafter) if (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Class B Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is any debit balance on the Principal Deficiency Ledger, (b) on the Principal Determination Date on which the Class B Available Redemption Funds are to be determined the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 7.5% or more of the then Current Balances of all of the Mortgages, or (c) on such Principal Determination Date there are any Class A1 Notes then outstanding, nil; and

(ii) on any other Principal Determination Date, provided (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Class B Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger, (b) on the Principal Determination Date on which the Class B Available Redemption Funds are to be determined the then Current Balances of Mortgages which are more than three months in arrears represent less than 7.5% of the then Current Balances of all of the Mortgages and (c) on such Principal Determination Date no Class A1 Notes are then outstanding, that amount of the Available Redemption Funds determined as at such date which, if applied to the redemption of the Class B Notes, would cause the ratio of (I) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes to (II) the sum of the aggregate Principal Amount Outstanding of the Class A Notes and the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 47.5:250; provided that the aggregate Principal Amount Outstanding (defined as aforesaid) of the Class B Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £12,000,000.

If the Issuer does not for any reason determine the aggregate principal amount of the Class A Notes of each class 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.

(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 of a particular class due on the Interest Payment Date next following such Principal Determination Date, (y) the Principal Amount Outstanding of each Class A Note of a particular class 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 of that class on the next Interest Payment Date) and (z) the fraction in respect of each Class A Note of a particular class expressed as a decimal to the sixth place (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding of a Class A Note of that particular class (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, by not later than the fourth Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date, will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class A Notes are listed by the U.K. Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange and will cause details of each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class A Condition 12 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Class A Notes of a particular class 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 applicable to Class A Notes of a particular class 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, or the Issuer or the Swap Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under the Swap Agreement or any Permitted Hedge Agreement, any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein, or (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, the Issuer may, but shall not be obliged to, 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 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 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, or the Trustee is otherwise directed by Extraordinary Resolutions (as defined in the Trust Deed) of the Class A Noteholders and the Class B Noteholders.

(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 of the relevant class, and provided 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 A Notes of the relevant class and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes of that class, the Issuer may redeem all (but not some only) of the Class A Notes of a particular class at their Principal Amount Outstanding together with accrued interest as follows:

(i) Class A1 Notes on any Interest Payment Date falling in or after June 2006; and

(ii) Class A2 Notes on any Interest Payment Date falling in or after June 2006.

No such optional redemption of any Class A2 Note may be made unless none of the Class A1 Notes are then outstanding or all (but not some only) of the Class A1 Notes are redeemed in full at the same time.

All (but not some only) of the Class A Notes, irrespective of class, 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 sum of (1) the aggregate of the Principal Amount Outstanding of the Class A Notes, irrespective of class and (2) the aggregate Principal Amount Outstanding (as defined in the terms and conditions of the Class B Notes) of the Class B Notes is less than £42,500,000 provided that on the Interest Payment Date on which redemption is to be made the Issuer also redeems in full all of 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 A Notes and all its liabilities in respect of the Class B Notes (including the full amount of interest payable on the Class B Notes on such Interest Payment Date and the full amount of any Deferred Interest and Additional Interest (as defined in the terms and conditions of the Class B Notes) which has not been paid on any previous Interest Payment Date pursuant to the terms and conditions thereof) and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes and the Class B Notes, or the Trustee is otherwise directed by Extraordinary Resolutions (as defined in the Trust Deed) of the Class A Noteholders and the Class B Noteholders.

(e) Redemption on Maturity

If not otherwise redeemed, the Class A Notes will be redeemed at their Principal Amount Outstanding on the Interest Payment Date falling in December 2033.

(f) Purchases

The Issuer may not purchase any Class A Notes.

(g) Cancellation

All Class A Notes redeemed in full 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 or, where appropriate, the Class A Notes of the relevant class and any amounts required under the Deed of Charge to be paid in priority to or *pari passu* with the Class A Notes or, where appropriate, the Class A Notes of the relevant class 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 of a particular class 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 of that class (except where, after such surrender, the unpaid principal amount of a Class A Note of that class 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 of the relevant class. 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 Citibank, N.A. at its office at 5 Carmelite Street, 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 of a particular class 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 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 of any class for definitive Class A Notes of such class, on which both Euroclear and Clearstream, Luxembourg are open for business.

If interest is not paid in respect of a Class A Note of any class 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 of that class until such interest and interest thereon is available for payment 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, including any Directive of the European Union, 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 10 years of the Relevant Date in respect of any payment thereon. A Class A Note shall become void in its entirety unless surrendered for payment within 10 years of the Relevant 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 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 these Class A Conditions, the "**Relevant Date**" means the date on which a payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given in accordance with 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) 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 Services Letter) or otherwise becomes insolvent.

After the Class A Notes have become immediately due and payable following service of an Enforcement Notice, all payments of principal, interest and other amounts due in respect of the Class A Notes shall be made *pro rata* according to the respective amounts due in respect thereof without any priority as between the Class A1 Notes and the Class A2 Notes.

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 cashflow 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. Replacements 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 and the Principal Paying Agent 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 PGCF) or such other medium for the electronic display of data as may be approved by the Trustee and notified to 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.

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, among other things, 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 in respect of any class of the Class A Notes, reducing or cancelling the amount of principal payable in respect of any class of the Class A Notes or the rate of interest applicable to any class of the Class A Notes or altering the majority required to pass an Extraordinary Resolution or altering the currency of payment of any class of the Class A Notes or the Coupons or any alteration of the date or priority of redemption of the Class A Notes of any class (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 (irrespective of class) 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 (irrespective of class) then outstanding. In the case of a Basic Terms Modification, an Extraordinary Resolution of a meeting of each class 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 any class of Class A Noteholders). The Trust Deed contains provisions limiting the powers of the Class B Noteholders, among other things, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. 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, 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, 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. The Contracts (Rights of Third Parties) Act 1999

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

17. Governing Law

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 relating to the Scottish Mortgages and their collateral security as are particular to Scots law, which shall be construed in accordance with Scots law.

DESCRIPTION OF THE CLASS B NOTES, THE GLOBAL CLASS B NOTES AND THE SECURITY

The issue of the Class B Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on 23 June 2003 and 26 June 2003. The Class B Notes will be constituted by a trust deed (the "**Trust Deed**") expected to be dated the Closing Date (as defined below) between the Issuer and Citicorp Trustee Company Limited (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**") and the holders for the time being of the Class A Notes (the "**Class A Noteholders**"). The proceeds of the issues of the Notes will be applied by the Issuer towards payment to Paragon Mortgages Limited ("**PML**") of the purchase price for certain mortgages to be purchased by the Issuer under a mortgage sale agreement to be dated the Closing Date (the "**Mortgage Sale Agreement**").

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the deed of sub-charge and assignment to be entered into by the Issuer, the Trustee, PML, the Administrator, Global Home Loans Limited (the "**Substitute Administrator**") and the Swap Provider (the "**Deed of Charge**"). The Trust Deed will include the form of the Global Class B Notes and the definitive Class B Notes and coupons and talons relating thereto. Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge. In accordance with an agency agreement (the "**Agency Agreement**") expected to be dated the Closing Date between the Issuer, the Trustee and Citibank, N.A. 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 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 (as defined in the Administration Agreement), the Mortgage Sale Agreement 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, Citigroup Centre, 14th Floor, Canada Square, Canary Wharf, London E14 5LB 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 £23,750,000. The Temporary Global Class B Note will be deposited on behalf of the subscribers of the Class B Notes with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"), (the "**Common Depositary**") on the Closing Date. Upon deposit of the Temporary Global Class B Note, Euroclear or Clearstream, Luxembourg 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 Note 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 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 Clearstream, Luxembourg. Each of the persons appearing from time to time in the records of Euroclear, or of Clearstream, Luxembourg, 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, Clearstream, Luxembourg. 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, the 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, Clearstream, Luxembourg.

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 Euroclear or of Clearstream, Luxembourg 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 Clearstream, Luxembourg 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 become effective on or after 23 June 2003, 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 will be created pursuant to, and on the terms set out in, the Deed of Charge, which will create in favour of the Trustee on trust for (among other persons) the Class B Noteholders:

(1) a sub-charge over the Mortgages which comprise English Mortgages and an assignation in security of the Issuer's interest in the Mortgages which comprise Scottish Mortgages purchased by the Issuer from PML under the Mortgage Sale Agreement and, where those Mortgages have the benefit of a guarantee, an assignment or assignation in security of the benefit of the guarantee;

(2) an assignment of the Issuer's interest in various insurance policies taken out in connection with the Mortgages;

(3) an assignment of the Issuer's rights under the Mortgage Sale Agreement, under the Services Letter, under the Subordinated Loan Agreement, under the Fee Letter, under the Administration Agreement, under the Substitute Administrator Agreement, under the VAT Declaration of Trust, under the Collection Account Declaration of Trust, under the Swap Agreement and under any Caps or other hedging arrangements entered into by the Issuer;

(4) an assignment of the Issuer's rights to all moneys standing to the credit of the Transaction Account and any other bank accounts in which the Issuer has an interest (which may take effect as a floating charge and thus rank behind the claims of certain preferential creditors);

(5) a charge over any other investments of the Issuer (which may take effect, in certain cases, as floating charges or equitable charges and thus rank behind the claims of certain preferential and other creditors); and

(6) a floating charge (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not (except in the case of the Issuer's Scottish assets) already subject to fixed security.

The assets of the Issuer, which will constitute the security for the Class B Notes, are referred to as the "**Security**". The Security will also stand as security for any amounts payable by the Issuer to the Class A Noteholders and to any Receiver, the Trustee, the Substitute Administrator, the Administrator, PML, PFPLC, any Subordinated Lender and the Swap Provider under the Trust Deed, the Substitute Administrator Agreement, the Administration Agreement, the Mortgage Sale Agreement, the Deed of Charge, the Fee Letter, the Services Letter, the Subordinated Loan Agreement and the Swap Agreement. The Deed of Charge will contain provisions regulating the priority of application of amounts forming part of the Security among the persons entitled thereto.

Terms and Conditions

If Class B Notes in definitive bearer form were to be issued, the terms and conditions (subject to amendment and completion) set out on each Class B Note would be as set out below (the "**Class B Conditions**"). 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 Class B Notes in definitive form.

1. Form, Denomination and Title

The £23,750,000 Class B Mortgage Backed Floating Rate Notes Due 2041 of the Issuer (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 (as defined in a trust deed (the "**Trust Deed**") dated on or about 26 June 2003 or such later date agreed between the Issuer and the Manager for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the holders 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 (the "**Class B Noteholders**")) 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 and the Class B 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 a deed of charge (the "**Deed of Charge**") dated the Closing Date between the Issuer, the Trustee, Paragon Finance PLC, Paragon Mortgages Limited, Global Home Loans Limited (the "**Substitute Administrator**") and the Swap Provider) 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, among other things, payments of principal and interest on the £226,250,000 Class A Mortgage Backed Floating Rate Notes Due

2033 of the Issuer (the "**Class A Notes**") in accordance with the provisions of Class B Conditions 5 and 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 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.

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 and the Class A 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 and other persons entitled to the benefit of the Security (as defined in the Trust Deed) 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 other persons entitled to the benefit of the Security.

3. Covenants of the Issuer

(A) So long as any of the Class A Notes or the Class B Notes remain outstanding (as defined in the Trust Deed), 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 23 June 2003 relating to the issues of the Class A Notes and the Class B Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:

(a) own and exercise its rights in respect of the Security and its interests therein and perform its obligations in respect of the Security including, for the avoidance of doubt, making Mandatory Further Advances and Discretionary Further Advances;

(b) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Class B Notes, the Coupons and Talons and the Class A Notes and any principal coupons, interest coupons and talons appertaining thereto, the subscription agreements relating to the Class A Notes and the Class B Notes and the other agreements relating to the issues of the Class A Notes and the Class B Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declaration of Trust, the Swap Agreement, any Caps, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, the Scottish Declaration of Trust, the Scottish Sub-Securities and all other agreements and documents comprised in the security for the Class A Notes and the Class B Notes (all as defined in the Trust Deed, the Deed of Charge or in the Mortgage Sale Agreement) (together the "**Relevant Documents**");

(c) to the extent permitted by the terms of the Deed of Charge or any of the other Relevant Documents, pay dividends or make other distributions to its members out of profits available for distribution in the manner permitted by applicable law and, among other things, make claims, payments and surrenders in respect of certain tax reliefs;

(d) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem the Class B Notes or the Class A 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, indebtedness under the Deed of Charge, the Trust Deed, the Notes, the Fee Letter, the Services Letter, the Swap Agreement, the Substitute Administrator Agreement and the VAT Declaration of Trust 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 mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Class A Notes and the Class B 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 shall have occurred and be continuing;

(c) the Trustee is satisfied that the interests of the Class A Noteholders and the Class B 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 and the Class B 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 or the Class B 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 (as defined in the VAT Declaration of Trust) and the Collection Account (as defined in the Trust Deed), 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 Mortgages (the "**Administrator**"). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales and Scotland. 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, among other things, 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. Upon the termination of the appointment of the Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement but will have no liability under the Mortgage Sale Agreement.

4. Interest

(a) Interest Payment Dates

Each Class B Note bears interest on its Principal Amount Outstanding (as defined in Condition 5*(b)*) from and including 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 the Class B Notes is (subject to Class B Condition 7) payable quarterly in arrear on 7 September 2003 and thereafter on each subsequent 7 December, 7 March, 7 June and 7 September (or, if such date is not a Business Day (as defined below), the next succeeding Business Day) (each an "**Interest Payment Date**"). To the extent that the funds available to the Issuer to pay interest on the Class B Notes on the Principal Determination Date immediately preceding 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 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 (and any interest and Deferred 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 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 Interest Payment Date falling in September 2003 in respect of the period from (and including) the Closing Date to (but excluding) that Interest Payment Date.

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 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 (as defined in the Trust Deed) 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 Citibank N.A., 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 a linear interpolation between sterling deposits for a period of two months and sterling deposits for a period of three months, in each case 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 1.35% per annum up to and including the Interest Period ending in June 2007 and thereafter the margin of 2.70% 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 Bank PLC, Lloyds TSB Bank plc, HSBC Bank plc and The Royal Bank of Scotland plc or any duly appointed substitute reference bank(s) as may be appointed by the Issuer and approved by the Trustee (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 two month and three 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) above, on the basis of the offered quotations of those Reference Banks. If, on any such Interest Determination Date, two or three 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) above 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 a Class B Note (an "**Interest Payment**") for the relevant Interest Period. The Interest Payment for a Class B Note shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of a Class B Note 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 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 the 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 Rate 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 by the U.K. Listing Authority and admitted to trading on the London Stock Exchange plc (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 Class B Notes are listed by the U.K. Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange, and will cause the same to be published in accordance with 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 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) 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, there will at all times be four Reference Banks and a Reference Agent. The Issuer reserves the right at any time to terminate the appointment of the Reference Agent or of any Reference Bank. Notice of any such termination will be given to 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 approval of the Trustee, appoint a successor Reference Bank or Reference Agent (as the case may be) to act as such in its place, provided that neither the resignation nor removal of the Reference Agent shall take effect until a successor Reference Agent approved by the Trustee has been appointed.

5. Redemption and Purchase

(a) Mandatory Redemption in Part from Available Redemption Funds: Apportionment of Available Redemption Funds Between the Class A Notes and the Class B 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 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 Trust Deed) (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 last Business Day of the month preceding that in which such Interest Payment Date falls.

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

(A) the aggregate of:

(i) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Arrears and Accruals relating thereto received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted for to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of

Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the "**relevant Collection Period**"));

(ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (a) the aggregate principal amount of the Class A Notes and the Class B Notes on issue and (b) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (a) the amounts paid by the Issuer to PML by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement and (b) the amount applied to establish the First Loss Fund on the Closing Date;

(iii) the amount of any Available Redemption Funds on the immediately preceding Principal Determination Date not applied in redemption of Class A Notes or Class B Notes on the Interest Payment Date relative thereto; and

(iv) any part of the amount deducted pursuant to (B)(i), (ii) and (iii) below in determining Available Redemption Funds on the immediately preceding Principal Determination Date which was not applied in making Discretionary Further Advances or Mandatory Further Advances, or in paying interest on the Class A Notes or other amounts ranking *pari passu* therewith or in priority thereto or in meeting certain expenses of the Issuer, in each case on or prior to the preceding Interest Payment Date;

less

(B) the aggregate of:

(i) the aggregate principal amount of Discretionary Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;

(ii) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) other than such as have been or will be funded by drawings under the Subordinated Loan Agreement;

(iii) the amount estimated by the Issuer to be the likely shortfall on the next Interest Payment Date of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer on that Interest Payment Date; and

(iv) the aggregate amount of principal applied during the relevant Collection Period in refunding direct debit payments, in respect of the Mortgages,

in each such case (save for (A)(iii) and (A)(iv) above) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on the preceding Principal Determination Date.

The Available Redemption Funds on a Principal Determination Date shall be apportioned between the Class A Notes and the Class B Notes to determine the "**Class A 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 later of the Interest Payment Date falling in June 2008 and the first Interest Payment Date on which the ratio of (I) the aggregate Principal Amount Outstanding of the Class B 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 and the aggregate Principal Amount Outstanding of the Class B Notes is 47.5:250 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 Class B Available Redemption Funds determined as at such date.

The Class B Available Redemption Funds shall equal:

(i) where the Principal Determination Date on which the Class B Available Redemption Funds are to be determined falls prior to the occurrence of the Determination Event or (thereafter) if (a)

on the Interest Payment Date immediately preceding the Principal Determination Date on which the Class B Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is any debit balance on the Principal Deficiency Ledger or (b) on the Principal Determination Date on which the Class B Available Redemption Funds are to be determined the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 7.5% or more of the then Current Balances of all of the Mortgages or (c) on such Principal Determination Date there are any of the Class A1 Notes of the Issuer then outstanding, nil; and

(ii) on any other Principal Determination Date, provided (a) on the Interest Payment Date immediately preceding the Principal Determination Date on which the Class B Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that immediately preceding Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that immediately preceding Interest Payment Date, there is a balance of zero on the Principal Deficiency Ledger, or (b) on the Principal Determination Date on which the Class B Available Redemption Funds are to be determined the then Current Balances of Mortgages which are more than three months in arrears represent less than 7.5% of the then Current Balances of all of the Mortgages or (c) on such Principal Determination Date no Class A1 Notes are then outstanding, that amount of the Available Redemption Funds determined as at such date which, if applied to the redemption of the Class B Notes, would cause the ratio of (I) the aggregate Principal Amount Outstanding of the Class B 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 and the aggregate Principal Amount Outstanding of the Class B Notes (but deducting from the former the Class A Available Redemption Funds (if any) on such Principal Determination Date) after such application to become as nearly as possible equal to 47.5:250; provided that the aggregate Principal Amount Outstanding of the Class B Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £12,000,000.

If the Issuer does not for any reason determine the aggregate principal amount of the 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.

(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, by not later than the fourth Business Day after the Principal Determination Date immediately preceding the relevant Interest Payment Date, will cause each determination of a Principal Payment, Principal Amount Outstanding and Pool Factor to be notified to the Trustee, the Principal Paying Agent, the Reference Agent and (for so long as the Class B Notes are listed by the U.K. Listing Authority and admitted to trading on the London Stock Exchange) the London Stock Exchange and will cause details of each determination of a

Principal Payment, Principal Amount Outstanding and Pool Factor to be published in accordance with Class B Condition 13 on the next following Business Day, or as soon as practicable thereafter. 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 applicable to the Class B Notes 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 (b)(i) 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, or the Issuer or the Swap Provider or any Permitted Hedge Provider would be required to deduct or withhold from amounts payable by it under the Swap Agreement or any Permitted Hedge Agreement, any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or any authority thereof or therein or (ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period, 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 (irrespective of class) outstanding or the Issuer redeems in full all of the Class A 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 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) 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.

(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 (irrespective of class) 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 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) 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 2006 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.

(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 December 2041.

(f) Purchases

The Issuer may not purchase Class B Notes.

(g) Cancellation

All Class B Notes redeemed in full 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 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 (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 Citibank, N.A. at its office at 5 Carmelite Street, 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 Clearstream, Luxembourg 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. Deferral of Interest Payments and 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 7.

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 7, due on the Class B Notes on such Interest Payment Date (such aggregate available funds being referred to in this Class B Condition 7 as the "**Residual Amount**") are not sufficient to satisfy in full the aggregate amount of interest which is, subject to this Class B Condition 7, 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 Class B Condition 4 and this Class B Condition 7 falls short of the aggregate amount of interest which would have been due and 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. Any such shortfall, together with any accrued interest thereon will, subject to this Class B Condition 7, be payable on the next following Interest Payment Date. Any accrued but unpaid interest (together with any interest thereon) outstanding on the Interest Payment Date falling in December 2041 or on any earlier date upon which the Class B Notes are redeemed in full shall be due and payable on such Interest Payment Date or other earlier date.

(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 or at any time if there are any Class A1 Notes then outstanding.

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, including any directive of the European Union, 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 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 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 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 these Class B Conditions, the "**Relevant Date**" means the date on which a payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given in accordance with 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 Services Letter) 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 and Post Enforcement Call Option

At any time after the Class B 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 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 payable pursuant to Class B Condition 10 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 cashflow 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.

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class B Notes and Coupons under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class B Notes and all other claims ranking *pari passu* therewith, then the Class B Noteholders and the Class B Couponholders shall, upon the Security having been enforced and realised to the maximum possible extent as certified by the Trustee, be forthwith entitled to their respective shares of such remaining proceeds (as determined in accordance with the provisions of the Deed of Charge) and, after payment to each Class B Noteholder or Class B Couponholder (as the case may be) of its respective share of such remaining proceeds, all interests in the Permanent Global Class B Note will be automatically exchanged for equivalent interests in an equivalent amount of Class B Notes in definitive form and such Permanent Global Class B Note (if any) will be cancelled. On the date of such exchange (the "**Option Exercise Date**"), the Trustee (on behalf of all of the Class B Noteholders) will, at the request of Paragon Options PLC ("**POPLC**"), transfer for a consideration of £0.01 per Class B Note all (but not some only) of the Class B Notes to POPLC pursuant to the option granted to it by the Trustee (as agent for the Noteholders) pursuant to a post enforcement call option deed (the "**Post Enforcement Call Option Deed**") dated on or about the Closing Date between POPLC and the Trustee. POPLC will agree pursuant to a deed (the "**Deed**") dated on or about the Closing Date to exercise the option granted in its favour pursuant to the Post Enforcement Call Option Deed. Immediately upon such transfer, no such former Class B Noteholder shall have any further interest in the Class B Notes. Each of the Class B Noteholders acknowledges that the Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post Enforcement Call Option Deed and each Class B Noteholder, by subscribing for or purchasing Class B Notes, agrees to be so bound.

12. Replacements 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 and the Principal Paying Agent 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, any Deferred Interest, any Additional Interest, 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 PGCF) or such other medium for the electronic display of data as may be approved by the Trustee and notified to 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.

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, among other things, 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 in respect of 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, among other things, to request or direct the Trustee to take any action or to pass an effective Extraordinary Resolution, according to the effect thereof on the interests of the Class A Noteholders. 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 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, 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 any particular class of 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, 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. The Contracts (Rights of Third Parties) Act 1999

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

18. 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 relating to the Scottish Mortgages and their collateral security as are particular to Scots law, which shall be construed in accordance with Scots law.

USE OF PROCEEDS

The gross proceeds from the issue of the Class A Notes will be £226,250,000 and those from the issue of the Class B Notes will be £23,750,000. Commissions of 0.175% of the principal amount of the Class A Notes and of 0.3% of the principal amount of the Class B Notes will be payable on the issues of the Notes. These commissions, together with certain other expenses of the issues, will be paid on behalf of or reimbursed to the Issuer by PML as described in "The Issuer – Fee Letter" below. The net proceeds from the issue of the Notes, which will be approximately £248,750,000, and the sums paid by PML to the Issuer in respect of such commissions and expenses on the Closing Date will be applied towards payment to PML of the purchase price for the Mortgages to be purchased pursuant to the Mortgage Sale Agreement.

RATINGS

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

THE ISSUER

Introduction

The Issuer was incorporated in England (registered number 3696169) as a public limited company under the Companies Act 1985 on 15 January 1999 as Finance For People (No. 14) PLC. It changed its name to Paragon Mortgages (No. 5) PLC on 29 August 2002. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. The Issuer is a 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 by the U.K. Listing Authority and is traded on the London Stock Exchange.

The principal objects of the Issuer are set out in clause 4 of its Memorandum of Association and include investing in and/or acquiring mortgage loans and other similar investments, borrowing or raising money in such manner as the Issuer shall think fit and securing the repayment of any money borrowed, raised or owing by mortgage, charge or lien upon the whole or any part of the Issuer's property or assets, lending or advancing money or giving credit to any company, firm or person and entering into hedging and/or derivative arrangements or transactions. The Issuer has agreed in the Relevant Documents to observe certain restrictions on its business activities.

The Issuer is a special purpose vehicle for issuing the Notes and purchasing the Mortgages.

The Issuer has not engaged, since its incorporation, in any material activities other than (i) those incidental to its registration as a public limited company under the Companies Act 1985, (ii) obtaining a certificate from the Registrar of Companies pursuant to section 117 of the Companies Act 1985, (iii) the authorisation of the issue of the Notes and the matters contemplated in this Offering Circular and the authorisation and execution of the other documents referred to in this Offering Circular to which it is a party, (iv) applying for and obtaining a standard licence under the Consumer Credit Act 1974, (v) applying for registration and registering under the Data Protection Act 1998, and (vi) applying to join and joining the Paragon VAT Group and, in each case, any other activities incidental to any of the foregoing.

Directors and Secretary

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

Name	*Business Address*	*Principal activities*
John Gemmell	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Director of Financial Accounting and Secretary of PGC and Director and Secretary of PFPLC and PSFL
Nicholas Keen	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Finance Director of PGC, PFPLC and PSFL
Richard Shelton	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Solicitor and Director of PFPLC and PSFL
Adem Mehmet	30-34 Moorgate London EC2R 6PQ	Director of PFPLC and PSFL
James Fairrie	Cannon Centre 78 Cannon Street London EC4P 5LN	Director of SPV Management Limited

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 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 agree to pay PFPLC, for the provision of the services provided pursuant to the Services Letter, a fee payable quarterly in arrear and calculated on the basis of an apportionment, according to the average gross value of mortgages under management during the relevant period, of the direct costs incurred by PFPLC in respect of those services, together with the central service and utility costs borne by PFPLC and together with such further amount as may from time to time be agreed between PFPLC and the Issuer. Amounts owing to PFPLC under the Services Letter will be subordinated in the manner described in "Summary – Priority of Payments – prior to enforcement" above.

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" and "Description of the Class B Notes, the Global Class B Notes and the Security – Covenants of the Issuer" above.

Fee Letter

PFPLC has agreed to arrange the issues of the Notes on behalf of the Issuer. In particular, PFPLC has negotiated the terms of the issues of the Notes and of documents for approval by the Issuer and liaised with professional advisers and the Manager. PML will pay, on behalf of the Issuer, or reimburse to the Issuer, the management and underwriting commissions and selling commissions due to the Manager referred to in "Subscription and Sale" below and any expenses payable by the Issuer in connection with the issues of the Notes. The Issuer will agree under the Fee Letter, to be dated the Closing Date, that it will pay PFPLC an arrangement fee of 0.4% of the aggregate principal amount of the Notes and that it will repay PML such commissions and such expenses in 16 quarterly instalments beginning on the first Business Day after the first Interest Payment Date. Amounts to be paid under the Fee Letter will bear interest at a rate of 4% per annum above LIBOR (or such other rate which PML, PFPLC and the Issuer agree is a fair commercial rate at the relevant time) payable quarterly in arrear. Amounts owing to PFPLC and PML under the Fee Letter will be subordinated in the manner described in "Summary – Priority of Payments – prior to enforcement" above.

Subordinated Loan Facility from PFPLC

By the Subordinated Loan Agreement (which is to be made between PFPLC, the Issuer and the Trustee and to be dated 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 establish the First Loss Fund and together with the proceeds of the issue of the Notes, to enable the Issuer to pay the amounts payable by the Issuer by way of purchase price for the Mortgages on the Closing Date thereby allowing it to achieve the initial ratings on the Notes. Under the terms of the Subordinated Loan Agreement, PFPLC will also agree to make advances available to the Issuer if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Mandatory Further Advances which it is required to make. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement if and to the extent that the Issuer does not have sufficient Available Redemption Funds to enable it to make any Discretionary Further Advances. In addition, PFPLC may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement (i) if and to the extent that there is a balance of less than zero on the Principal Deficiency Ledger in order, when such amounts are credited to the Principal Deficiency Ledger, to restore such balance to zero and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, (ii) if and to the extent that the First Loss Fund is less than the Required Amount in order, when such amounts are credited to the First Loss Fund, to replenish the First Loss Fund to the Required Amount and thus enable the Issuer (subject to the other conditions applicable to the making of Discretionary Further Advances) to make any Discretionary Further Advances, and/or (iii) to enable the Issuer to make any Discretionary Further Advances when it would otherwise be unable to do so. Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of PFPLC, for the purpose of establishing or increasing the Shortfall Fund and, in addition, PFPLC may lend further sums to the Issuer under the Subordinated Loan Agreement to be used by the Issuer to purchase Caps or other hedging arrangements and related guarantees (where required) in respect of Converted Mortgages. 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 – prior to enforcement" above.

PFPLC will also agree to make further advances to the Issuer under the Subordinated Loan Agreement, as follows: (i) on any Interest Payment Date if and to the extent that the Issuer would not have sufficient funds available to it to pay any Swap Termination Amounts due and payable to the Swap Provider or any Permitted Hedge Provider on such Interest Payment Date; and (ii) at any time where the Issuer, or the Administrator on the Issuer's behalf, waives any prepayment charges applicable to any Mortgage, in an amount equal to such waived prepayment charge.

Interest under the Subordinated Loan Agreement will be payable by the Issuer quarterly on or after the first Business Day after each Interest Payment Date commencing with the Interest Payment Date falling in September 2003 on the amount of the loan at the rate of 4% per annum above LIBOR (or such other rate which PFPLC and the Issuer agree is a fair commercial rate at the relevant time). Principal will be repayable on the earlier of (i) the day following the last Interest Payment Date falling in December 2041 and (ii) the first day on which there are no Notes outstanding except that on any Interest Payment Date sums borrowed under the Subordinated Loan Agreement will be repaid to the extent of the funds available to the Issuer to do so (see "Summary – Priority of Payments – prior to enforcement" above) (provided that an amount equal to the Required Amount may not be repaid while any Notes remain outstanding). Payments of interest under the Subordinated Loan Agreement may only be made by the Issuer if, after applying its net income (other than principal receipts in respect of the Mortgages) 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 – prior to enforcement" above. PFPLC and the Issuer may agree that any payments of interest and repayments of principal under the Subordinated Loan Agreement may be waived or deferred (in whole or in part).

Hedging Arrangements

On the Closing Date, the Issuer will have entered into hedging arrangements under the Swap Agreement in accordance with the Rating Agencies' requirements to hedge any Fixed Rate Mortgages and/or Capped Rate Mortgages which are acquired by it on the Closing Date.

In relation to any Fixed Rate Mortgages or, as the case may be, Capped Rate Mortgages, arising upon conversion of any Mortgages which are not as at the Closing Date Fixed Rate Mortgages, or, as the case may be, Capped Rate Mortgages, into Fixed Rate Mortgages or, as the case may be, Capped Rate Mortgages, the Issuer will be obliged to enter into hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes.

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 and provided further that such bank or financial institution has agreed to be bound by the terms of the Deed of Charge.

Hedging arrangements may, but need not, include one or more Caps which will be made available to the Issuer by means of one or more cap agreements entered into with a Cap Provider or may comprise other hedging arrangements entered into with the Swap Provider under the Swap Agreement.

Under the terms of the Administration Agreement the Issuer may be required to terminate all or part of any swap or other hedging arrangement entered into with the Swap Provider or any Permitted Hedge Provider due to the early redemption, enforcement or sale of Fixed Rate Mortgages and/or Capped Rate Mortgages prior to the redemption of the Notes. Furthermore, total termination of any such hedging arrangement may occur independently of an Event of Default. Any termination (whether in full or in part) may give rise to a termination payment due either to or from the Issuer. Any such payment due from the Issuer to the Swap Provider or to a Permitted Hedge Provider will rank in order of priority as described in "Summary – Priority of Payments – prior to enforcement" or "Summary – Priority of Payments – post-enforcement", as applicable. Any such payment due to the Issuer in respect of a hedging transaction which is being terminated at the option of the Issuer due to the early redemption, enforcement or sale of a Fixed Rate Mortgage or a Capped Rate Mortgage prior to the final redemption of the Notes will not be payable in full immediately but will be payable to the Issuer in the form of an annuity on each Interest Payment Date until the date on which the relevant swap or hedging agreement would have expired had it not been terminated early.

If the Issuer or the Swap Counterparty is required to make any deduction or withholding for or on account of United Kingdom tax from any amounts payable by it under the Swap Agreement on any Interest Payment Date, then under the terms of the Swap Agreement, (i) the Swap Counterparty will be obliged to pay additional amounts ("**Additional Amounts**") to ensure that the Issuer receives the full amount it would otherwise have received from the Swap Counterparty and (ii) the Issuer shall make such payment after such withholding or deduction has been made (such withholding or deduction, a "**Withheld Amount**") and shall not be obliged to make any additional payments to the Swap Counterparty in respect of such withholding or deduction.

However, under the Swap Agreement, the Issuer will agree that on each Interest Payment Date it will, subject to and in accordance with the agreed order of priority of payments referred to in "Summary – Priority of Payments – prior to enforcement" above, pay to the Swap Counterparty an amount or amounts ("**Withholding Compensation Amounts**") equal to (i) any Additional Amounts so paid by the Swap Counterparty to the Issuer on such Interest Payment Date together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the Swap Counterparty under the Swap Agreement on any previous Interest Payment Date, and (ii) any Withheld Amount on such Interest Payment Date, together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Withheld Amount applicable to any previous Interest Payment Date.

Any hedging arrangement entered into with a Permitted Hedge Counterparty will contain provisions similar to those described in the previous two paragraphs and any references in this Offering Circular to Withholding Compensation Amounts include amounts payable by the Issuer to any Permitted Hedge Counterparty in similar circumstances to those so described.

After payment of or for items (i) to (viii) inclusive in the order of priority of payments set out in "Summary – Priority of Payments – prior to enforcement" above, the Issuer may reserve funds on a Principal Determination Date to enable it to purchase Caps or other hedging arrangements (and related guarantees) in the succeeding Interest Period.

Except as mentioned in the previous paragraph, under no circumstances will the Issuer be liable to make any payment to the provider of any Cap.

Capitalisation and indebtedness

The capitalisation of the Issuer as at the date of this document, adjusted for the Notes now being issued, is as follows:

Share capital	£
Authorised	
50,000 ordinary shares of £1 each	50,000
Issued	
50,000 ordinary shares of £1 each (two fully paid and 49,998 paid up as to 25 pence each)	12,501.50
Loan Capital	
226,250,000 Class A Mortgage Backed Floating Rate Notes Due 2033 (now being issued)	£226,250,000
23,750,000 Class B Mortgage Backed Floating Rate Notes Due 2041 (now being issued)	23,750,000

Notes:

(1) In addition, an advance under the Subordinated Loan Agreement will be made on the Closing Date in an amount sufficient, among other things, to enable the Issuer to achieve the initial ratings on the Notes. The amount of this advance is expected to be approximately £3,875,000. The Subordinated Loan Agreement will have the benefit of security.

(2) As at the date of this document all of the issued shares in the capital of the Issuer are held by PGC.

The current financial period of the Issuer will end on 30 September 2003. The balance sheets of the Issuer as at 30 September 2000, 30 September 2001, 30 September 2002 and 23 June 2003 are set out below. As at the date of this Offering Circular, save as in this Offering Circular, 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 which are material.

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:

"The Directors
Paragon Mortgages (No. 5) PLC
St. Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE

HSBC Bank plc
Level 4
8 Canada Square
London E14 5HQ

Our Ref: PJNH/DGM

23 June 2003

Dear Sirs

Paragon Mortgages (No. 5) PLC (the "Issuer")

We report on the financial information set out below. This financial information has been prepared for inclusion in the Offering Circular dated 23 June 2003 (the "**Offering Circular**") relating to the issue of £226,250,000 Class A Mortgage Backed Floating Rate Notes due 2033 and £23,750,000 Class B Mortgage Backed Floating Rate Notes due 2041 (the "**Issue**").

Basis of preparation

The Issuer was incorporated on 15 January 1999 under the name of Finance for People (No.14) PLC. It changed its name to Paragon Mortgages (No. 5) PLC on 29 August 2002.

The Issuer has issued 50,000 shares for a consideration of £12,501.50. No material contracts or transactions have been entered into save for those in connection with the Issue.

The Issuer has not yet traded and no dividends have been declared or paid.

The financial information set out in this report is based on the audited statutory accounts of the Issuer for the periods ended 30 September 2000, 30 September 2001 and 30 September 2002 and the audited non-statutory accounts of the Issuer for the period ending 23 June to which no adjustments were considered necessary.

We have been auditors of the Issuer since its incorporation on 15 January 1999.

Responsibility

The financial statements are the responsibility of the Directors of the Issuer who approved their issue.

The Issuer is responsible for the contents of the Offering Circular in which this report is included.

It is our responsibility to compile the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the non-statutory financial statements for the period to 23 June 2003 underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information set out below gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Issuer as at the dates stated.

BALANCE SHEETS
As at 30 September 2000, 30 September 2001, 30 September 2002 and 23 June 2003

	Notes	*30 September 2000* £	*30 September 2001* £	*30 September 2002* £	*23 June 2003* £
ASSETS EMPLOYED					
Current Assets					
Debtors	2	2.00	2.00	12,501.50	—
Cash at bank and in hand		—	—	—	12,501.50
		2.00	2.00	12,501.50	12,501.50
FINANCED BY					
Called up share capital	3	2.00	2.00	12,501.50	12,501.50

NOTES TO THE FINANCIAL INFORMATION
As at 30 September 2000, 30 September 2001, 30 September 2002 and 23 June 2003

1. ACCOUNTING POLICIES

The financial information set out in this report has been prepared in accordance with applicable accounting standards generally accepted in the United Kingdom.

The accounts and notes have been prepared using the historic cost method of accounting.

2. DEBTORS

	30 September 2000 £	*30 September 2001* £	*30 September 2002* £	*23 June 2003* £
Amounts falling due within one year:				
Amounts owed by parent company	2.00	2.00	12,501.50	—

3. CALLED UP SHARE CAPITAL

	30 September 2000 £	*30 September 2001* £	*30 September 2002* £	*23 June 2003* £
Authorised:				
50,000 ordinary shares of £1 each	50,000	50,000	50,000	50,000
Allotted:				
49,998 ordinary shares of £1 each (25p paid)	—	—	12,499.50	12,499.50
2 ordinary shares of £1 each (fully paid)	2.00	2.00	2.00	2.00
	2.00	2.00	12,501.50	12,501.50

The authorised share capital of the Issuer consists of 50,000 ordinary shares of £1 each. The issued share capital consists of two ordinary shares (fully paid-up and allotted on 15 January 1999), which formed the initial share capital of the Issuer, and 49,998 ordinary shares (£0.25 paid up and allotted on 2 September 2002).

4. PROFIT AND LOSS ACCOUNT

The Directors have represented that the Issuer has been dormant throughout the period since incorporation on 15 January 1999 until 23 June 2003, and consequently no profit and loss account and no statement of total recognised gains and losses have been prepared. The Directors have received no remuneration and the Issuer has no employees.

5. ULTIMATE PARENT COMPANY

The Issuer's ultimate parent company is The Paragon Group of Companies PLC, a company registered in England and Wales.

Yours faithfully

Deloitte & Touche
Chartered Accountants"

THE PARAGON VAT GROUP

The Issuer is a member of the Paragon VAT Group (consisting of PFPLC and certain of its related companies, as will be 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.

Citicorp Trustee Company Limited (as successor to Morgan Guaranty Trust Company of New York) is the trustee of the fund which currently amounts to approximately £120,000. The Issuer will on the Closing Date become one of the beneficiaries of the trust over the VAT Account, such trust being constituted by a declaration of trust dated 19 March 1993, as subsequently amended and restated (the "**VAT Declaration of Trust**").

SWAP COUNTERPARTY

On the Closing Date, the Swap Counterparty will be JPMorgan Chase Bank, acting through its London branch. JPMorgan Chase Bank is a wholly owned bank subsidiary of J.P. Morgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. JPMorgan Chase Bank 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. As of 31 December 2002, JP Morgan Chase Bank had total assets of U.S.$622.4 billion, total net loans of U.S.$180.6 billion, total deposits of U.S.$300.6 billion, and total stockholder's equity of U.S.$35.5 billion. As of 31 December 2001, JPMorgan Chase Bank had total assets of U.S.$537.8 billion, total net loans of U.S.$174.9 billion, total deposits of U.S.$280.5 billion, and total stockholder's equity of U.S.$33.3 billion.

The information contained above in this section headed "Swap Counterparty" relates to and has been obtained from JPMorgan Chase Bank. This information has been taken from the Consolidated Reports of Condition and Income filed with the Board of Governors of the U.S. Federal Reserve System compiled in accordance with regulatory accounting principles. The delivery of the Offering Circular shall not create any implication that there has been no change in the affairs of JPMorgan Chase Bank since the date of this Offering Circular, or that the information contained or referred to in this section is correct as of any time subsequent to the date of this Offering Circular.

As at the Business Day immediately preceding the date of this Offering Circular, the ratings published on Bloomberg for JPMorgan Chase Bank's long term unsecured and unguaranteed debt obligations were Aa3 by Moody's and AA- by Standard & Poor's and for its short term unsecured and unguaranteed debt obligations were P-1 by Moody's and A-1+ by Standard & Poor's.

THE MORTGAGES

Origination of the Mortgages

All of the Mortgages forming part of the initial security for the Notes have been originated by PML and have been sold by PML to PSFL. PML will repurchase the Mortgages from PSFL on the Closing Date and sell them to the Issuer.

PML is a private company and both PFPLC and PML are wholly owned subsidiaries of PGC. The ordinary share capital of PGC is listed by the U.K. Listing Authority. The registered address of PML is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. PML's principal activities are to invest in mortgage loans secured on residential or other properties within the British Isles or elsewhere and to acquire mortgage loans from third parties.

Introduction of Mortgage Business

PML derives its mortgage lending business through intermediaries and by applications directly from members of the public.

Information on the Mortgages

General

The Mortgages will all have had original maturities of between 5 years and 28 years, save in respect of certain Mortgages with a maximum aggregate Principal Amount Outstanding of £15,000,000, which will have had original maturities of between 28 years and 40 years. However, no Mortgage falls to be repaid later than 31 December 2039.

The Mortgages will comprise standard variable rate mortgages ("**Standard Mortgages**") and/or other types of mortgages ("**Non-Standard Mortgages**") described below. All the Mortgages upon origination consist, or will consist, of mortgage loans which meet or will meet certain lending criteria, and are secured by charges over freehold or leasehold properties located in England or Wales ("**English Mortgages**") or by standard securities over feudal or long leasehold residential properties located in Scotland ("**Scottish Mortgages**"). The Issuer will have the benefit of warranties by PML in relation to the Mortgages, including warranties in relation to the lending criteria applied in advancing the loans.

The properties which are the subject of the Mortgages (the "**Properties**") are residential properties located in England or Wales (the "**English Properties**") or in Scotland (the "**Scottish Properties**") and are either freehold or leasehold or, in the case of the Scottish Properties, feudal or long leasehold (and in the case of leasehold or long leasehold the lease has at least 35 years to run beyond the term of the relevant Mortgage).

All of the Mortgages are subject to standard mortgage conditions ("**Mortgage Conditions**"). These contain various covenants and undertakings by the borrower including covenants to make the monthly interest payments as notified to the borrower and to pay premia on buildings insurance policies effected in relation to the relevant Property. The Mortgage Conditions also contain provisions for the usual remedies of a mortgagee in the event of default by the borrower.

All of the Mortgages comprise Lettings Mortgages, which relate to property purchased by the borrower to be occupied by tenants. Lettings Mortgages will include, in the case of Individual Mortgages, loans to non-U.K. nationals, or, in the case of Corporate Mortgages, loans to limited liability companies incorporated in England and Wales or Scotland. The properties in respect of Lettings Mortgages are required by the applicable Mortgage Conditions to be used for residential purposes. It will normally be the intention that these properties will be let under an assured shorthold tenancy (or, in Scotland, a short assured tenancy) and in all cases that the occupier will have no statutory security of tenure. However, if the occupier's tenancy has been approved by the lender, the lender will not be able to sell with vacant possession if it wishes to enforce its security, until such time as the tenancy comes to an end (see "Special Considerations – Matters relating to the Mortgages – Risks associated with Non-Owner Occupied Properties" above). In the period from March 2001 to the date of this Offering Circular, PML has originated only Lettings Mortgages.

Interest on the Mortgages is payable monthly at rates which are currently set by or on behalf of PML (subject to the restrictions mentioned above) and, except in certain limited circumstances in which the Trustee or the Substitute Administrator will be entitled to take over this function, will be set by the Administrator on behalf of the Issuer and the Trustee after the sale and sub-charge of the Mortgages.

Repayment Types

Certain Mortgages will be mortgages under which monthly instalments covering both interest and principal are required to be paid by the borrower ("**Repayment Mortgages**"). The payment schedule applicable to such a Mortgage on origination is structured so that the principal element of the instalments is small in the early years but increases in size during the life of the Mortgage until full repayment by maturity. PML recommends (but does not require) that borrowers arrange term life assurance in connection with Repayment Mortgages.

Some Mortgages, when originated, provided for interest only to be paid monthly during their term, with no scheduled payment of principal prior to maturity ("**Interest-only Mortgages**"). PML recommends (but does not require) that borrowers arrange term life assurance in connection with Interest-only Mortgages. The ability of any particular borrower to repay an Interest-only Mortgage may depend on such borrower's ability to refinance the Property or obtain funds from another source (such as a pension policy or unit trust or an endowment policy).

Non-Standard Mortgages

A Non-Standard Mortgage is, and any Mortgage may be converted into, any one of the following:

(i) a Fixed Rate Mortgage under which for a fixed initial period or periods the rate of interest payable by the borrower is not capable of being reset monthly or quarterly at will by the Issuer or the Administrator but the borrower is required to pay interest at a fixed rate or a series of fixed rates. After the fixed initial period(s) the mortgage rate chargeable becomes the rate applicable to PML's Standard Mortgages or one of its LIBOR Linked Mortgages and can be reset accordingly;

(ii) a LIBOR-Linked Mortgage under which the borrower is required to pay interest at a fixed margin over three month LIBOR determined quarterly; or

(iii) a Capped Rate Mortgage under which the borrower is required to pay interest at a rate equal to three-month LIBOR plus a fixed margin up to a specified rate for a specified period from origination of the loan. After that specified period the borrower is required to pay interest at a variable rate.

Redemption Provisions

The Mortgages provide that the borrower may prepay principal at any time without prior notice. For a specified period such a prepayment of principal gives rise to an obligation to pay an additional sum. The period within which such a prepayment gives rise to an obligation to pay such an additional sum, and the size of that additional sum, are specified in the relevant Mortgage Conditions.

The majority of Mortgages are subject to a minimum early repayment charge of the equivalent of between one and three months' interest should the mortgage be redeemed within three years of completion. However, where a mortgage has a fixed rate, or offers new borrowers an incentive (as with a discounted rate or similar) early repayment charges are more substantial in order to ensure incentives are effectively repaid should this occur.

The Administrator will be given the right, in its discretion (acting as a prudent mortgage lender), to waive any repayment charges payable by a borrower.

Scottish Mortgages

A proportion of the Mortgages are Scottish Mortgages. These are secured over the relevant Properties by way of standard security, being the only means of creating a fixed charge or security over heritable property in Scotland. In respect of Scottish Mortgages, references in this Offering Circular to a "mortgage" and a "mortgagee" are to be read as references to such a standard security and the heritable creditor thereunder, respectively.

A statutory set of "Standard Conditions" is automatically imported into all standard securities, although the majority of these Conditions may be varied by agreement between the parties. For most major lenders in the residential mortgage market the Standard Conditions are varied by a "Deed of Variations", the terms of which are in turn imported into each standard security. PML has executed a Deed of Variations of Standard Conditions with a view to conforming as far as possible its Scottish Mortgages and English Mortgages from an operational viewpoint (subject to such limitations as are inherent to the differences between Scots and English law).

The main provisions of the Standard Conditions which cannot be varied by agreement relate to enforcement. Generally, where a breach by a borrower entitles the lender to require repayment an appropriate statutory notice must first be served. First, the lender may serve a "calling up notice", in which event the borrower has two months to comply and in default the lender may enforce its rights under the standard security by sale or the other remedies provided by statute (court application only being necessary where the borrower fails to vacate the property). Alternatively, in the case of remediable breaches, the lender may serve a "notice of default", in which event the borrower has only one month in which to comply, but also has the right to object to the notice by court application within fourteen days of the date of service. In addition, the lender may in certain circumstances make direct application to the court without the requirement of a preliminary notice. The appropriate steps for enforcement will therefore depend on the circumstances of each case.

Until very recently, on court application being made by the lender for the relevant enforcement remedies (once a default by the borrower has been established by one of the methods detailed in the preceding paragraph) the Scottish courts were bound, except in very limited circumstances, to grant the enforcement remedies sought. This position has been altered however by the Mortgage Rights (Scotland) Act 2001, which was brought into force on 3 December 2001. The principal effect of this Act is to confer on the court a discretion, on the application of the borrower (or the borrower's spouse or partner) within certain time limits, to suspend the exercise of the lender's enforcement remedies for such period and to such extent as the court considers reasonable in the circumstances, having regard amongst other factors to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation.

Acquisition of Mortgages

Pursuant to the Mortgage Sale Agreement, PML will agree to re-purchase the Mortgages from PSFL on the Closing Date. The Issuer will, in turn, agree to purchase (and PML will agree to sell) these Mortgages on the Closing Date.

The purchase consideration in respect of the Mortgages purchased on the Closing Date will be paid on the Closing Date.

Legal title to each of the Mortgages has since origination remained with PML and will remain with PML until completion of the transfers of the English Mortgages (and in the case of registered land, their registration at H.M. Land Registry) and of the assignations of the Scottish Mortgages (and their registration or recording in the Registers of Scotland) and notification to any borrower or guarantor. Until these steps are taken, the sale of the English Mortgages will take effect in equity only and in relation to Scottish Mortgages, the transfer of the beneficial interest therein will be effected by a declaration of trust (a "**Scottish Declaration of Trust**") by PML in favour of the Issuer. Save in the circumstances to be set out in the Administration Agreement and described below, neither the Issuer nor the Trustee will apply to H.M. Land Registry or to the Registers of Scotland to register or record the Issuer as the new registered or heritable proprietor of any Mortgages, and accordingly in relation to the relevant Mortgages the situation described above as regards title thereto will continue to apply. (See "Perfection of title" below.)

Perfection of title

The sales by PML to the Issuer of the Mortgages will only be perfected by the execution of transfers and assignations of the Mortgages, the carrying out of requisite registration or recording and giving notice to any borrower or guarantor in the circumstances set out below. Neither the Issuer nor the Trustee will be giving notice to any borrower or guarantor in respect of any transfer or assignation of the Mortgages. For so long as PML retains legal title to a Mortgage, a third party dealing with PML could obtain legal title free of the interests of the Issuer and the Trustee. For so long as PML retains legal title, it must be joined as a party to any legal proceedings against any borrower or in relation to the enforcement of any Mortgage. In this regard PML has undertaken for the benefit of the Issuer and the Trustee that it will lend its name to, and take such other steps as may reasonably be required in connection with, any such proceedings. Further, the rights of the Issuer and the Trustee may be or become subject to interests of third parties: for example, a later encumbrance or transfer of the Mortgages, and/or equities created or arising before the transfer of the legal title is perfected: for example, rights of set-off as between the relevant borrowers and PML. These could result in the Issuer receiving less money than anticipated. However, the risk of third party claims defeating or obtaining priority to the interests of the Issuer or the Trustee would be likely to be limited to circumstances arising from a breach by PML of its contractual obligations or fraud, negligence or mistake on the part of PML, the Issuer or their respective personnel or agents.

Until the transfer of the legal title is perfected, the borrower may continue making payment to PML. Perfecting legal title would mean that the borrower would no longer be entitled to obtain a good receipt

from PML as mortgagee. Under the Mortgage Sale Agreement, PML has undertaken that if at any time it receives (or there is received to its order) any property, interest, right or benefit agreed to be sold to the Issuer it will hold the same on trust for the Issuer as the beneficial owner thereof. Furthermore under the Collection Account Declaration of Trust PML will declare that all direct debit payments made by borrowers under the Mortgages and all redemption moneys, cheque payments and moneys recovered on the sale of the relevant Properties following enforcement of any Mortgages and certain other sums in respect of the Mortgages credited to the Collection Account are held on trust for the Issuer until they are transferred to the Transaction Account. Notice to borrowers in respect of the Mortgages would also prevent the Mortgages from being amended by PML or the borrowers without the involvement of the Issuer.

Upon the occurrence of certain events such as (i) the valid service of an Enforcement Notice or a Protection Notice (each as to be defined in the Deed of Charge), or (ii) the termination of PFPLC's role as administrator under the Administration Agreement, or (iii) PML being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which PML is a member or with whose instructions it is customary for PML to comply, to perfect the transfer of legal title to the Mortgages, or (iv) any change occurring in the law after the Closing Date rendering it necessary by law to perfect the transfer of legal title to the Mortgages, or (v) the security under the Deed of Charge or any material part of such security being in jeopardy and the Trustee deciding to take such action to reduce materially such jeopardy, or (vi) the payment in full of all moneys and other liabilities due or owing under the Notes, the Trust Deed and the Deed of Charge, or (vii) the Interest Payment Date falling in December 2050, the Issuer or the Trustee will have the right to perfect legal title to the Mortgages by executing transfers and assignations of the Mortgages in the appropriate form (if necessary pursuant to irrevocable powers of attorney) effecting the necessary registrations, recordings and notifications and giving notice to the borrowers and any guarantors in respect of such Mortgages. The right of the Issuer and the Trustee to exercise the powers of the registered proprietor or heritable creditor of the Mortgages pending registration or recording will be secured by irrevocable powers of attorney granted by PML in favour of the Issuer and the Trustee.

Searches and Warranties in respect of the Mortgages

Neither PFPLC, PML, nor the Issuer nor the Trustee has made or caused to be made (or will make or cause to be made) on its behalf in relation to the Mortgages purchased by the Issuer any of the enquiries, searches or investigations which a prudent purchaser of the relevant security would normally make, other than a search, prior to completion of the purchase by the Issuer of the Mortgages on the Closing Date against PML and PSFL in the relevant file held by the Registrar of Companies and in the Register of Inhibitions and Adjudications in Scotland. Neither the Issuer nor the Trustee has made nor will make any enquiry, search or investigation prior to the making of any Mandatory Further Advance or Discretionary Further Advance or at any time in relation to compliance by PML, the Administrator or any other person with any applicable lending guidelines, criteria or procedures or the adequacy thereof or with the provisions of the Mortgage Sale Agreement, the Administration Agreement, the Deed of Charge, or with any applicable laws or in relation to the execution, legality, validity, perfection, adequacy or enforceability of any Mortgages purchased on the Closing Date or any other security or the insurance contracts relating to the Properties and the Mortgages referred to herein.

In relation to all of the foregoing matters and the circumstances in which advances were made to borrowers prior to the purchase by the Issuer of the relevant Mortgages, the Issuer and/or the Trustee will rely entirely on the warranties to be given by PML to the Issuer and the Trustee contained in the Mortgage Sale Agreement. These include warranties in respect of Mortgages to be purchased on the Closing Date as to the following: that, subject to registration or recording the Mortgages in relation to each Property constitute valid and binding obligations of the borrower and are valid and subsisting mortgages or standard securities over which no other mortgage or standard security has priority other than any Mortgage which has also been sold to the Issuer; as to the procedures followed prior to completion of the relevant Mortgage; as to the terms upon which each such Mortgage was granted.

In addition, warranties will be given by PML to the Issuer and the Trustee in the Mortgage Sale Agreement that, (i) at the date of its advance, the principal amount advanced under any Mortgage (including the amount of any further advance requested by a borrower and actually advanced) together with any further advances due to be made (excluding any fees or other amounts added to the advance) was not more than 85% of either (a) the lower of the valuation of the relevant Property for security purposes in the opinion of a valuer approved by PML and the purchase price of the relevant Property, or (b) the valuation of the relevant Property for security purposes in the opinion of a valuer approved by PML; and (ii) in the case of the Individual Mortgages, no agreement for any Individual Mortgage is in whole or in

part a regulated agreement or a consumer credit agreement (as defined in section 8 of the Consumer Credit Act 1974) or, to the extent that any such Individual Mortgage is in whole or in part a regulated agreement or consumer credit agreement, the procedures set out in the Consumer Credit Act 1974 have been complied with in all material respects.

The sole remedy against PML in respect of breach of warranty shall be to require PML to repurchase any relevant Mortgage provided that this shall not limit any other remedies available to the Issuer or the Trustee if PML fails to repurchase, or procure the repurchase of, a Mortgage when obliged to do so. PML will also agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the Director General of Fair Trading or otherwise, to be an unfair term for the purposes of the Unfair Terms in Consumer Contracts Regulations 1994 or 1999, it shall repurchase or procure the repurchase of the Individual Mortgage concerned.

The Class A Subscription Agreements and the Class B Subscription Agreement referred to in "Subscription and Sale" below contain warranties by PFPLC and PML to the effect that the information in this Offering Circular with regard to the Mortgages to be purchased by the Issuer, the Properties, the insurance contracts relating to the Properties and the Mortgages, PFPLC and its business and PML and its business is true and accurate in all material respects.

LENDING GUIDELINES

The guidelines provided by PML, to help introducers of mortgage loan business to PML to assess the suitability of a potential borrower and of the security offered, set a standard in respect of the Mortgages which, at the time any of the Mortgages was originated, was not substantially different from the following (which, although expressed in the present tense, should be read as applying at the time of origination):

1. Personal Details

1.1 The maximum number of applicants who may be party to the mortgage is four.

1.2 All applicants must be a minimum of 18 years of age at completion.

1.3 PML will establish the identity of each applicant or guarantor (where applicable) in compliance with the current Joint Money Laundering Steering Group Guidance Notes.

1.4 Each borrower is resident in the U.K. for tax purposes.

2. Mortgage Requirements

2.1 All loans will be limited in accordance with the following table:

Loan Size	*Maximum LTV*
£1,000 – £300,000	*100% Excluding Fees* *105% Including Fees*
£300,001 – £500,000	*80% Excluding Fees*
£500,001 – £2,100,000	*75% Excluding Fees*

2.2 In the case of a let property, the loan will not usually exceed 85% of the lower of the purchase price or valuation. Applications in respect of a single let property for between £300,001 and £500,000 will not usually exceed 80% of the lower of the purchase price or valuation. Applications in respect of a single let property between £500,001 and £2,100,000 will not usually exceed 75% of the lower of the purchase price or valuation. Multiple applications for let properties will be considered up to a total of £10,100,000 per borrower(s).

2.3 The maximum term for a loan is 40 years, the minimum is 5 years.

2.4 Loans may be taken on either a capital repayment or an interest-only basis, or a combination of the two.

3. Property Details

3.1 Loans must be secured on residential property which, following a valuation by the PML valuer or a valuer appointed to act on PML's behalf or, in the case of a further advance application, an assessed valuation by reference to an applicable price index, is considered to be suitable security.

3.2 The following are unacceptable to PML:

Properties located other than in England, Wales and Scotland

Freehold flats and maisonettes (except in Scotland)

Properties designated under the Housing Act 1985 or the Housing (Scotland) Act 1987

Properties having agricultural restrictions

Properties subject to notice of mineral extraction, or previous mining subsidence and land fill.

3.3 The following will be considered by PML on an individual basis:

Properties used for part commercial purposes

Properties with adjoining land used for commercial purposes or having agricultural or other planning restrictions

Properties on which buildings insurance is not available on block policy terms

Flats directly attached to or directly above commercial premises

Properties with an element of Flying Freehold

Self-build properties (pre and post completion)

Local Authority Flats being purchased under the Right to Buy Scheme.

3.4 Properties under 10 years old must have the benefit of an NHBC Certificate or any other approved guarantee from an acceptable body. Architects' Certificates must also be provided for

each stage of construction together with Local Authority approval in respect of properties under 10 years old that do not have the benefit of an NHBC Certificate. Similar requirements may be imposed for converted properties.

3.5 Where loans are required on properties which are not to be used for owner occupation, they may be let on an assured shorthold tenancy basis (or in Scotland short assured tenancy) or in circumstances where the occupier (which may include a body corporate, charitable institution or public sector body) has no statutory security of tenure. Where the occupier is a body corporate, the maximum length of lease will normally be for a period no longer than 3 years. Where the occupier is a charitable institution or a public sector body, the maximum length of lease will normally be for a period of no longer than 5 years.

3.6 Where the tenure of the property is leasehold, the minimum length of the lease at the end of the mortgage term must be 35 years.

3.7 All properties must be insured for a minimum of the reinstatement amount shown on the valuation report, under either PML's block insurance policy, or through an equivalent index linked policy with an alternative insurance company.

4. Credit History

4.1 A credit search will be carried out in respect of all applicants which, with the exception of PML's Freshstart product, must show no evidence of adverse credit history which is material to the assessment of the case.

4.2 Where the applicant(s) has an existing first charge or first ranking standard security on a property(ies) occupied by them, PML requires satisfactory evidence of proof of payment. This may take the form of either a lender's reference, mortgage statements or credit bureau information. Where the applicant(s) has an existing first charge or first ranking standard security on property(ies) not occupied by them, PML will obtain either a lender's reference, mortgage statements or credit bureau information on a sufficient number of properties to enable a satisfactory payment record to be established.

5. Income and Employment Details

5.1 Salaried applicants must derive their income from permanent or contracted employment which, other than in exceptional circumstances, is non-probationary. PML will seek a reference from the applicant's current employer and any previous employers where this is considered appropriate. In addition to the above, independent written verification of earnings is normally required. This may include, for example, the latest or most recent P60.

5.2 Where an applicant is defined as self-employed (see 5.3 below), PML will require proof of income over an extended period of time. Acceptable forms of proof of income include audited accounts, personal tax returns, bank statements or an accountant's reference. Such proof will normally be expected to cover a 3 year period, but this may be reduced where the information submitted is deemed sufficient to establish a usable income figure.

5.3 Applicants are defined as self-employed where any of the following circumstances occur unless PML can be provided with proof that this is inappropriate:

An applicant has a liability to tax under any schedule of the Inland Revenue criteria other than Schedule E

An applicant owns 20% or more of the shares of the company providing their employment

An applicant is related to the family which owns the company providing their employment.

5.4 Where income is based upon self-employed, salaried or contracted employment, the maximum loan available is calculated as follows:

Single applicant	–	Up to 4.25 × income
Multiple applicants	–	Up to 4.25 × 1st income plus 2nd income
		Up to 3.25 × joint income

In calculating principal income, up to 50% of an applicant's regular overtime, bonus or commission may be taken into account, providing that the total overtime, bonus or commission used does not exceed 25% of the total earnings. Where appropriate, PML will also consider rental income from tenanted residential property as part of an applicant's principal income.

5.5 Where income is based solely upon the rental income generated from the property to be mortgaged, the rental income must be for a minimum of 120% of the associated mortgage payment when calculated on an interest-only basis.

6. Corporate Mortgages

6.1 The borrower must be an unlisted limited liability company incorporated and trading under the laws of England and Wales or Scotland.

6.2 PML may request references and/or any other information deemed necessary in connection with an application (such as company accounts, corporate searches at Companies Registry, the computerised index of winding up petitions and the manual index of High Court petitions for administration orders at the Central Registry of Winding Up Petitions).

INSURANCE COVERAGE

The following is a summary of the various insurance contracts which are relevant to the Mortgages to be purchased by the Issuer and the activities of the Issuer and the Administrator.

Buildings Insurance

All Properties except those mentioned in the following two paragraphs will be insured under a comprehensive block policy (the "**Block Policy**"), with the interests of PGC, the Issuer and the Trustee noted thereon. The Block Policy is with Lloyds of London Syndicate 1243, which carries on insurance business within the U.K. and whose address is One Lime Street, London EC3M 7HA. The premiums will be collected monthly by the Administrator with the interest payments due on the Mortgages.

In cases involving freehold Properties (or the Scottish equivalent) where the borrower specifically requested permission to make his own insurance arrangements PML will have taken all reasonable steps to ensure that the relevant Property is insured under a policy with an insurance company approved by PML against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by PML's valuer and that PML has become a named insured or its interest has been noted by the insurers.

In the case of leasehold Properties where the lease requires insurance to be effected by the landlord, PML will have taken all reasonable steps to ensure that the relevant Property is insured under a policy with an insurance company approved by PML against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by PML's valuer and that PML has become a named insured or its interest has been noted by the insurers.

The Issuer will also have the benefit of insurance, in the name of PGC (the "**Mortgage Impairment Contingency Policy**") with AON Group Limited, an insurance company which carries on insurance business in the U.K. whose registered office is at 8 Devonshire Square, London EC3M 4PL. The Mortgage Impairment Contingency Policy covers losses suffered by the assured arising by reason of direct physical loss or damage caused by fire or other physical damage perils which the borrower was required to insure against and where those losses were (i) occasioned by insurance for these matters not being in place or (ii) such insurance being inadequate or (iii) in the event that the assured is unable to collect the loss under such insurance for any reason not caused or contributed to by the dishonesty of the assured or its directors or employees.

The Issuer will be or become a named insured under the Mortgage Impairment Contingency Policy. The Issuer's interest in the Block Policy and Mortgage Impairment Contingency Policy insurance policies will, if the Trustee is not itself insured thereunder, be assigned to the Trustee but no notice of these assignments will be given to the insurers. Any claim under any such insurance will be made by the Administrator on behalf of the Issuer and the Trustee pursuant to the Administration Agreement.

As is customary for insurances of this type, the insurances described above are subject to exclusions and deductibles.

Other Miscellaneous Insurances

PML has insurance which covers loss arising from negligent acts, errors or omissions and dishonesty or fraud by the insured's staff, negligence or breach of duty by its directors and officers and fraudulent interference with computer systems or data. The Issuer will be endorsed as a named insured under each of these policies, and the Trustee's interest is expected to be noted on the policies, with effect from the completion of the acquisition of the Mortgages by the Issuer and execution of the Deed of Charge.

The solicitors who acted on behalf of PML in relation to the Mortgages should be covered by the professional indemnity insurance which solicitors are required to maintain by The Law Society or The Law Society of Scotland. This insurance should (if it has been taken out) provide compensation in the event that PML or the Issuer has a claim against such solicitors for negligence which is not satisfied by such solicitors out of their own resources. Licensed conveyancers who acted on behalf of PML in relation to the English Mortgages should be covered by a professional indemnity scheme established under the Administration of Justice Act 1985. This scheme should provide compensation in the event that PML or the Issuer has a claim against such licensed conveyancers for negligence which is not satisfied by such licensed conveyancers out of their own resources.

PML has the benefit of receipts of claims payments from an insurance with the London and Edinburgh Insurance Company Limited, an insurance company which carries on insurance business within the U.K. whose registered office is at 8 Surrey Street, Norwich, NR1 3ST, which provides for certain payments to be made to PML in the event of the total disability, unemployment or hospitalisation of a particular borrower in respect of an Individual Mortgage. Such receipts by PML are applied by it in reducing the borrower's indebtedness to PML. The benefit of any receipts of this insurance will extend to the Issuer and the Trustee.

HISTORICAL DATA RELATING TO PARAGON MORTGAGES LIMITED'S MORTGAGE BUSINESS

The information given in the following tables relates to the whole of the mortgage business originated by PML. There has been no adjustment for the selection criteria used in compiling the Provisional Mortgage Pool and as such there can be no assurance that the experience of the Mortgages acquired by the Issuer will be similar.

Write-Off Recovery Analysis

Financial period	*Average outstanding current balance £'000*	*Current balance write-off £'000*	*Bad debts recovered £'000*	*Net balances written off £'000*
Quarter to September 2002	1,347,599	49	0	49
Quarter to June 2002	1,243,498	6	0	6
Quarter to March 2002	1,150,082	247	0	247
Quarter to December 2001	1,071,469	0	0	0
Quarter to September 2001	993,444	0	0	0
Quarter to June 2001	920,596	115	0	115
Quarter to March 2001	857,956	12	0	12
Quarter to December 2000	803,000	19	0	19
Quarter to September 2000	750,852	26	0	26
Quarter to June 2000	706,144	1	0	1
Quarter to March 2000	669,581	15	0	15
Quarter to December 1999	633,233	0	0	0
Quarter to September 1999	586,546	0	0	0
Quarter to June 1999	535,230	2	0	2
Quarter to March 1999	488,372	6	0	6
Quarter to December 1998	437,723	1	0	1
Quarter to September 1998	372,640	0	0	0
Quarter to June 1998	306,573	1	0	1
Quarter to March 1998	260,559	4	0	4
Quarter to December 1997	221,977	4	0	4
Quarter to September 1997	182,767	0	0	0
Quarter to June 1997	150,265	0	0	0
Quarter to March 1997	125,279	0	0	0
Quarter to December 1996	104,490	0	0	0
Quarter to September 1996	87,907	0	0	0
Quarter to June 1996	74,316	0	0	0
Quarter to March 1996	58,880	0	0	0
Quarter to December 1995	38,529	0	0	0
Quarter to September 1995	19,007	0	0	0
Quarter to June 1995	8,169	0	0	0
Quarter to March 1995	3,455	0	0	0
Quarter to December 1994	871	0	0	0
Quarter to September 1994	25	0	0	0
Quarter to June 1994	0	0	0	0
Quarter to March 1994	0	0	0	0
Quarter to December 1993	0	0	0	0

PML's accounting policies ensure that all mortgages greater than three months in arrears are provisioned for as required based upon the outstanding balance, potential sale proceeds and borrower payment history. When a mortgaged property has been taken into possession the net loss, after any disposal proceeds and insurance receipts, is provisioned for in full, and when the loss is crystallised, the balance outstanding is written off.

Delinquency Analysis

Date	*Total outstanding current balance £'000*	*Performing £'000*	*%*	*>1<=3 months in arrears £'000*		*>3<=6 months in arrears £'000*	*%*	*>6<=9 months in arrears £'000*		*>9<=12 months in arrears £'000*	*%*	*>12 months in arrears £'000*		*Possession accounts £'000*	
Quarter to September 2002	1,397,743	1,385,918	99.2	6,478	0.5	2,481	0.2	1,075	0.1	780	0.1	942	0.07	69	0.00
Quarter to June 2002	1,297,455	1,283,476	98.9	7,386	0.6	3,350	0.3	724	0.1	1,734	0.1	432	0.03	353	0.03
Quarter to March 2002	1,189,540	1,176,368	98.9	6,847	0.6	2,885	0.2	2,185	0.2	631	0.1	222	0.02	402	0.03
Quarter to December 2001	1,110,623	1,095,456	98.6	7,874	0.7	4,132	0.4	1,603	0.1	850	0.1	359	0.03	349	0.03
Quarter to September 2001	1,032,315	1,016,076	98.4	9,935	1.0	4,265	0.4	932	0.1	694	0.1	192	0.02	221	0.02
Quarter to June 2001	954,573	937,796	98.2	9,772	1.0	4,998	0.5	1,050	0.1	742	0.1	49	0.01	166	0.02
Quarter to March 2001	886,619	869,721	98.1	11,755	1.3	3,538	0.4	1,101	0.1	233	0.0	29	0.00	242	0.03
Quarter to December 2000	829,293	812,899	98.0	11,843	1.4	3,239	0.4	677	0.1	310	0.0	140	0.02	185	0.02
Quarter to September 2000	776,706	763,254	98.3	9,745	1.3	2,301	0.3	606	0.1	144	0.0	400	0.05	256	0.03
Quarter to June 2000	724,998	712,782	98.3	8,873	1.2	2,060	0.3	511	0.1	498	0.1	0	0.00	274	0.04
Quarter to March 2000	687,289	676,572	98.4	7,693	1.1	1,706	0.2	786	0.1	220	0.0	29	0.00	283	0.04
Quarter to December 1999	651,872	639,688	98.1	9,288	1.4	1,977	0.3	531	0.1	110	0.0	77	0.01	201	0.03
Quarter to September 1999	614,593	605,106	98.5	7,021	1.1	1,387	0.2	638	0.1	182	0.0	44	0.01	215	0.03
Quarter to June 1999	558,499	549,870	98.5	5,914	1.1	1,924	0.3	381	0.1	172	0.0	41	0.01	197	0.04
Quarter to March 1999	511,961	503,743	98.4	6,085	1.2	1,537	0.3	253	0.0	153	0.0	39	0.01	151	0.03
Quarter to December 1998	464,783	454,771	97.8	8,259	1.8	1,033	0.2	242	0.1	213	0.0	0	0.00	265	0.06
Quarter to September 1998	410,663	405,528	98.7	4,038	1.0	746	0.2	62	0.0	28	0.0	0	0.00	259	0.06
Quarter to June 1998	334,620	329,978	98.6	3,579	1.1	651	0.2	243	0.1	0	0.0	0	0.00	167	0.05
Quarter to March 1998	278,526	275,306	98.8	2,463	0.9	592	0.2	64	0.0	0	0.0	0	0.00	99	0.04
Quarter to December 1997	242,592	239,736	98.8	2,365	1.0	410	0.2	79	0.0	0	0.0	0	0.00	0	0.00
Quarter to September 1997	201,362	198,439	98.5	2,361	1.2	396	0.2	58	0.0	0	0.0	0	0.00	106	0.05
Quarter to June 1997	164,175	162,778	99.1	1,037	0.6	117	0.1	56	0.0	0	0.0	0	0.00	185	0.11
Quarter to March 1997	136,358	135,264	99.2	771	0.6	242	0.2	0	0.0	0	0.0	0	0.00	79	0.06
Quarter to December 1996	114,200	113,264	99.2	693	0.6	165	0.1	35	0.0	41	0.0	0	0.00	0	0.00
Quarter to September 1996	94,783	93,987	99.2	794	0.8	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to June 1996	81,034	80,492	99.3	540	0.7	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to March 1996	67,601	67,456	99.8	143	0.2	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to December 1995	50,162	50,078	99.8	82	0.2	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to September 1995	26,896	26,894	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to June 1995	11,121	11,119	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to March 1995	5,217	5,215	100.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to December 1994	1,693	1,691	99.9	0	0.0	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to September 1994	52	51	98.1	0	0.0	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to June 1994	0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to March 1994	0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00
Quarter to December 1993	0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.00	0	0.00

THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool, evidenced by the mortgages described below (the "**Provisional Mortgage Pool**") as at 28 February 2003 (the "**Provisional Pool Date**") consisted of 2,864 Mortgages having a Provisional Balance (as defined below) of £250,000,143.18.

The Provisional Balance includes amounts which had accrued and become due and payable but which remained unpaid and excludes any accrued interest thereon (the "**Provisional Balance**").

The Mortgages to be purchased by the Issuer on the Closing Date will be selected from the Provisional Mortgage Pool and from other mortgages not included in the Provisional Mortgage Pool. Therefore the information set out below in relation to the Provisional Mortgage Pool may not necessarily correspond to that for the Mortgages sold to the Issuer (see "Summary – Selection of Mortgages" above).

All of the Mortgages forming part of the Provisional Mortgage Pool were originated between 1 July 2001 and 30 November 2002.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 28 years save for certain Mortgages with a combined maximum aggregate principal amount of £15,000,000 which will have had original maturities of up to 40 years, with the latest scheduled maturity of any mortgage loan in the Provisional Mortgage Pool being not later than 31 December 2039.

The following tables give further information about the Provisional Mortgage Pool as at the Provisional Pool Date. All percentages have been taken to two decimal places:

Loan-to-Value ("LTV") Ratios[1]

LTV Ratios (%)	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
> 0 < = 25	394,601.77	0.16	13	0.45
> 25 < = 50	4,144,080.27	1.66	60	2.09
> 50 < = 55	3,872,723.06	1.55	41	1.43
> 55 < = 60	3,065,032.73	1.23	35	1.22
> 60 < = 65	5,102,472.27	2.04	59	2.06
> 65 < = 70	7,928,767.78	3.17	96	3.35
> 70 < = 75	15,279,047.88	6.11	175	6.11
> 75 < = 80	23,113,894.43	9.25	243	8.48
> 80 < = 85	62,596,605.79	25.04	770	26.89
> 85 < = 90	124,502,917.20	49.80	1,372	47.91
Total	250,000,143.18	100.00	2,864	100.00

Average LTV weighted by Provisional Balance: 80.55%

Note:

(1) There has been no revaluation of any of the Properties for the purposes of the issue of the Notes. The information contained in this loan-to-value ratio table has been prepared using either the valuations of each of the Properties made available to PML as at the date of the original initial mortgage origination or, where a more recent valuation (which in a majority of cases will have been carried out in connection with a borrower's request for a Discretionary Further Advance) of a Property has been made available to PML before the Provisional Pool Date, this more recent valuation.

Product Summary by Rate Fixing Method

Product	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
Variable	14,996,079.77	6.00	178	6.22
Fixed	90,944,722.35	36.38	1,063	37.12
LIBOR-Linked	144,059,341.06	57.62	1,623	56.67
Total	250,000,143.18	100.00	2,864	100.00

Product Summary by Repayment Method

Product	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
Interest-only	198,382,026.42	79.35	2,087	72.87
Repayment	51,618,116.76	20.65	777	27.13
Total	250,000,143.18	100.00	2,864	100.00

Loan Size

(£)	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
0 – 15,000	135,543.20	0.05	10	0.35
15,000.01 – 30,000	8,324,236.82	3.33	337	11.77
30,000.01 – 45,000	19,319,635.64	7.73	513	17.91
45,000.01 – 60,000	19,046,417.70	7.62	362	12.64
60,000.01 – 70,000	15,251,555.77	6.10	234	8.17
70,000.01 – 80,000	15,429,798.34	6.17	207	7.23
80,000.01 – 90,000	15,601,457.94	6.24	184	6.42
90,000.01 – 100,000	11,415,662.12	4.57	120	4.19
100,000.01 – 110,000	14,743,756.30	5.90	141	4.92
110,000.01 – 120,000	16,362,380.23	6.54	142	4.96
120,000.01 – 130,000	14,077,315.11	5.63	112	3.91
130,000.01 – 140,000	8,986,235.02	3.59	67	2.34
140,000.01 – 150,000	9,543,671.48	3.82	66	2.30
150,000.01 – 175,000	19,288,714.72	7.72	119	4.16
175,000.01 – 200,000	14,712,210.81	5.88	79	2.76
200,000.01 – 225,000	11,166,166.10	4.47	53	1.85
225,000.01 – 250,000	8,586,359.84	3.43	36	1.26
over 250,000	28,009,026.04	11.20	82	2.86
Total	250,000,143.18	100.00	2,864	100.00

Average loan size: £87,290.55

Property Tenure

(£)	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
Freehold	170,247,356.10	68.10	1,905	66,52
Leasehold	76,030,912.47	30.41	898	31.35
Feudal	3,721,874.61	1.49	61	2.13
Total	250,000,143.18	100.00	2,864	100.00

Seasoning of Mortgages

Year of Origination	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
2001	315,567.74	0.13	2	0.07
2002	249,684,575.44	99.87	2,862	99.93
Total	250,000,143.18	100.00	2,864	100.00

Weighted average seasoning: 6.41 months

Maturity of Mortgages

Years to Maturity	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
> 0 < 5	161,965.00	0.06	1	0.03
> = 5 < 10	10,532,308.85	4.21	146	5.10
> = 10 < 15	27,264,470.61	10.91	324	11.31
> = 15 < 20	59,091,519.20	23.64	668	23.32
> = 20 < 25	142,220,209.09	56.89	1,615	56.39
> = 25 < 30	2,475,514.68	0.99	21	0.73
> = 30	8,254,155.75	3.30	89	3.11
Total	250,000,143.18	100.00	2,864	100.00

Weighted average remaining term in years: 21.84

Loan Purpose

Loan Purpose	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
House/Flat Purchase	140,678,351.46	56.27	1,542	53.84
Remortgage	109,321,791.72	43.73	1,322	46.16
Total	250,000,143.18	100.00	2,864	100.00

Type of Occupancy

Occupancy	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
Letting – Non-Corporate	191,150,962.86	76.46	2,272	79.33
Letting – Corporate	58,849,180.32	23.54	592	20.67
Total	250,000,143.18	100.00	2,864	100.00

Geographical Dispersion

Defined Area	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
North	11,280,833.51	4.51	193	6.74
North West	28,860,898.33	11.54	423	14.77
Yorkshire & Humberside	31,685,537.55	12.67	448	15.64
East Midlands	16,038,820.00	6.42	224	7.82
West Midlands	12,604,737.09	5.04	194	6.77
East Anglia	9,901,003.96	3.96	126	4.40
South East (excluding Greater London)	70,947,344.45	28.38	650	22.70
South West	23,228,396.70	9.29	210	7.33
Greater London	33,462,901.40	13.39	212	7.40
Wales	8,267,795.58	3.31	123	4.29
Scotland	3,721,874.61	1.49	61	2.13
Total	250,000,143.18	100.00	2,864	100.00

Number of months in arrears

No. of months	*Provisional Balance (£)*	*% of Total*	*Number of mortgages*	*% of Total*
Up to 1	249,266,057.67	99.71	2,860	99.86
> 1 < = 2	734,085.51	0.29	4	0.14
Total	250,000,143.18	100.00	2,864	100.00

Average number of months in arrears weighted by Provisional Balance: 0.75 months

Analysis of percentage of subscription[(2)] paid (in aggregate) for arrears mortgages

Percentage of Subscription	*Paid during last month*	*% of Total*	*Paid during last three months*	*% of Total*
= 0	0.00	0.00	0.00	0.00
> 0% < = 50	414,174.03	56.42	0.00	0.00
> 50% < = 100	319,911.48	43.58	734,085.51	100.00
Total	734,085.51	100.00	734,085.51	100.00

Note:

(2) The subscription is the monthly amount due. This table shows the Provisional Balance of accounts which have paid in aggregate the percentage of the subscription due over the relevant period e.g. the Mortgages with a Provisional Balance of £319,911.48 have paid in aggregate between 50% and 100% of their subscriptions for the last month, and the Mortgages with a Provisional Balance of £734,085.51 have paid in aggregate between 50% and 100% of their subscriptions for the last three months, in each case prior to the Provisional Pool Date.

MORTGAGE ADMINISTRATION

Introduction

PFPLC whose registered office is located at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE will be appointed by each of the Issuer and the Trustee in respect of the Mortgages under the Administration Agreement to be its agent to administer the Mortgages. PFPLC will administer the Mortgages with the diligence and skill that a reasonably prudent mortgage lender would apply in administering its own mortgages 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. Save as provided therein, the Administration Agreement will be conditional upon completion of the Mortgage Sale Agreement taking place. PFPLC's appointment as administrator can be terminated by the Trustee in the event of 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 Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or in the event of PFPLC's insolvency. In addition, PFPLC's appointment will, unless PFPLC, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time PFPLC does not have any authorisation under FSMA and/or the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

Mortgage Interest Rate

After completion of the Mortgage Sale Agreement and pursuant to the Administration Agreement, PFPLC (on behalf of the Issuer and the Trustee) will set or calculate the rates of interest applicable to the Mortgages purchased by the Issuer in accordance with the Mortgage Conditions except in the case of Fixed Rate Mortgages and Capped Rate Mortgages and except in certain limited circumstances when the Trustee or the Issuer or a substitute administrator or the Substitute Administrator acting in its capacity as administrator of last resort will be entitled to do so.

Interest in relation to the Mortgages is calculated on the basis of the amount owing by a borrower immediately after the initial advance or on the last day of the preceding calendar quarter (adjusted in respect of further advances and/or principal payments).

In setting the interest rates on the Mortgages (where applicable), PFPLC will have regard to the rates of interest on the Notes but, as to the interrelation between the interest rates on the Mortgages and the rate of interest on the Notes, see "Mortgage Interest Rate Shortfalls, Minimum Interest Rate and the Shortfall Fund" below.

Mortgage Interest Rate Shortfalls, Minimum Interest Rate and the Shortfall Fund

The Issuer may at any time, with the prior consent of PFPLC, draw down under the Subordinated Loan Agreement for the purpose of establishing a Shortfall Fund for purposes including that of providing funds, in the manner described in more detail below, to meet any shortfall arising from the interest rates set by the Administrator for the Mortgages averaging less than a specified rate above LIBOR then applicable to the Notes.

If at any time the Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage so that the weighted average of the interest rates applicable to the Mortgages taking account of all hedging arrangements entered into by the Issuer and income received by the Issuer from the investment of funds standing to the credit of the Transaction Account is less than 1.6% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) until (and including) the Interest Payment Date falling in June 2007 and 2.0% (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case, above the LIBOR applicable to the Notes at that time, it may do so only if and to the extent that there is a credit balance in the Shortfall Fund (if any) (net of all provisions previously made during the then current Interest Period) at least equal to the shortfall which would arise at that time and it makes a provision in such Shortfall Fund equal to such shortfall.

On each Interest Payment Date, the Shortfall Fund (if any) will be applied on such day to pay or provide for the items referred to in "Summary – Priority of Payments – prior to enforcement" above.

Payments from Borrowers

All direct debit payments made by borrowers under the Mortgages and all other moneys paid in respect of the Mortgages purchased by the Issuer (including cheque payments and redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) will generally be paid first into the Collection Account and then will be transferred on the next following Business Day, or as soon as practicable thereafter, to the Transaction Account. PML executed a declaration of trust over the Collection Account at National Westminster Bank Plc on 13 May 1994 which declaration of trust has been amended and supplemented from time to time and which shall be further amended by a supplemental declaration of trust to be dated the Closing Date (the "**Collection Account Declaration of Trust**") under which PML shall declare that all direct debit payments, cheque payments, redemption moneys and certain other sums of money in respect of the Mortgages purchased by the Issuer which are credited to the Collection Account are held on trust for the Issuer until they are applied in the manner described above.

The Administration Agreement will provide that if the short-term debt of any bank with which a Collection Account is maintained ceases to be rated at least P-1 by Moody's and at least A-1 by Standard & Poor's or ceases to be rated such that the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes would be adversely affected, PML and the Administrator shall be required to use their reasonable endeavours to procure that within 30 days of such occurrence (or such longer period as may be agreed by the Trustee and the Rating Agencies) (a) all direct debit payments which would otherwise be made by borrowers under the Mortgages and all other moneys which would otherwise be paid in respect of the Mortgages purchased by the Issuer (including cheque payments, redemption moneys and moneys recovered on the sale of the Properties following enforcement of any Mortgage) into such account are made or paid into a Collection Account with another bank which does satisfy such criteria and (b) PML executes a declaration of trust in the same terms, *mutatis mutandis*, as the Collection Account Declaration of Trust in respect of such new Collection Account.

Arrears and Default Procedures

The Administrator will regularly give details to the Issuer and the Trustee, in accordance with the terms of the Administration Agreement, in writing of the status of the enforcement procedures in relation to Mortgages in respect of which there are arrears and enforcement procedures are being followed by the Administrator in connection therewith.

The Administrator will endeavour to collect all payments due under or in connection with the Mortgages in accordance with procedures agreed from time to time with the Trustee and the Issuer but having regard to the circumstances of the borrower in each case. The procedures may include one or more of appointing a receiver of rent (unless the Property is situated in Scotland), making arrangements whereby a borrower's payments may be varied, pursuing (including taking legal action against) one or more guarantors of the sums owing under the Mortgage, sale of the relevant Property with sitting tenants as an investment and taking legal action for possession and subsequent sale of the relevant Property with vacant possession.

Where appointed, a receiver of rent (which is not available in Scotland) is deemed to be the agent of the borrower and must collect any rents payable in respect of the Property and apply them (after payment of certain statutorily prescribed outgoings) in payment of any interest and arrears accruing under the Mortgage and thereafter any surplus shall either be applied in discharge of principal if required by the lender, or paid to the borrower.

Any action for possession of a Property the subject of a letting would include a claim not only against any tenants but also against the borrower to assist in defeating any subsequent attempt by the borrower to assert a right of occupation. In broad terms, a lender has the same (but no better) rights against a tenant (for example, to regain possession) as are enjoyed by the borrower as landlord. Where the tenant is an individual, he will, as an assured shorthold tenant (or, if in Scotland, as a short assured tenant), have a limited right to security of tenure in that although an order for possession must be made against the tenant (provided, in certain cases, prescribed notices have been served) it cannot take effect earlier than six months after the beginning of the tenancy in the case of a periodic tenancy, or, in the case of a fixed term tenancy, before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. Where the tenant is other than an individual, an order for possession cannot take effect before the expiry of the fixed term unless the tenant fails to keep to the provisions of the tenancy agreement. The net proceeds of sale of the Property (after payment of the costs and expenses of the sale) would be applied against the sums owing from the borrower to the extent necessary to discharge the Mortgage.

Whether the lender adopts one or more of these options will depend upon a number of considerations including the existence of guarantors, the existence of tenants within the Property and their propensity to pay rent, the ratio of rent received to monthly instalments due under the Mortgage, the security of tenure enjoyed by any tenants and the anticipated net receipts from a sale of the Property with vacant possession or with sitting tenants.

Where the funds arising from application of the above procedures are insufficient to pay all amounts owing in respect of a Mortgage, such funds will be applied first in paying interest and costs, and secondly in paying principal owing in respect of such Mortgage. If an amount is still outstanding (the "**outstanding amount**") in respect of the Mortgage, a provision will be made for the outstanding amount (to the extent that it represents principal owing in respect of a Mortgage) in the Principal Deficiency Ledger, forming part of the Issuer's accounts, although circumstances may arise in which this provision is subsequently reduced.

Further Advances

Mandatory Further Advances are currently only required to be made to borrowers for the purpose of advancing any part of the original advance which was retained pending completion of construction or refurbishment.

In all cases where a Mandatory Further Advance in respect of a Mortgage is to be made, the Issuer expects to fund such Mandatory Further Advance from the principal moneys then held by it referred to in paragraph (a) of the definition of Available Redemption Funds (see "Summary – Mandatory Redemption in Part"). The Issuer may not receive sufficient amounts of principal to meet the amounts of Mandatory Further Advances it is required to make. If, and to the extent that, the Issuer fails to make Mandatory Further Advances available when it is required to do so, this may give rise to an entitlement on the part of the relevant borrowers to set-off the amounts of any Mandatory Further Advances which the Issuer has failed to make against amounts owing by those borrowers and/or to sue the Issuer for damages for breach of contract. Accordingly if, and to the extent that, the Issuer does not have sufficient funds to make any such Mandatory Further Advances the Issuer will be entitled to borrow further amounts from PFPLC under the Subordinated Loan Agreement and PFPLC will be under an obligation to make any such amounts available to the Issuer.

No Mandatory Further Advance may be made to a borrower if PML or the Administrator has notice that the relevant borrower is in breach of the relevant Mortgage Conditions. In addition, no Mandatory Further Advance shall be made in respect of any Individual Mortgage by the Issuer, or by PML as agent for or otherwise on behalf of the Issuer, if the making of such Mandatory Further Advance will involve the Issuer in carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA.

The Issuer may, at its discretion but subject to certain conditions in the Administration Agreement and (unless the relevant Discretionary Further Advance is to be funded out of the proceeds of an advance under the Subordinated Loan Agreement for such purpose) provided that (a) there is a balance of zero on the Principal Deficiency Ledger on the immediately preceding Interest Payment Date (or, to the extent that there is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the Principal Deficiency Ledger, is sufficient to reduce to zero any such debit balance on the Principal Deficiency Ledger) and (b) the First Loss Fund is at least equal to the Required Amount on the immediately preceding Interest Payment Date (or, to the extent that it is not, before any such Discretionary Further Advance is made, a drawing is made under the Subordinated Loan Agreement in an amount which, when credited to the First Loss Ledger, is sufficient to replenish the First Loss Fund to the Required Amount), decide to make a Discretionary Further Advance on the security of the Property subject to the Mortgage on the request of a borrower. Any such Discretionary Further Advance may only be made if it is secured on the relevant Property owned by the borrower but subject to the Mortgage. In addition, the Issuer may make a Discretionary Further Advance to a borrower as part of its arrears and default procedures by capitalising certain outstanding arrears of interest payable by a borrower. The capitalisation of outstanding arrears constitutes a capitalisation for these purposes if the capitalised amount is added to the principal balance of the Mortgage and the relevant borrower's arrears are discharged.

The Issuer will fund any Discretionary Further Advance out of its Available Redemption Funds and, where such Available Redemption Funds are insufficient, it will be entitled to request a further drawdown under the Subordinated Loan Agreement, although PFPLC shall be under no obligation to make available any such advance so requested. The Issuer is not entitled to agree to make any Discretionary Further Advance unless it can fund it out of Available Redemption Funds, or unless PFPLC has agreed, at its discretion, to make available an advance under the Subordinated Loan Agreement for such purpose.

In all cases where a Discretionary Further Advance is to be made, the Issuer may use principal moneys referred to in paragraph (a) of the definition of Available Redemption Funds (see ''Summary – Mandatory Redemption in Part'' above).

If the Issuer does not wish, or is unable, to make a Discretionary Further Advance, PML may (but is not obliged to) make that further advance on the security of a second mortgage or standard security over the Property in question (postponed to the relevant Mortgage). Discretionary Further Advances may only be made on a Mortgage by the Issuer if PML's lending criteria as far as applicable are satisfied at the relevant time subject to such waivers as might be within the discretion of a reasonably prudent lender, as will be provided in the Administration Agreement.

Discretionary Further Advances (other than by way of capitalisation of arrears) will not be made or funded (except out of the proceeds of an advance under the Subordinated Loan Agreement for such purpose) if the sum of (i) all Discretionary Further Advances (other than by way of capitalisation of arrears) which have been made since the Closing Date or which are proposed to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made, (ii) all Mandatory Further Advances which have been made since the Closing Date or which are to be made on or before the date on which the relevant Discretionary Further Advance is proposed to be made which, in the case of each of sub-paragraphs (i) and (ii) above, have been or are to be funded by the Issuer out of principal received or recovered or deemed to have been received or recovered in respect of the Mortgages and not out of the proceeds of any advance under the Subordinated Loan Agreement made or to be made for such purpose and (iii) all Mandatory Further Advances which may be required to be made after the making of the relevant Discretionary Further Advance would, on the date of the relevant Discretionary Further Advance, exceed a combined aggregate cumulative limit of £41,000,000.

No Discretionary Further Advance (other than by way of capitalisation of arrears) may be made to a borrower if PML or the Administrator has notice that the relevant borrower is in breach of the relevant Mortgage Conditions. No Discretionary Further Advance will be made by the Issuer, or by PML as agent for or otherwise on behalf of the Issuer, if the making of such Discretionary Further Advance will involve the Issuer in carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA.

Conversion of Mortgages

The Administrator may agree or elect to convert a Mortgage from an Interest-only Mortgage to a Repayment Mortgage (but not any other type of mortgage) or from a Repayment Mortgage to an Interest-only Mortgage (but not any other type of mortgage). Save as aforesaid, the Administrator is not permitted to make a conversion to any other type of mortgage (or to any combination of such other types of mortgage other than a Repayment Mortgage) unless certain conditions, including the following, are first satisfied:

(a) no Enforcement Notice or Protection Notice (as defined in the Deed of Charge) has been given by the Trustee which remains in effect at the date of the relevant conversion;

(b) such conversion would not adversely affect the then current ratings of the Notes;

(c) if, and to the extent that, Mortgages are converted into Mortgages which are Fixed Rate Mortgages or Capped Rate Mortgages, the Issuer having entered into Caps or other hedging arrangements on or before the date of the conversion (and (where appropriate) obtained related guarantees) in respect of the Converted Mortgages if not to do so would adversely affect the then current ratings of the Notes;

(d) on the date of the relevant conversion, there having been no failure by PML to purchase any Mortgage which it is required to repurchase under the terms of the Mortgage Sale Agreement in the event of there being a breach of warranty in respect of that Mortgage;

(e) no conversion must extend the final maturity date of the relevant Mortgage beyond December 2031, except for an aggregate principal amount of Mortgages up to a maximum of £15,000,000 which can have a final maturity of no later than December 2039; and

(f) on the date of and immediately following the relevant conversion, PML's lending criteria are satisfied, so far as applicable, subject to such waivers as might be within the discretion of a reasonably prudent lender.

The Trustee will not make any investigation as to the manner in which any Converted Mortgages differ from the Standard and Non-Standard Mortgages purchased by the Issuer on the Closing Date or as to the compliance thereof with the criteria referred to herein.

Insurance

PFPLC will, on behalf of the Issuer, administer and maintain the arrangements for insurance in respect of, or in connection with, the Mortgages to which the Issuer is a party or in which the Issuer has an interest and will make claims on behalf of the Issuer under any such insurance policies when necessary.

Reinvestment of Income

The Transaction Account shall at all times be maintained with a bank either the long term unsecured and unguaranteed debt of which is rated Aaa by Moody's and AAA by Standard & Poor's or whose short term debt is rated at least P-1 by Moody's and at least A-1 by Standard & Poor's or such that the then current ratings of the Class A Notes or, if no Class A Notes are outstanding, the Class B Notes would not be adversely affected and shall not be changed without the prior consent of the Trustee. If such bank ceases to satisfy the criteria mentioned above, the Administration Agreement will contain provisions requiring the Administrator to arrange for the transfer of the Transaction Account to another bank which does satisfy such criteria within 30 days of such occurrence (or such longer period as may be agreed to by the Trustee and the Rating Agencies).

Sums held to the credit of the Transaction Account to which payments of interest and repayments of principal in respect of Mortgages 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 (a) in sterling denominated securities, bank accounts or other obligations of or rights against entities either the long term unsecured and unguaranteed debt of which is rated Aaa by Moody's and AAA by Standard & Poor's or whose short term unsecured and unguaranteed debt is rated at least P-1 by Moody's and at least A-1 by Standard & Poor's; or (b) in such other sterling denominated securities, bank accounts or other obligations as would not adversely affect the then current ratings of the Class A Notes or, if there are no Class A Notes outstanding, the Class B Notes provided that moneys invested in entities rated A-1 by Standard & Poor's may not be invested for a period of more than 30 days and such investments may not exceed 20% of the then aggregate Principal Amount Outstanding of the Notes. Such investments and deposits must always mature on or before the next Interest Payment Date and will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes. No investment shall be made unless such investment is an asset which a building society (as defined in the Building Societies Act 1986, as amended by the Building Societies Act 1997, if applicable) has power to acquire. In addition, funds of the Issuer must be invested in assets the acquisition of which would not prevent the Class A Notes, if they would otherwise do so, from carrying a Risk Asset Weighting of 50% (or such percentage as may for the time being be generally applicable to mortgage backed securities or, if there is more than one Risk Asset Weighting percentage stipulated for mortgage backed securities, the lower thereof) under the Capital Adequacy Rules for Authorised Institutions for the time being applied by the Financial Services Authority or under the Capital Adequacy Rules for building societies for the time being applied by the Building Societies Commission.

Until such time as the Notes are redeemed in full, an amount equal to the First Loss Fund must be invested in accordance with the criteria applicable to cash held in the Transaction Account specified above, save that the relevant short term debt rating by Standard & Poor's of the entity in which the investment or investments is or are made must, in such case, be A-1+ by Standard & Poor's.

Delegation by the Administrator

The Administrator may, in certain circumstances, with the consent of the Issuer and the Trustee, sub-contract or delegate its obligations under the Administration Agreement. The Administrator may not sub-contract or delegate all or substantially all of its obligations under the Administration Agreement if the then current ratings of the Notes would be adversely affected.

Termination of the appointment of the Administrator

The appointment of the Administrator can be terminated by the Trustee in the event of:

(a) certain payment defaults by the Administrator;

(b) default by the Administrator in the performance or observance of its covenants and obligations under the Administration Agreement, which in the opinion of the Trustee is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders and (except where in the reasonable opinion of the Trustee, such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned will be required) such default continues unremedied for a period of 14 days after the earlier of the Administrator becoming aware of such default and receipt by the

Administrator of written notice from the Trustee requiring the same to be remedied. If the relevant default occurs as a result of a default by any person to whom the Administrator has sub-contracted or delegated part of its obligations under the Administration Agreement such default shall not result in the termination of the appointment of the Administrator if within such 14-day period the Administrator terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Trustee may reasonably specify to remedy such default or to indemnify the Issuer against the consequences of such default;

(c) an order being made or an effective resolution being passed for winding up the Administrator;

(d) the Administrator ceasing or threatening to cease to carry on its business or a substantial part of its business or stopping payment or threatening to stop payment of its debts or the Administrator being deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended) or becoming unable to pay its debts as they fall due or the value of its assets falling to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becoming insolvent; or

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

In addition PFPLC's appointment will, unless PFPLC, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time PFPLC does not have any authorisation under FSMA and/or the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 which it is required to have in order to enable it to perform the services which it is to agree in the Administration Agreement to perform without it or the Issuer carrying on a regulated activity in the United Kingdom in breach of section 19 of FSMA in circumstances where the Issuer is not itself so authorised and is not exempt from being so authorised.

The Administration Agreement may also be terminated upon the expiry of not less than 12 months' notice of termination given by the Administrator to each of the Issuer and the Trustee, if:

(a) the Trustee and the Substitute Administrator consent in writing;

(b) a substitute administrator (which can include the Substitute Administrator) is appointed;

(c) such substitute administrator has experience of administering mortgages of residential property in England and Wales and Scotland and (if other than the Substitute Administrator) is approved by the Trustee; and

(d) the then current ratings of the Class A Notes and the Class B Notes by the Rating Agencies are not affected as a result of such termination unless otherwise agreed by an extraordinary resolution of the Class A Noteholders or the Class B Noteholders respectively.

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

Administration Fee

The Administration Agreement will make provision for payments to be made to the Administrator. The Issuer will pay to PFPLC as Administrator an administration fee of not more than 0.30% (inclusive of VAT) per annum on the aggregate interest charging balances of the Mortgages at the beginning of each Collection Period which will be due quarterly 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

mortgage administration services) may be payable to any substitute administrator appointed (other than as administrator of last resort) following termination of PFPLC's appointment. If no substitute administrator can be found, the Substitute Administrator will act as administrator of last resort receiving a fee at a rate of 0.30% (exclusive of VAT) per annum on the aggregate interest charging balances of the Mortgages at the beginning of each Collection Period which will be due quarterly in arrear on each Interest Payment Date. If the Substitute Administrator is required to act as administrator of last resort, it will exercise such discretion as would be exercised by it if it were the mortgagee and beneficial owner of the Mortgages.

PML will be entitled to receive from the Issuer for its own account any commissions due to it from insurers out of premiums paid by borrowers as a result of it having placed buildings insurance in relation to the Mortgages with such insurers.

The administration fee and all costs and expenses of the Administrator (including of any substitute administrator and of the Substitute Administrator 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 Mortgages and the Notes.

Redemption

Under the Administration Agreement, the Administrator will be responsible for handling the procedures connected with the redemption of Mortgages. In order to enable the Administrator to do this, the Trustee and the Issuer will be required to execute powers of attorney in favour of the Administrator which will enable it to discharge the Mortgages from the security created over them in favour of the Trustee under the Deed of Charge, without reference to the Trustee or the Issuer.

UNITED KINGDOM TAXATION

The comments below are of a general nature and are based on the Issuer's understanding of United Kingdom law and practice. They are not exhaustive. They relate only to the position of persons who are the absolute beneficial owners of their Notes and related Coupons and may not apply to certain classes of person 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.

1. There will be no United Kingdom withholding tax in relation to interest payments on the Notes while the Notes continue to be listed on the Official List of the U.K. Listing Authority and admitted to trading on the London Stock Exchange.
2. Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.
3. The interest on the Notes will have a United Kingdom source and, accordingly, subject as set out below, may be chargeable to United Kingdom tax by direct assessment. However, interest received without deduction or withholding is not chargeable to United Kingdom tax in the hands of a Noteholder who is not resident for tax purposes in the United Kingdom unless the Noteholder carries on a trade, profession or vocation in the United Kingdom through a branch, agency or permanent establishment in the United Kingdom in connection with which the interest is received or to which the Notes are attributable. There are certain exceptions for income received by specified categories of agent (such as some brokers and investment managers).
4. If interest on the Notes were to be paid after deduction of United Kingdom income tax, the terms and conditions of the Notes do not provide for any additional payments to be made in this or any other circumstance. Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.
5. 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, agency or permanent establishment in the United Kingdom) will, generally, be liable to corporation tax as 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 provisions described in paragraphs 6 and 7 below will not apply to such a Note.
6. A Noteholder (other than a Noteholder within the charge to corporation tax in respect of the relevant Note) who is subject to United Kingdom income tax will generally be subject to income tax on interest arising in respect of the Notes on a receipts basis. Such Noteholder 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 Income and Corporation Taxes Act 1988) 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 it receives 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.
7. 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.
8. 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.

SUBSCRIPTION AND SALE

HSBC Bank plc (the "**Class A1 Manager**") has, pursuant to a subscription agreement dated 23 June 2003 (to which PFPLC and PML are also party) (the "**Class A1 Subscription Agreement**") agreed, subject to certain conditions, to subscribe for the Class A1 Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class A1 Manager for certain of its expenses in connection with the issue of the Class A1 Notes. The Class A1 Subscription Agreement entitles the Class A1 Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A1 Manager against certain liabilities in connection with the offer and sale of the Class A1 Notes. The Issuer has agreed to pay the Class A1 Manager a combined selling, management and underwriting commission of 0.175% of the principal amount of the Class A1 Notes. The Issuer gives certain representations and warranties and undertakings to the Class A1 Manager in the Class A1 Subscription Agreement.

HSBC Bank plc (the "**Class A2 Manager**") has, pursuant to a subscription agreement dated 23 June 2003 (to which PFPLC and PML are also party) (the "**Class A2 Subscription Agreement**"), agreed, subject to certain conditions, to subscribe for the Class A2 Notes at 100% of their principal amount. The Issuer has agreed to reimburse the Class A2 Manager for certain of its expenses in connection with the issue of the Class A2 Notes. The Class A2 Subscription Agreement entitles the Class A2 Manager to terminate such agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Class A2 Manager against certain liabilities in connection with the offer and sale of the Class A2 Notes. The Issuer has agreed to pay the Class A2 Manager a combined selling, management and underwriting commission of 0.175% of the principal amount of the Class A2 Notes. The Issuer gives certain representations and warranties and undertakings to the Class A2 Manager in the Class A2 Subscription Agreement.

HSBC Bank plc (the "**Class B Manager**") has, pursuant to a subscription agreement dated 23 June 2003 (to which PFPLC and PML are also party) (the "**Class B Subscription Agreement**") agreed, 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 combined selling, management and underwriting commission of 0.3% of the principal amount of the Class B Notes. The Issuer gives certain representations and warranties and undertakings to the Class B Manager in the Class B Subscription Agreement.

The Class A1 Manager, the Class A2 Manager and the Class B Manager are together referred to in this Offering Circular as the "**Manager**".

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 registration 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 to 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). The Class A1 Manager, in respect of the Class A1 Notes, each of the Class A2 Manager, in respect of the Class A2 Notes, and the Class B Manager, in respect of the Class B 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 under the Securities Act.

The Class A1 Manager, in respect of the Class A1 Notes, the Class A2 Manager, in respect of the Class A2 Notes, and the Class B Manager, in respect of the Class B 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 VI of FSMA 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 business 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 (as amended) or FSMA; (ii) it has complied and will comply with all applicable provisions of FSMA 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 communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of FSMA does not apply to the Issuer.

Other than admission of the Notes to the Official List and to trading 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.

The Class A1 Manager, in respect of the Class A1 Notes, the Class A2 Manager, in respect of the Class A2 Notes, and the Class B Manager, in respect of the Class B Notes, has undertaken not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Offering Circular, advertisement 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.

The Manager may hold notes issued by other subsidiaries of PGC in connection with other securitisation transactions.

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

It is expected that listing of the Notes to the Official List of the U.K. Listing Authority will be granted on 26 June 2003 and that the Notes will be admitted to trading on the London Stock Exchange on or around 26 June 2003, subject only to the issue of the Temporary Global Notes. Prior to the official listing, however, dealings in the Notes will be permitted by the London Stock Exchange in accordance with its rules. The listing of the Notes will be cancelled if the Temporary Global Notes are not issued.

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and the Common Code Numbers and ISIN numbers are as follows:

Class A1 Notes, Common Code Number 017148761; ISIN XS0171487613;

Class A2 Notes, Common Code Number 017148966; ISIN XS0171489668; and

Class B Notes, Common Code Number 017149113; ISIN XS0171491136.

Transactions will normally be effected for settlement in sterling for delivery on the third calendar day after the date of the transaction.

Deloitte & Touche have given and not withdrawn their written consent to the inclusion of their report in the Offering Circular and have authorised the contents of that part of the Offering Circular which contains 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 79(3) of FSMA and regulations 6(1)(e) and 6(3) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

So long as the Notes are listed on the Official List of the U.K. Listing Authority and admitted to trading 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.

Since 30 September 2002 there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or (save as disclosed under "The Issuer – Capitalisation" above) financial position of the Issuer.

The Issuer is not, nor has it been, involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have, or have had during the twelve months preceding the date of this Offering Circular, a significant effect on the financial position of the Issuer or the group of companies of which the Issuer is a member.

The address of PML is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE.

The financial information included on pages 75 to 77 of this document does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985. Audited statutory accounts of the Issuer on which the Issuer's auditors have given an unqualified report which contains no statement under section 237(2) or (3) of the Companies Act 1985 have been delivered to the Registrar of Companies in respect of the financial years ended 30 September 2000, 30 September 2001 and 30 September 2002 respectively in accordance with the Companies Act 1985.

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, One Bunhill Row, London ECIY 8YY 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 A1 Subscription Agreement, the Class A2 Subscription Agreement and the Class B Subscription Agreement;

(c) drafts (subject to modification) of the Trust Deed to constitute the Class A Notes and the Class B Notes (including the forms of the Global Class A Notes, the Class A1 Notes, Coupons and Talons, the Class A2 Notes, Coupons and Talons and the forms of Global Class B Notes, the Class B Notes, Coupons and Talons), the Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, the Scottish Declaration of Trust, the Agency Agreement, the Collection Account Declaration of Trust, the Swap Agreement, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the VAT Declaration of Trust, the POPLC Deed and the Post Enforcement Call Option Deed;

(d) the accountants' report on the Issuer prepared by Deloitte & Touche, the text of which is set out on pages 75 to 77;

(e) the financial statements of the Issuer for the periods ended 30 September 2000, 30 September 2001 and 30 September 2002 respectively.

GLOSSARY OF KEY TERMS AND DEFINITIONS

The following capitalised terms used in this Offering Circular are defined on the page number specified below:

Defined Term	**Page No.**
1.6% amount	17
3.2% amount	18
£	2
Accrued Interest	42
Additional Amounts	73
Additional Interest	58
Administration Agreement	16
Administrator	41
Agency Agreement	37, 53
Arrears Mortgages	14
Available Redemption Funds	11, 44, 60
Basic Terms Modification	51, 68
Business Day	5, 42, 48, 58, 64
Cap	19
Cap Provider	19
Class A Available Redemption Funds	45, 61
Class A Conditions	39
Class A1 Manager	103
Class A2 Manager	103
Class A Noteholder	38
Class A Noteholders	37, 39, 53, 55
Class A Notes	1, 39, 56
Class A1 Notes	1, 39, 56
Class A2 Notes	1
Class A1 Subscription Agreement	103
Class A2 Subscription Agreement	103
Class B Available Redemption Funds	45, 61
Class B Conditions	55
Class B Manager	103
Class B Noteholder	54
Class B Noteholders	37, 39, 53, 55
Class B Notes	1, 40
Class B Subscription Agreement	103
Clearstream, Luxembourg	1, 37, 53
Closing Date	5, 39, 55
Collection Account	16

Defined Term	Page No.
Collection Account Declaration of Trust	96
collecting agent	32
Common Depositary	1, 20, 37, 53
Converted Mortgage	15
Corporate Mortgages	13
Couponholder	39, 55
Coupons	39, 55
Current Balance	10
Deed	67
Deed of Charge	8, 37, 39, 53, 55
Deferred Interest	58
Determination Event	10
Discretionary Further Advance	15
Enforcement Notice	49, 66
English Mortgages	79
English Properties	14, 79
Euroclear	1, 37, 93
Event of Default	49, 66
Fee Letter	21
First Loss Fund	17
First Loss Ledger	7
FSMA	1, 28
Global Class A Note	37
Global Class A Notes	37
Global Class B Note	53
Global Class B Notes	53
Global Notes	20
Increased Required Amount	18
Individual Mortgages	13
Interest Coupons	39, 55
Interest Determination Date	42, 58
Interest Payment	1, 43, 59
Interest Payment Date	1, 42, 57
Interest Period	42, 58
Interest-only Mortgages	80
Issuer	1
LIBOR	1
London Stock Exchange	1, 43, 60
Manager	103

Defined Term	Page No.
Mandatory Further Advance	15
Moody's	1
Mortgage Conditions	79
Mortgage Originator	4
Mortgage Sale Agreement	13, 37, 53
Mortgages	13
Non-Standard Mortgages	79
Notes	1
Official List	1
Option Exercise Date	67
outstanding amount	97
paying agent	32
Paying Agents	37, 53
Permanent Global Note	20
Permitted Hedge Provider	19
PFPLC	4
PGC	4
PML	4, 37, 53
Pool Factor	46, 62
POPLC	22, 67
POPLC Deed	23
Post Enforcement Call Option Deed	22, 67
pounds	2
pounds sterling	2
Principal Amount Outstanding	46, 62
Principal Coupons	39, 55
Principal Deficiency Ledger	7
Principal Determination Date	10
Principal Ledger	6
Principal Paying Agent	37, 53
Principal Payment	44, 60
Properties	14, 79
Provisional Balance	91
Provisional Mortgage Pool	91
Provisional Pool Date	91
PSFL	4
Purchased Pre-Closing Accruals and Arrears	14
Rate of Interest	42, 58
Rating Agencies	1

Defined Term	Page No.
Reference Agent	42, 53, 58
Reference Banks	43, 59
Regulated Activities Order	28
relevant Collection Period	11, 44, 61
Relevant Date	49, 65
Relevant Documents	40, 56
Relevant Screen	50, 68
Repayment Mortgages	80
Required Amount	17
Residual Amount	65
Restricted Period	103
Retained Pre-Closing Accruals and Arrears	14
Revenue Ledger	6
Scottish Declaration of Trust	81
Scottish Mortgages	14
Scottish Properties	14, 79
Securities Act	103
Security	39, 55
Services Letter	21, 72
Shortfall Fund	18
Stabilising Manager	2
Standard & Poor's	1
Standard Mortgages	79
sterling	2
Subordinated Loan Agreement	21
Subordinated Lenders	22
Substitute Administrator	6, 37, 40, 53, 55
Substitute Administrator Agreement	16
Swap Agreement	19
Swap Counterparty	19
Swap Provider	19
Swap Termination Amount	7
Talons	39, 55
Temporary Global Note	20
Transaction Account	6, 39, 55
Trust Deed	37, 39, 53, 55
Trustee	4, 37, 39, 53, 55
U.K. Listing Authority	1
VAT Account	78

Defined Term	Page No.
VAT Declaration of Trust	78
Withheld Amount	74
Withholding Compensation Amounts	74

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