Paragon Mortgages (No.10) PLC

(Incorporated with limited liability in England and Wales with registered number: 4514738)

Issue of Mortgage Backed Floating Rate Notes

Initial face amount	*Class*	*Issue price*	*Initial margin*	*Step up month*	*Stepped up margin*	*Expected rating Fitch*	*Moody's*	*S&P*
$1,100,000,000	Class A1 Notes Due 2041	100 per cent.	0.00 per cent.	Not Applicable	Not Applicable	F1+	P-1	A-1+
£105,000,000	Class A2a Notes Due 2041	100 per cent.	0.16 per cent.	December 2010	0.32 per cent.	AAA	Aaa	AAA
€222,000,000	Class A2b Notes Due 2041	100 per cent.	0.16 per cent.	December 2010	0.32 per cent.	AAA	Aaa	AAA
£31,000,000	Class B1a Notes Due 2041	100 per cent.	0.27 per cent.	December 2010	0.54 per cent.	AA	Aa2	AA
€19,500,000	Class B1b Notes Due 2041	100 per cent.	0.27 per cent.	December 2010	0.54 per cent.	AA	Aa2	AA
£51,500,000	Class C1a Notes Due 2041	100 per cent.	0.55 per cent.	December 2010	1.10 per cent.	A	A2	A
€27,500,000	Class C1b Notes Due 2041	100 per cent.	0.55 per cent.	December 2010	1.10 per cent.	A	A2	A

Paragon Mortgages (No.10) PLC (the "**Issuer**") will issue $1,100,000,000 Class A1 Notes (the "**Class A1 Notes**"), £105,000,000 Class A2a Notes (the "**Class A2a Notes**") and €222,000,000 Class A2b Notes (the "**Class A2b Notes**") and, together with the Class A2a Notes, the "**Class A2 Notes**"), £31,000,000 Class B1a Notes (the "**Class B1a Notes**"), €19,500,000 Class B1b Notes (the "**Class B1b Notes**", and together with the Class B1a Notes, the "**Class B Notes**"), £51,500,000 Class C1a Notes (the "**Class C1a Notes**") and €27,500,000 Class C1b Notes (the "**Class C1b Notes**" and, together with the Class C1a Notes, the "**Class C Notes**") on or about 17 November 2005 (the "**Closing Date**"). In this document the Class A1 Notes and the Class A2 Notes are together referred to as the "**Class A Notes**" and the Class A Notes, the Class B Notes and the Class C Notes are together referred to as the "**Notes**". In this document the Notes issued in EUR are referred to as the "**EUR Notes**", the Notes issued in USD are referred to as the "**USD Notes**" and the Notes issued in GBP are referred to as the "**GBP Notes**". The GBP Equivalent gross proceeds of the Class A Notes will be £886,095,812, the GBP Equivalent gross proceeds of the Class B Notes will be £44,175,676 and the GBP Equivalent gross proceeds of the Class C Notes will be £70,081,081.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or the securities laws of any state of the United States or any other jurisdiction. The Issuer has not been and will not be registered under the United States Investment Company Act of 1940, as amended (the "Investment Company Act"). The GBP Notes and EUR Notes may only be offered or sold outside the United States to non-U.S. Persons in reliance on Regulation S ("Regulation S") under the Securities Act. The USD Notes may only be offered or sold (a) within the United States to qualified institutional buyers ("Qualified Institutional Buyers") (as defined in Rule 144A ("Rule 144A") under the Securities Act) in compliance with Rule 144A and (b) outside the United States to non-U.S. Persons in reliance on Regulation S. The Notes are subject to further restrictions on transfer; see "Restrictions on Purchase and Transfer of the Notes". The Class A1 Notes are intended to be 'eligible securities' for purchase by money market funds under Rule 2a-7 under the Investment Company Act of 1940, as amended. However, any determination as to such qualification and compliance with other aspects of Rule 2a-7 is solely the responsibility of each money market fund and its investment adviser. The Class A1 Notes will also be sold subject to the A1 Note Mandatory Transfer Arrangements (as defined in "Summary Information – the A1 Note Mandatory Transfer Arrangements").

Interest is payable on (a) the Class A1 Notes in arrear on the 15th day in each month beginning 15 December 2005 subject to adjustment in the manner described in this Offering Circular (each date, as so adjusted, being an "**A1 Interest Payment Date**") and (b) the Class A2 Notes, the Class B Notes and the Class C Notes in arrear on 15 March 2006 and thereafter quarterly on each subsequent 15 March, 15 June, 15 September and 15 December subject to adjustment in the manner described in this Offering Circular (each date, as so adjusted, being an "**Interest Payment Date**") and the first Interest Period for the Class A2 Notes, the Class B Notes and the Class C Notes is expected to commence on (and include) the Closing Date and end on (but exclude) the Interest Payment Date falling in March 2006. A "**Payment Date**" for determining the amount and date for payment of interest on the Class A1 Notes shall be each A1 Interest Payment Date and otherwise shall be each Interest Payment Date. **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 right to payment of interest on the Class B Notes and the Class C Notes will be subordinated and may be limited as described herein (see "Summary – Interest" below). To the extent that such funds available to the Issuer on the Principal Determination Date (as defined herein) applicable to an Interest Payment Date are not sufficient to pay the full amount of interest payable on the Class B Notes and/or the Class C Notes, as the case may be, on such Interest Payment Date, payment of the shortfall will be deferred. The Issuer shall pay such deferred amount to the extent that funds are available for that purpose on each Interest Payment Date immediately after the next Principal Determination Date. Such deferred amount will accrue interest at the rate of interest accruing on the Class B Notes and/or the Class C Notes, as the case may be, from time to time.

The annual interest rates applicable to the Notes from time to time will be the sum of the applicable reference rate plus a margin. In the case of the Class A1 Notes the applicable reference rate is the London Interbank Offered Rate ("**LIBOR**") for one month USD deposits (or, in the case of the first Interest Period, the rate which is a linear interpolation between LIBOR for one week and one month USD deposits and LIBOR for two month USD deposits) plus in each case the Reset Margin (as defined in "***Summary Information – The A1 Note Mandatory Transfer Arrangments***"). In the case of the GBP Notes the applicable reference rate is LIBOR for three month GBP deposits (or, in the case of the first Interest Period, the rate which is a linear interpolation between LIBOR for three month GBP deposits and LIBOR for four month GBP deposits). In the case of the EUR Notes the applicable reference rate is the Eurozone Interbank Offered Rate ("**EURIBOR**") for three month EUR deposits (or, in the case of the first Interest Period, the rate which is a linear interpolation between EURIBOR for three month EUR deposits and EURIBOR for four month EUR deposits). The initial margins (being rates per annum) applicable to each class of Notes are indicated above and will apply up to and including the Interest Period (as defined herein) ending in the relevant step up month indicated above and thereafter the margin will be the relevant stepped up margin (being rates per annum) indicated above.

Prior to redemption on the Interest Payment Date falling in June 2041 for the Class A1 Notes ("**A1 Final Payment Date**") and prior to redemption of the Class A2 Notes, the Class B Notes and the Class C Notes on the Interest Payment Date on June 2041, 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 Liability Outstanding (as defined herein) together with accrued interest on any Interest Payment Date or A1 Interest Payment Date, as more particularly described herein. The Class B Notes and the Class C 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 and the Class C Notes and the Class B Notes will rank in priority to the Class C Notes. All the Class A Notes (irrespective of class) will rank *pari passu* and rateably in their right to receive interest, but, prior to the enforcement of the security, the Class A1 Notes will rank in priority to the Class A2 Notes in their right to receive principal. Following enforcement of the security all the Class A Notes will rank pari passu and rateably in their right to receive both interest and principal. All the Class B Notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority among themselves. All the Class C Notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority among themselves.

The Notes are expected, on issue, to be assigned ratings as indicated above by Fitch Ratings Limited ("**Fitch**"), Moody's Investors Service Limited ("**Moody's**") and by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**" or "**S&P**" and, together with Fitch and Moody's, the "**Rating Agencies**"). 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**"). This Offering Circular comprises the prospectus (the "**Prospectus**") with regard to the Issuer and the Notes in accordance with the prospectus rules made under Part VI of the Financial Services and Markets Act 2000 ("**FSMA**") by the U.K. Listing Authority. Application has also been made to the London Stock Exchange plc (UK) (the "**London Stock Exchange**") for the Notes to be admitted to trading on the Gilt Edged and Fixed Interest Market of the London Stock Exchange.

Particular attention is drawn to the section herein entitled "Risk Factors".

Arranger
Barclays Capital

Lead Managers

Barclays Capital **Deutsche Bank**

Co-Managers

ABN AMRO JPMorgan HSBC ING The Royal Bank of Scotland

The date of this Offering Circular is 14 November 2005.

IMPORTANT NOTICE

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 Managers (as defined in "Subscription and Sale" below). This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer, the Trustee or the Managers or any of them to subscribe for or to purchase any of the Notes. Neither the delivery of this Offering Circular nor any offer, solicitation, sale or allotment made in connection with the offering of the Notes shall under any circumstances constitute a representation or imply that the information contained in this Offering Circular has not changed since its date or is correct at any time after its date. You should rely only on the information contained in this Offering Circular.

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

No action has been taken by the Issuer or the Managers, other than as set out on the first page of this Offering Circular, that would permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any offering circular, prospectus, form of application, advertisement or other offering material may be issued or distributed or published in any country or jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. The Managers have represented that all offers and sales by them have been and will be made on such terms. Persons into whose possession this Offering Circular comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

The Notes are being offered only to a limited number of investors that are willing and able to conduct an independent investigation of the characteristics of the Notes and risks of ownership of the Notes. It is expected that prospective investors interested in participating in this offering will conduct an independent investigation of the risks posed by an investment in the Notes.

This Offering Circular is not intended to furnish legal, regulatory, tax, accounting, investment or other advice to any prospective purchaser of the Notes. This Offering Circular should be reviewed by each prospective purchaser and its legal, regulatory, tax, accounting, investment and other advisers.

The Notes will bear restrictive legends and will be subject to restrictions on transfer as described herein. Each initial purchaser and subsequent transferee of certificated Notes must furnish a representation letter in the form prescribed by the Trust Deed. Each initial purchaser and subsequent transferee of book-entry Notes will be deemed, by its acquisition or holding of such Notes, to have made the representations set forth in such Notes and the Trust Deed that are required of such initial purchasers and transferees. Any resale or other transfer, or attempted resale or other attempted transfer, of Notes which is not made in compliance with the applicable transfer restrictions will be void. For a further description of certain restrictions on offers and sales of Notes and distribution of this Offering Circular, see "Subscription and Sale" and "Restrictions on Purchase and Transfer of the Notes" below.

Investors whose investment authority is subject to legal restrictions should consult their legal advisers to determine whether and to what extent the Notes constitute legal investments for them.

Notice to New Hampshire residents

Neither the fact that a registration statement or an application for a licence has been filed under Chapter 421-B of the New Hampshire revised statutes with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the State of New Hampshire constitutes a finding by the Secretary of State that any document filed under RSA 421-B is true,

complete and not misleading. Neither any such fact nor the fact that an exemption or exception is available for a security or a transaction means that the Secretary of State has passed in any way upon the merits or qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make, or cause to be made, to any prospective purchaser, customer, or client any representation inconsistent with the provisions of this paragraph.

Certain aspects relating to enforcement action against the Issuer in the United States

The Issuer is a company incorporated with limited liability under the laws of England and Wales and its executive offices and administrative activities and all or a substantial portion of its assets are located outside the United States. As a result, it may not be possible for investors to effect service of process upon the Issuer within the United States or to enforce against the Issuer in United States courts judgments predicated upon the civil liability provisions of the securities laws of the United States. In addition, all of its directors and officers are residents of jurisdictions other than the United States, and all or a substantial portion of the assets of these persons are or may be located outside the United States. As a result it may be difficult for investors to effect service of process within the United States upon these persons or to enforce against them judgements obtained in the United States courts, including judgements predicated upon the civil liability provisions of the securities laws of the United States or any state or other jurisdiction within the United States.

Information as to placement within the United States

This Offering Circular has been prepared by the Issuer solely for use in connection with the issue of the Notes. This Offering Circular is personal to each potential investor to whom it has been delivered by the Issuer, the Managers or any of their respective affiliates and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. Distribution of this Offering Circular in the United States to any persons other than the potential investors and those persons, if any, retained to advise such offeree with respect thereto is unauthorised, and any disclosure of any of its contents, without the prior written consent of the Issuer, is prohibited.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission (the "SEC"), any state securities commission or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering circular. Any representation to the contrary is unlawful.

Available information

To permit compliance with Rule 144A under the Securities Act for resale of the Rule 144A Notes, the Issuer will make available upon request to a holder of such Note and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the Issuer is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**") and is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

Forward-Looking Statements

Certain matters contained in this Offering Circular are forward-looking statements. Such statements appear in a number of places in this Offering Circular, including with respect to assumptions on the expected amortisation of the Notes and prepayment and certain other characteristics of the Mortgages, and reflect significant assumptions and subjective judgments by the Issuer that may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans" or similar terms. Future results may differ from the Issuer's expectations due to a variety of factors, including, but not limited to, the economic environment and regulatory changes in the residential and buy-to-let mortgage industry in the United Kingdom. Moreover, past financial performance should not be considered a reliable indicator of future performance, and prospective purchasers of the Notes are cautioned that any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the Issuer. The Managers have not attempted to verify any such statements, nor do they make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these

forward-looking statements. Neither the Issuer nor any of the Managers assumes any obligation to update these forward-looking statements or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements.

References to currencies

References in this document to "**£**", "**GBP**", "**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 "Risk Factors – Matters relating to the European Union"). References in this document to "**€**", "**EUR**" or "**euro**" are references to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty of Rome of 25 March 1957, as amended from time to time. References in this document to "**$**", "**USD**" or "**dollars**" are to the lawful currency for the time being of the United States of America.

References in this document to "**GBP Equivalent**" in relation to an amount means (a) where that amount is expressed in GBP, that amount at the Expected Exchange Time; and (b) where that amount is expressed in any currency other than GBP, the GBP equivalent of that amount ascertained using (1) if that amount relates to a Note other than a GBP Note and the Currency Swap Agreement relating to that Note has not or is not expected to have terminated early on or before the Expected Exchange Time, the exchange rate specified in that Currency Swap Agreement; or (2) in any other case, the applicable spot rate of exchange at (or as expected to be at) the Expected Exchange Time as determined by the Administrator (prior to the Security (as defined below) becoming enforceable) or the Trustee (from or after the Security becoming enforceable); and "**Expected Exchange Time**" means the date the GBP Equivalent is to be determined, unless it is clear from the context that the relevant reference to GBP Equivalent relates to and is being used to anticipate currency exchanges which will be made at a specific future date, in which case it means that future date.

Stabilisation

In connection with the issue of the Notes, Barclays Bank PLC (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is not assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Closing Date and 60 days after the date of the allotment of the Notes.

TABLE OF CONTENTS

OVERVIEW OF CERTAIN FEATURES OF THE NOTES

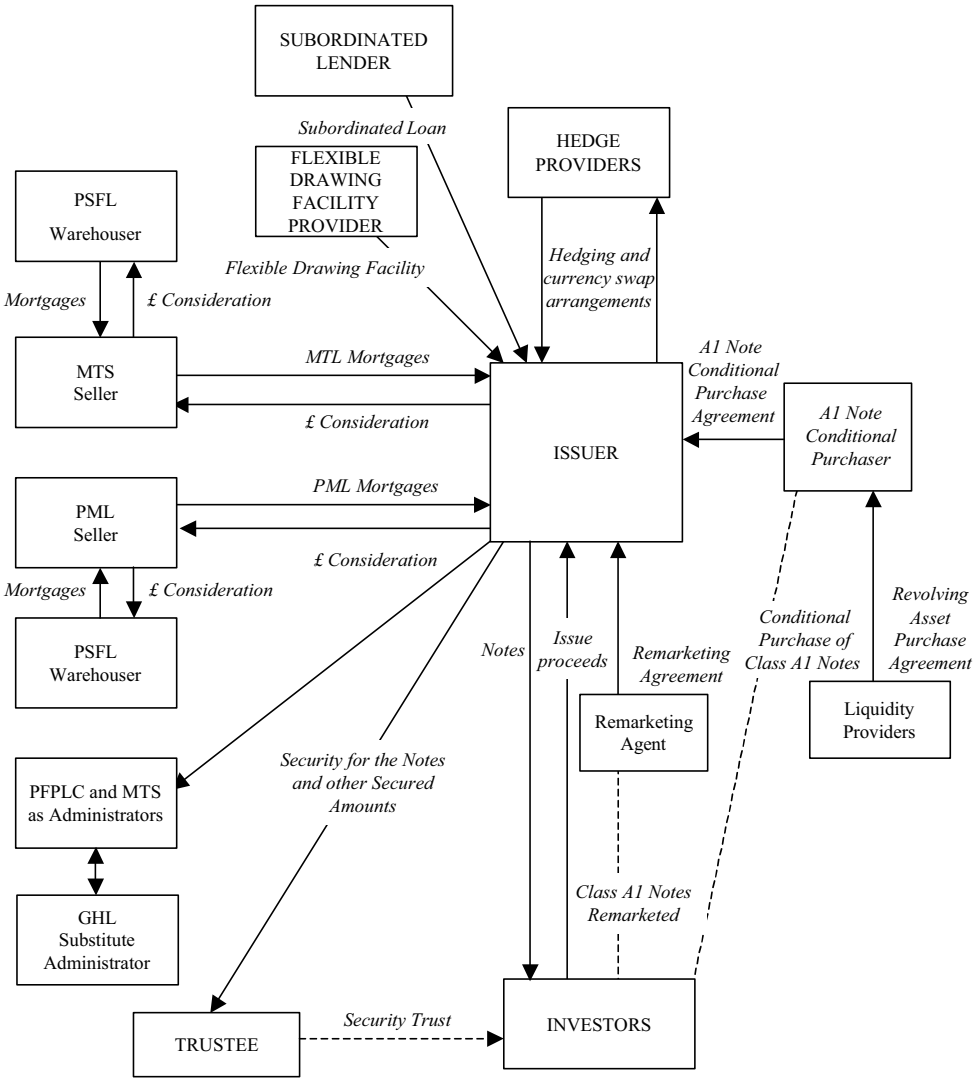
The following information is a brief overview of certain features of the Notes and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular.

GBP Equivalent gross proceeds on Closing Date

Class A1 Notes	£631,095,812
Class A2 Notes	£255,000,000
Class B Notes	£44,175,676
Class C Notes	£70,081,081
Total	£1,000,352,569

	Class A1 Notes	*Class A2a Notes*	*Class A2b Notes*	*Class B1a Notes*	*Class B1b Notes*	*Class C1a Notes*	*Class C1b Notes*
Initial Principal Amount Outstanding:	$1,100,000,000	£105,000,000	€222,000,000	£31,000,000	€19,500,000	£51,500,000	€27,500,000
per cent. of total (GBP Equivalent):	63.09 per cent.	10.50 per cent.	14.99 per cent.	3.10 per cent.	1.32 per cent.	5.15 per cent.	1.86 per cent.
Expected ratings on the Closing Date:							
Fitch:	F1+	AAA	AAA	AA	AA	A	A
Moody's:	P-1	Aaa	Aaa	Aa2	Aa2	A2	A2
S&P:	A-1+	AAA	AAA	AA	AA	A	A
Credit enhancement:	Obligation of the A1 Note Conditional Purchaser to pay the A1 Note Mandatory Transfer Price; Subordination of Principal in respect of the Class A2 Notes; Subordination of Class B Notes and Class C Notes; First Loss Fund	Subordination of Class B Notes and Class C Notes; First Loss Fund	Subordination of Class B Notes and Class C Notes; First Loss Fund	Subordination of Class C Notes; First Loss Fund	Subordination of Class C Notes; First Loss Fund	First Loss Fund	First Loss Fund
Interest reference rate:	LIBOR for one month USD deposits for the relevant Interest Period	LIBOR for three month GBP deposits for the relevant Interest Period	EURIBOR for three month EUR deposits for the relevant Interest Period	LIBOR for three month GBP deposits for the relevant Interest Period	EURIBOR for three month EUR deposits for the relevant Interest Period	LIBOR for three month GBP deposits for the relevant Interest Period	EURIBOR for three month EUR deposits for the relevant Interest Period
Initial interest margin:	0.00 per cent.	0.16 per cent.	0.16 per cent.	0.27 per cent.	0.27 per cent.	0.55 per cent.	0.55 per cent.
Step up on Interest Payment Date falling in:	N/A	December 2010	December 2010	December 2010	December 2010	December 2010	December 2010
Stepped up interest margin:	N/A	0.32 per cent.	0.32 per cent.	0.54 per cent.	0.54 per cent.	1.10 per cent.	1.10 per cent.
Interest accrual method:	Actual/360	Actual/365	Actual/360	Actual/365	Actual/360	Actual/365	Actual/360
Interest Payment Dates (subject to adjustment):	15th of each month	15 December, 15 March, 15 June and 15 September	15 December, 15 March, 15 June and 15 September	15 December, 15 March, 15 June and 15 September	15 December, 15 March, 15 June and 15 September	15 December, 15 March, 15 June and 15 September	15 December, 15 March, 15 June and 15 September
Month in which first Interest Payment Date falls:	December 2005	March 2006	March 2006	March 2006	March 2006	March 2006	March 2006
Final redemption date – Interest Payment Date falling in:	June 2041	June 2041	June 2041	June 2041	June 2041	June 2041	June 2041
Clearance/ Settlement:	Euroclear/ Clearstream, Luxembourg/ DTC	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg
Denomination:	$100,000	£50,000	€50,000	£50,000	€50,000	£50,000	€50,000
Minimum Incremental Denominations:	$1,000	£1,000	€1,000	£1,000	€1,000	£1,000	€1,000

STRUCTURE DIAGRAM



SUMMARY

The information on the pages preceding the Table of Contents and the information in this Summary 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.

Transaction Overview

The Issuer intends to acquire residential mortgages from PML and MTS which were originated by PML and MTL respectively, such acquisition to be financed by the issue of the Notes.

All the Mortgages to be acquired will be governed by English, Scots or Northern Irish law, as the case may be.

Prior to the sale of the Mortgages to the Issuer, the beneficial interests in the PML Mortgages (as defined below) will have been transferred to PML by PSFL and the beneficial interests in the MTL Mortgages (as defined below) will have been transferred by PSFL to MTS. Pursuant to the Mortgage Sale Agreement, PML will transfer all of its beneficial interest in the PML Mortgages to the Issuer and MTS will transfer all of its beneficial interest in the MTL Mortgages to the Issuer. Notices of the assignment to the Issuer and the granting of the Scottish Declarations of Trust in favour of the Issuer and the security in favour of the Trustee will not, save in certain limited circumstances, be given to the borrowers although the Issuer will be given the right to call for legal title to the Mortgages to be transferred to it from PML and/or MTL in certain circumstances. Legal title to the Mortgages will therefore, save in limited circumstances, remain with either PML or MTL as the case may be.

As Administrators, PFPLC will continue to administer the PML Mortgages and MTS will continue to administer the MTL Mortgages on behalf of the Issuer and the Trustee. Also, as an Administrator, PFPLC will provide corporate, administrative and cash management services to the Issuer and its business.

The Issuer will finance its purchase of the Mortgages by issuing separate classes of floating rate notes. The net aggregate proceeds from the issue of the Notes will be approximately £999,502,269 (after exchanging the proceeds of the USD Notes and EUR Notes under the relevant Currency Swap Agreements) and will be applied by the Issuer in the purchase of the Mortgages from PML and MTS on the Closing Date with any remainder to be invested in Authorised Investments and/or, up to and including the first Principal Determination Date, applied in the purchase of Non-Verified Mortgages.

The Notes will be obligations of the Issuer only and will be secured, *inter alia*, by the Issuer granting security to the Trustee in respect of its interest in the Mortgages and their collateral security (or, in relation to Scottish Mortgages, its beneficial interest in the Scottish Declarations of Trust).

Issuer

Paragon Mortgages (No.10) PLC, a public company incorporated under the laws of England, registered number 4514738 and 26 per cent. of whose share capital is owned by Paragon Mortgages (No. 16) Limited, a company

limited by guarantee and incorporated under the laws of England, registered number 4786771 and 74 per cent. of whose share capital is owned by 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.

Originators

Some of the Mortgages (each a "**PML Mortgage**") were or will have been originated by Paragon Mortgages Limited ("**PML**"), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC, and the remainder of the Mortgages (each an "**MTL Mortgage**") were or will have been originated by Mortgage Trust Limited ("**MTL**"), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC. In this Offering Circular, the "**Originator**" means PML in relation to PML Mortgages and means MTL in relation to MTL Mortgages (see "The Mortgages – Origination of the Mortgages" below).

Sellers

In this Offering Circular, the "**Seller**" means PML in relation to PML Mortgages and means Mortgage Trust Services plc ("**MTS**"), a public company incorporated under the laws of England and a wholly owned subsidiary of MTL, in relation to MTL Mortgages (see "The Mortgages – Origination of the Mortgages" below).

Warehouser

Paragon Second Funding Limited (the "**Warehouser**" or "**PSFL**"), a private company incorporated under the laws of England and a wholly owned subsidiary of PGC.

Administrators

In this Offering Circular "**Administrator**" means (a) in relation to the PML Mortgages and the corporate, administrative and cash management matters relating to the Issuer and its business, Paragon Finance PLC ("**PFPLC**"), a public company incorporated under the laws of England and a wholly owned subsidiary of PGC, and (b) in relation to the MTL Mortgages, MTS, in its capacity as administrator of the MTL Mortgages, in each case pursuant to its appointment as such under the Administration Agreement.

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

$1,100,000,000 Class A1 Mortgage Backed Floating Rate Notes Due 2041 £105,000,000 Class A2a Mortgage Backed Floating Rate Notes Due 2041, €222,000,000 Class A2b Mortgage Backed Floating Rate Notes Due 2041, £31,000,000 Class B1a Mortgage Backed Floating Rate Notes Due 2041, €19,500,000 Class B1b Mortgage Backed Floating Rate Notes Due 2041, £51,500,000 Class C1a Mortgage Backed Floating Rate Notes Due 2041 and €27,500,000 Class C1b Mortgage Backed Floating Rate Notes Due 2041.

The GBP Equivalent gross proceeds on the Closing Date of the Class A Notes, Class B Notes and Class C Notes will be equal to, as a proportion of the total GBP Equivalent gross

proceeds of the Notes, 88.6 per cent., 4.4 per cent. and 7 per cent. respectively.

All the Class A Notes (irrespective of class) will rank *pari passu* and rateably in their right to receive interest but, prior to the enforcement of the Security, the Class A1 Notes will rank in priority to the Class A2 Notes in their right to receive principal. Following enforcement of the Security, all the Class A Notes (irrespective of Class) will rank pari passu and rateably in their right to receive both interest and principal without any preference or priority among themselves. All the Class B Notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority among themselves. All the Class C Notes (irrespective of class) will rank *pari passu* and rateably without any preference or priority among themselves. See "Mandatory Redemption in Part" below in relation to the priority of payments of principal prior to enforcement of the security for the Notes.

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), the Warehouser, MTL, MTS, any company in the same group of companies as PGC (other than the Issuer), the Trustee, the Managers, the Flexible Drawing Facility Provider 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, the Warehouser, MTL, MTS, any company in the same group of companies as PGC (other than the Issuer), the Trustee, the Managers or by any other person other than the Issuer.

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

The A1 Note Mandatory Transfer Arrangements

The Class A1 Notes are issued subject to arrangements referred to in Condition 5(i) of the Notes (the "A1 Note Mandatory Transfer Arrangements"). The purpose of these arrangements is to facilitate the eligibility of the Class A1 Notes under Rule 2-A7 of the Investment Company Act for purchase by money market funds.

There are four agreements to achieve this purpose: firstly, the remarketing agreement entered into between the Issuer and Barclays Bank PLC as remarketing agent (the "**Remarketing Agent**") (the "**Remarketing Agreement**"), secondly, a note sale and purchase agreement entered into between the Issuer, Sheffield Receivables Corporation (the "**A1 Note**

Conditional Purchaser") and others (the "**A1 Note Conditional Purchase Agreement**"), thirdly, an administration agreement in respect of the A1 Note Conditional Purchaser's existing programme relating to its issue of commercial paper (the "**Sheffield Administration Agreement**"), and, fourthly, a liquidity facility agreement (the "**Revolving Asset Purchase Agreement**") among the A1 Note Conditional Purchaser, the Liquidity Facility Providers and Barclays Bank PLC, as Agent.

Under the Remarketing Agreement, the Remarketing Agent agrees (subject to no Remarketing Termination Event having occurred) to identify third party purchasers for all the Class A1 Notes for each A1 Note Mandatory Transfer Date. The Remarketing Agent will identify third party purchasers by inviting bids from them for the margin to apply to the Class A1 Notes from the next A1 Note Mandatory Transfer Date.

Upon sufficient bids being received by one or more parties willing to purchase in aggregate all the outstanding A1 Notes at a specified margin, the margin will be reset in relation to all the outstanding Class A1 Notes at the percentage margin at which the Remarketing Agent is able to on sell all of the Class A1 Notes in the market (the "**Reset Margin**"). Details of the Reset Margin will be notified to the Tender Agent and the Principal Paying Agent at least three Business Days prior to the relevant A1 Note Mandatory Transfer Date.

If the Remarketing Agent is unable to identify third party purchasers for all the Class A1 Notes, or if the Reset Margin determined by the Remarketing Agent would, if implemented, be greater than the Maximum Reset Margin (as defined below), or otherwise upon the occurrence of a Remarketing Termination Event (other than an Event of Default under the Notes), then under certain circumstances, the Remarketing Agent will be required to give notice to the A1 Note Conditional Purchaser on behalf of the Issuer requiring the A1 Note Conditional Purchaser to purchase all of the outstanding Class A1 Notes. Upon receipt of the notice, the A1 Note Conditional Purchaser is required under the A1 Note Conditional Purchase Agreement to purchase all the Class A1 Notes at the A1 Note Mandatory Transfer Price.

Limitations on the A1 Note Conditional Purchaser's ability to purchase the Class A1 Notes are set out in "***Risks Related to the A1 Note Mandatory Transfer Arrangements"*** below. Upon purchase by the A1 Note Conditional Purchaser, the margin on the Class A1 Notes will be reset to the sum of the applicable reference rate which is three month GBP LIBOR plus the maximum reset margin which is 0.09 per cent. per annum (the "**Maximum Reset Margin**") and all principal monies and interest due in respect of the Class A1 Notes will be made in GBP and calculated on the basis of a fixed rate of exchange as set out in the A1 Note Conditional Purchase Agreement.

In order to facilitate the transfer of the Class A1 Notes, Citibank, N.A., London Branch will be appointed as initial tender agent (the "**Tender Agent**") for the purpose of arranging delivery and payment by and to the A1 Noteholders on the relevant A1 Note Mandatory Transfer Date.

Closing Date

17 November 2005 or such later date agreed between the Issuer and the Lead Managers for the issue of the Notes (the "**Closing Date**").

Interest

The annual interest rates applicable to the Notes from time to time will be the sum of the applicable reference rate plus a margin.

In the case of the GBP Notes the applicable reference rate is LIBOR for three month GBP deposits (or, in the case of the first Interest Period, the rate which is a linear interpolation between LIBOR for three month GBP deposits and LIBOR for four month GBP deposits). In the case of the Class A1 Notes the applicable reference rate is LIBOR for one week and one month USD deposits (or, in the case of the first Interest Period, the rate which is a linear interpolation between LIBOR for one month USD deposits and LIBOR for two month USD deposits). In the case of the EUR Notes the applicable reference rate is EURIBOR for three month EUR deposits (or, in the case of the first Interest Period, the rate which is a linear interpolation between EURIBOR for three month EUR deposits and EURIBOR for four month EUR deposits).

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: 0.00 per cent. per annum up to and including the first A1 Note Mandatory Transfer Date in 2006 and thereafter either (i) the Reset Margin or (ii) the sum of the applicable reference rate (three month GBP LIBOR) plus the Maximum Reset Margin will apply;

Class A2a Notes: 0.16 per cent. per annum up to and including the Interest Period ending in December 2010 and thereafter 0.32 per cent. per annum;

Class A2b Notes: 0.16 per cent. per annum up to and including the Interest Period ending in December 2010 and thereafter 0.32 per cent. per annum;

Class B1a Notes: 0.27 per cent. per annum up to and including the Interest Period ending in December 2010 and thereafter 0.54 per cent. per annum;

Class B1b Notes: 0.27 per cent. per annum up to and including the Interest Period ending in December 2010 and thereafter 0.54 per cent. per annum;

Class C1a Notes: 0.55 per cent. per annum up to and including the Interest Period ending in December 2010 and thereafter 1.10 per cent. per annum;

Class C1b Notes: 0.55 per cent. per annum up to and including the Interest Period ending in December 2010 and thereafter 1.10 per cent. per annum.

Interest shall accrue on a daily basis on the Principal Amount Outstanding (as defined in Condition 5(b)) of each Note from and including the Closing Date. The period beginning on (and including) the Closing Date in relation to a Note and ending on (but excluding) the first Interest Payment Date

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

Subject to Condition 4(b), such accrued interest in respect of each Note (excepting the Class A1 Notes) will be due and payable in arrear on 15 March 2006 and thereafter quarterly on each subsequent 15 June, 15 September, 15 December and 15 March and in the case of the Class A1 Notes on 15 December 2005 and thereafter on the fifteenth of each subsequent month, or if any such day is not a Business Day (as defined below), the next succeeding Business Day (each such day as so adjusted, being an "**Interest Payment Date**").

Interest payments on the Class B Notes and the Class C Notes will be subordinated to interest payments on the Class A Notes and interest payments on the Class C Notes will be subordinated to interest payments on the Class B Notes (see "Priority of Payments – prior to enforcement" below). Accordingly, Class B Noteholders and Class C Noteholders will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest then due to Class A Noteholders on that Interest Payment Date have been paid in full and Class C Noteholders will not be entitled to receive any payment of interest on an Interest Payment Date unless and until all amounts of interest then due to Class A Noteholders and Class B 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 and/or the Class C Notes, as the case may be, 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 relevant class of Class B Notes and/or Class C Notes, as the case may be) during the time it remains unpaid.

Interest payments will be made subject to applicable withholding tax (if any), without the Issuer or any Paying Agents 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 (including any Non-Verified Mortgages);

(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 Flexible Drawing Facility Agreement, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the Collection Account Declarations of Trust, the Subscription Agreement, each Currency Swap Agreement, the Basis Hedge Agreement and any Caps (as defined in "Basis Hedging Arrangements" below) or other hedging arrangements entered into by the Issuer, the Substitute Administrator Agreement, the Cross-collateral Mortgage Rights Deed, the VAT Declaration of Trust, the Remarketing Agreement and the A1 Note Conditional Purchase Agreement;

(iv) 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); and

(v) 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).

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

Certain other amounts will also have the benefit of the security interests referred to above, including the amounts owing to the Trustee and any receiver, any amounts payable to GHL Mortgage Services Limited (the "**Substitute Administrator**") in its capacity as substitute administrator under the Substitute Administrator Agreement, any amounts payable to the Currency Swap Provider (as defined below) under each Currency Swap Agreement, any amounts payable to the Basis Hedge Providers (as defined below) under the Basis Hedge Agreement, any amounts payable to each Permitted Basis Hedge Provider (as defined below) under each Permitted Basis Hedge Agreement, the fees and expenses of, and commissions payable to, and all other amounts owing to, the Administrators and/or any substitute administrator, all amounts owing to PFPLC under, among other things, the Mortgage Sale Agreement and the Services

Letter (each as defined in "The Issuer" below), all amounts owing to the Issue Services Provider under the Fee Letter, all amounts owing to the Subordinated Lenders under the Subordinated Loan Agreement referred to below, all amounts owing to the Remarketing Agent and all amounts owing to the A1 Note Conditional Purchaser.

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; (iii) drawings under the Subordinated Loan Agreement in order to fund the Issuer when making any Mandatory Further Advances or Discretionary Further Advances and drawings under the Flexible Drawing Facility Agreement to fund Flexible Drawing Cash Advances; (iv) drawings under the Subordinated Loan Agreement to fund unamortised cash-backs and/or discounts in relation to Mortgages; and (v) any Hedge Collateral received from a Hedge Provider from time to time in respect of any Hedge Agreement. Amounts in respect of items (iii) and (iv) above will be credited to the Principal Ledger.

In the event that any Hedge Collateral is received by the Issuer from a Hedge Provider, the Administrator will also be required to maintain a "**Hedge Collateral Ledger**" to which will be credited amounts representing that Hedge Collateral. The Hedge Collateral Ledger will be debited by the relevant amount in the event that Hedge Collateral is returned to the

relevant Hedge Provider or is applied (or is realised and applied) towards satisfaction of obligations of that Hedge Provider, in each case in accordance with the relevant Hedge Agreement. In the event that such Hedge Collateral is applied towards satisfaction of obligations of such Hedge Provider, such amount shall be credited to the Revenue Ledger for application in the Priority of Payments.

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 Notes, to pay any other amounts ranking *pari passu* with or in priority to such interest under the priority of payments set out in "Priority of Payments – prior to enforcement" below, in meeting certain expenses of the Issuer or in refunding reclaimed direct debit payments in respect of the Mortgages and in increasing the First Loss Fund up to the Liquidity Amount. The Principal Deficiency Ledger will be credited if and to the extent that funds standing to the credit of the Revenue Ledger are applied in making such reduction as described in "Priority of Payments – prior to enforcement" below and, on each occasion a Flexible Drawing Capitalised Advance is made in respect of a Flexible Mortgage, by the amount of interest in lieu of which such Flexible Drawing Capitalised Advance is made (see "The Mortgages – Information on the Mortgages – Flexible Mortgages" below). If during the period immediately following an Interest Payment Date to (but excluding) the next Principal Determination Date there is a credit balance on the Principal Deficiency Ledger and during such period there are funds from time to time standing to the credit of the Principal Ledger which are not expected to be applied in making Further Advances, such funds shall be transferred and credited to the Revenue Ledger and corresponding debits made to the Principal Deficiency Ledger until there is no longer any such credit balance on the Principal Deficiency Ledger.

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, (including all amounts received from each Hedge Provider on that Interest Payment Date except for amounts received in exchange for Currency Swap Principal Amounts or Currency Swap Interest Amounts (each as defined in "The Issuer – Hedging Arrangements" below) and any Hedge Collateral or proceeds thereof (until such time and to the extent as permitted by the relevant Hedge Agreement such Hedge Collateral is applied (or is realised and applied) towards satisfaction of obligations

of that Hedge Provider) and including the First Loss Fund where required and permitted as described in "First Loss Fund" below), 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 Administration Subordinated Fee, if applicable, and the commitment fee referred to therein);

(ii) *pro rata* according to the respective amounts thereof, payment of all fees (other than the Administration Subordinated Fee), costs, expenses and commissions due and payable to the Administrators and/or the Sellers and/or the Originators 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 (each including any value added tax chargeable thereon, as applicable);

(iii) *pro rata* according to the respective amounts thereof, (a) payment of any amounts due and payable to the Basis Hedge Providers under the Basis Hedge Agreement or to any Permitted Basis Hedge Provider under any other hedging arrangements entered into by the Issuer, in each case other than (i) any Hedge Provider Subordinated Amounts, and (ii) any Withholding Compensation Amounts (each as defined in "The Issuer – Hedging Arrangements" below); (b) payment of interest due and payable and all arrears of interest remaining unpaid on the Class A2a Notes and Class A1 Notes (in the event that the Class A1 Notes are purchased by the A1 Note Conditional Purchaser in accordance with the A1 Note Mandatory Transfer Arrangements) together with (if applicable) interest thereon; (c) payment of each amount due and payable to the Currency Swap Provider under the Currency Swap A1 Agreement (unless the Class A1 Notes are purchased by the A1 Note Conditional Purchaser in accordance with the A1 Note Mandatory Transfer Arrangements) and the Currency Swap A2b Agreement (each as defined in "Currency Hedging Arrangements" below) other than (i) any Hedge Provider Subordinated Amounts, (ii) any Withholding Compensation Amounts, and (iii) any Currency Swap Principal Amounts, in each case payable under those Currency Swap Agreements; and (d) payment of all interest, fees, expenses and all other sums, due and payable to the Flexible Drawing Facility Provider under the Flexible Drawing Facility Agreement excluding Flexible Drawing Facility Principal Debt (any such fees to be paid including value added tax, as applicable);

(iv) if on that Interest Payment Date, any Class A Note (irrespective of class) remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate GBP Equivalent Principal Liability Outstanding (as defined in Condition 5(b)) of the Class B Notes and the Class C Notes (after deducting the amount of any Subordinated Available Redemption Funds on the Principal Determination Date relating to that Interest Payment Date) then an amount up to that excess shall be applied in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below);

(v) *pro rata* according to the respective amounts thereof, (a) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest (each as defined in Condition 4(b) below)) on the Class B1a Notes together with (if applicable) interest thereon; and (b) payment of each amount due and payable to the Currency Swap Provider under the Currency Swap B1b Agreement other than (i) any Hedge Provider Subordinated Amounts, (ii) any Withholding Compensation Amounts, and (iii) any Currency Swap Principal Amounts, in each case payable under the Currency Swap B1b Agreement;

(vi) if on that Interest Payment Date, any Class B Note (irrespective of class) remains outstanding and the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate GBP Equivalent Principal Liability Outstanding (as defined in Condition 5(b)) of the Class C Notes (after deducting on the Principal Determination Date relating to that Interest Payment Date an amount to be applied in the redemption of the Class C Notes), then an amount up to that excess shall be applied in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below);

(vii) *pro rata* according to the respective amounts thereof, (a) payment of interest due and payable and all arrears of interest remaining unpaid (including Deferred Interest and Additional Interest (each as defined in Condition 4(b) below)) on the Class C1a Notes together with (if applicable) interest thereon; and (b) payment of each amount due and payable to the Currency Swap Provider under the Currency Swap C1b Agreement other than (i) any Hedge Provider Subordinated Amounts, (ii) any Withholding Compensation Amounts, and (iii) any Currency Swap Principal Amounts, in each

case payable under the Currency Swap C1b Agreement;

(viii) *pro rata* according to the respective amounts thereof, payment of sums due and payable to third parties (each including any value added tax chargeable thereon) under obligations incurred 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. Revenue & Customs 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);

(ix) (taking into account any reduction of any debit balance on the Principal Deficiency Ledger under paragraph (iv) and (vi) above) provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger; the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds (as defined below);

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

(xi) *pro rata* according to the respective amounts thereof, payment of any Withholding Compensation Amounts and any Hedge Provider Subordinated Amounts, if any, due and payable to each Hedge Provider in respect of any Hedge Agreement;

(xii) 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;

(xiii) provision for any Administration Subordinated Fee then due or overdue to the Administrators and/or any substitute administrator under the Administration Agreement (each including any value added tax chargeable thereon, as applicable);

(xiv) provision for any amounts then due or overdue to the Issue Services Provider under the Fee Letter (each including any value added tax chargeable thereon, as applicable);

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

(xvi) provision for the repayment of the outstanding amount of all advances from the Subordinated Lenders (*pro rata* according to the amount advanced by each) made under the Subordinated Loan Agreement, subject to a maximum provision of the lesser of (a) the aggregate outstanding amount of all such advances less the Required Amount; and (b) the amount available for application having made in full all provisions and

payments referred to in paragraphs (i) to (xv) inclusive above;

(xvii) 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 (each including any value added tax chargeable thereon, as applicable);

(xviii) provision for payment to MTS (as Seller) in respect of Deferred Purchase Consideration;

(xix) provision for payment to PML (as Seller) in respect of Deferred Purchase Consideration;

(xx) 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 the Issuer, the Trustee, PFPLC, PML, MTL, MTS, the Issue Services Provider, the Flexible Drawing Facility Provider, the Subordinated Lenders, the Basis Hedge Providers, the Currency Swap Provider and the Substitute Administrator (the "**Deed of Charge**").

If and to the extent that the provisions specified in paragraphs (xiv), (xv), (xvi), (xvii), (xviii), and (xix) are made on an 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.

In the event that any payment is to be made in accordance with the above priority of payments and the money available at a particular level of that priority does not comprise a sufficient amount in the relevant currency in which such payment is to be made, the Issuer shall, if the relevant Currency Swap Agreement has terminated, convert such of that available money into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

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.

EUR amounts payable by the Currency Swap Provider as a result of the payments made to the Currency Swap Provider under items (iii)(c), v(b) and (vii)(b) above and USD amounts payable by the Currency Swap Provider as a result of the payments made to the Currency Swap Provider under item (iii)(c) above will be paid direct to the Principal Paying Agent and applied in the payment of interest due or overdue (including, in the case of the Class B1b Notes and the Class C1b Notes, any Deferred Interest and Additional Interest), together with (if applicable) any Default Interest thereon, on

the relevant class of Notes to which each such payment relates.

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) on such dates from time to time as the Trustee may decide:

(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 to borrowers relating to Mandatory Further Advances (each including any value added tax chargeable thereon, as applicable);

(ii) certain fees (other than the Administration Subordinated Fee) and out-of-pocket expenses and commissions of the Administrators, certain commissions previously received by the Issuer which have not previously been paid to the Sellers or the Originators and all moneys due and payable under the Substitute Administrator Agreement (including the commitment fee payable to the Substitute Administrator) (each including any value added tax chargeable thereon, as applicable);

(iii) (a) any amounts due and payable by the Issuer to the Basis Hedge Providers or to any Permitted Basis Hedge Provider, in each case other than (i) any Hedge Provider Subordinated Amounts and (ii) any Withholding Compensation Amounts (each as defined in "The Issuer – Hedging Arrangements" below); (b) all interest unpaid in respect of the Class A2a Notes and Class A1 Notes (in the event that the Class A1 Notes are purchased by the A1 Note Conditional Purchaser in accordance with the A1 Note Mandatory Transfer Arrangements) (together with any unpaid interest thereon); (c) all principal moneys due in respect of the Class A2a Notes and Class A1 Notes (in the event that the Class A1 Notes are purchased by the A1 Note Conditional Purchaser in accordance with the A1 Note Mandatory Transfer Arrangements); (d) any other amounts due in respect of the Class A Notes (irrespective of class); (e) payment of each amount due and payable to the Currency Swap Provider under the Currency Swap A1 Agreement (unless the Class A1 Notes are purchased by the A1 Note Conditional Purchaser in accordance with the A1 Note Mandatory Transfer Arrangements) and the Currency Swap A2b Agreement other than (i) any Hedge Provider Subordinated Amounts, and (ii) any Withholding Compensation Amounts, in each case payable under those Currency Swap Agreements; and (f) payment of

all amounts due to the Flexible Drawing Facility Provider under the Flexible Drawing Facility Agreement (any such fees to be paid including any value added tax chargeable thereon, as applicable);

(iv) (a) all interest unpaid in respect of the Class B1a Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class B1a Notes; (c) any other amounts due in respect of the Class B Notes; and (d) payment of each amount due and payable to the Currency Swap Provider under the Currency Swap B1b Agreement other than (i) any Hedge Provider Subordinated Amounts, and (ii) any Withholding Compensation Amounts, in each case, payable under the Currency Swap B1b Agreement;

(v) (a) all interest unpaid in respect of the Class C1a Notes (including any Deferred Interest and Additional Interest (together with any unpaid Default Interest thereon)); (b) all principal moneys due in respect of the Class C1a Notes; (c) any other amounts due in respect of the Class C Notes; and (d) payment of each amount due and payable to the Currency Swap Provider under the Currency Swap C1b Agreement other than (i) any Hedge Provider Subordinated Amounts, and (ii) any Withholding Compensation Amounts, in each case payable under the Currency Swap C1b Agreement;

(vi) payment of any Withholding Compensation Amounts and any Hedge Provider Subordinated Amounts, if any, due and payable to each Hedge Provider in respect of any Hedge Agreement;

(vii) provision for any Administration Subordinated Fee then due or overdue to the Administrators and/or any substitute administrator under the Administration Agreement (each including any value added tax chargeable thereon, as applicable);

(viii) all amounts due and payable by the Issuer (a) to PFPLC under the Services Letter and the Deed of Charge, (b) to PML, MTL, MTS and PFPLC under the Mortgage Sale Agreement, the Administration Agreement and the Deed of Charge, (c) to the Subordinated Lenders and any Additional Subordinated Lender under the Subordinated Loan Agreement, and (d) to the Issue Services Provider under the Fee Letter (each including any value added tax chargeable thereon, as applicable); and

(ix) payment to MTS (as Seller) in respect of Deferred Purchase Consideration;

(x) payment to PML (as Seller) in respect of Deferred Purchase Consideration; and

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

In the event that any payment is to be made in accordance with the above priority of payments and the money available at a particular level of that priority does not comprise a sufficient amount in the relevant currency in which such

payment is to be made, the Issuer shall, if the relevant Currency Swap Agreement has terminated, convert such of that available money into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

EUR amounts payable by the Currency Swap Provider as a result of the payments made to the Currency Swap Provider under items (iii)(e), (iv)(d) and (v)(d) above and USD amounts payable by the Currency Swap Provider as a result of the payments made to the Currency Swap Provider under item (iii)(e) above will be paid direct to the Principal Paying Agent and applied in the payment of interest due or overdue (including, in the case of the Class B1b Notes and the Class C1b Notes, any Deferred Interest and Additional Interest), together with (if applicable) any Default Interest thereon, on the relevant class of Notes to which each such payment relates.

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: (a) the earlier of the Interest Payment Date falling in December 2010 and the date upon which the Class A Notes are fully redeemed, and (b) the Interest Payment Date on which the ratio of the aggregate GBP Equivalent Principal Liability Outstanding of the Class B Notes and the aggregate GBP Equivalent Principal Liability Outstanding of the Class C Notes to the aggregate GBP Equivalent Principal Liability Outstanding of the Notes is 0.229 : 1 or more (in each case after the application of Available Redemption Funds on that Interest Payment Date) (such circumstance constituting the "**Determination Event**"), all Available Redemption Funds will be applied in mandatory redemption of the Class A1 Notes (*pro rata* to the relevant GBP Equivalent Principal Liability Outstanding) until all the Class A1 Notes have been redeemed in full and then the Class A2 Notes.

On each Interest Payment Date which falls after the occurrence of the Determination Event (or on the Interest Payment Date upon which the Class A Notes are redeemed in full), provided that each of the following are satisfied ((a) and (b) together referred to as the "**Redemption Tests**"):

(a) on such Interest Payment Date, after (i) 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 clause 6.1.2 of the Deed of Charge and described herein under "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 Interest Payment Date, and (ii) any

drawing made under the Subordinated Loan Agreement on that Interest Payment Date, there is a credit balance of zero or greater on the Principal Deficiency Ledger; and;

(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 per cent. of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised (in each case otherwise than as a result of the making of a Flexible Drawing Advance) within the 12 months immediately preceding such time,

then:

(i) while any Class A Note remains outstanding, Available Redemption Funds will be applied in redemption of the Class A Notes, the Class B Notes and the Class C Notes so that the ratio referred to in the previous Determination Event paragraph is achieved and then maintained, provided that any Available Redemption Funds applied to redeem the Class B Notes and the Class C Notes will be applied *pro rata* and provided that the aggregate of the GBP Equivalent Principal Liability Outstanding of the Class B Notes and the GBP Equivalent Principal Liability Outstanding of the Class C Notes is greater than or equal to £47,616,783; or

(ii) if all Class A Notes have been redeemed in full, all Available Redemption Funds will be applied to redeem *pro rata* the Class B Notes and the Class C Notes.

If any of the Redemption Tests is not satisfied then all Available Redemption Funds will be applied to redeem firstly the Class A Notes in full (with the Class A1 Notes being redeemed in priority to the Class A2 Notes), secondly the Class B Notes in full and thirdly the Class C Notes in full.

Notwithstanding the foregoing, on each Interest Payment Date which occurs after the occurrence of a Determination Event, the Subordinated Available Redemption Funds (as defined in Condition 5(a)), being a specified portion of the Available Redemption Funds, will be applied in or towards mandatory redemption of the Class B Notes (after applying amounts to cover item (v) as set out under "Priority of Payments – prior to enforcement" above) and the Class C Notes (after applying amounts to cover item (vii) as set out under "Priority of Payments – prior to enforcement" above) and the Class A Available Redemption Funds (as defined in Condition 5(a)), being the remainder of the Available Redemption Funds, will be applied in mandatory redemption of the Class A Notes until all the Class A Notes have been redeemed in full.

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) (but excluding amounts so credited as the result of the occurrence of Flexible Drawing Capitalised Advances) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the "**Collection Period**"));

(ii) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (aa) the aggregate GBP Equivalent Initial Principal Amount of the Notes on issue and (bb) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (x) the amounts paid by the Issuer to the Sellers by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement; (y) the amount applied to establish the First Loss Fund on the Closing Date; and (z) amounts debited from the Pre-Funding Reserve Ledger up to and including the first Principal Determination 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 paragraphs (B)(i), (ii) and (iii) below in determining Available Redemption Funds on the immediately

preceding Principal Determination Date which was not applied in making the relevant payments in respect of which such amount was so deducted;

less

(B) the aggregate of:

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

(ii) the amount estimated by the Issuer to be, on the immediately succeeding Interest Payment Date, the extent to which the First Loss Fund will be less than the Liquidity Amount following the application of the priority of payments as set out in clause 6.1.2 of the Deed of Charge and described herein under "Summary – Priority of Payments – prior to enforcement" (such principal amounts being used to increase the First Loss Fund up to the Liquidity Amount and a corresponding debit being made to the Principal Deficiency Ledger);

(iii) 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;

(iv) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) to the extent that such principal amount has been funded using amounts falling within (i) above;

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

(vi) the aggregate amount (the "**Flexible Drawing Facility Principal Debt**") of principal which has or will become due and repayable on or before the next Interest Payment Date in respect of Flexible Drawing Facility Advances,

in each such case (save for (B)(iii), (B)(iv) and B(v)) only to the extent that such moneys have not been taken into account in the calculation of Available Redemption Funds on

the preceding Principal Determination Date. Amounts B(i) to B(vi) shall be paid in priority according to the order listed, except to the extent that any of items B(iii), (B)(iv) or (B)(v) is identified as being due and payable prior to the determination of amounts due in priority thereto in which case amounts shall be allocated for payment of such item upon such identification.

Optional Redemption of Class A Notes

In the event that the Issuer or any Paying Agent is obliged to make any withholding or deduction from payments in respect of any of the Notes, or in the event that the Issuer or any Hedge Provider is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under any Hedge Agreement, or in the event of certain other United Kingdom taxation changes described in Condition 5(c) (Redemption for Taxation or Other Reasons) then, all (but not some only) of the Class A Notes of that particular class will be subject to redemption, at the option of the Issuer, in whole at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date as more particularly provided in Condition 5(c).

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 each Currency Swap Agreement and the Basis Hedge Agreement and may agree under any Permitted Basis Hedge 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 relevant Currency Swap Provider, Basis Hedge Provider or Permitted Basis Hedge Provider (as appropriate) (see "The Issuer – Hedging Arrangements").

Furthermore, as more particularly provided in Condition 5(d), 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 Liability Outstanding together with accrued interest on any Interest Payment Date falling in or after December 2009.

No such optional redemption of any Class A2 Notes 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 Liability Outstanding together with accrued interest on any Interest Payment Date on which the aggregate GBP Equivalent Principal Liability Outstanding of the Notes then outstanding is less than £200,070,514 provided that all the Class B Notes and the Class C Notes are redeemed in full at the same time.

Optional Redemption of Class B Notes

In the event that the Issuer or any Paying Agent 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 any

Hedge Provider is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under any Hedge Agreement, or in the event of certain other United Kingdom taxation changes described in Condition 5(c) (Redemption for Taxation or Other Reasons) 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 Liability Outstanding together with accrued interest on any Interest Payment Date as more particularly provided in Condition 5(c). 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 each Currency Swap Agreement and the Basis Hedge Agreement and may agree under any Permitted Basis Hedge 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 relevant Currency Swap Provider, Basis Hedge Provider or Permitted Basis Hedge Provider (as appropriate) (see ''The Issuer – Hedging Arrangements'').

As more particularly provided in Condition 5(d), provided that there are no Class A Notes then outstanding or all of the Class A Notes are to be redeemed in full at the same time, all (but not some only) of the Class B Notes, at the option of the Issuer, may be redeemed in full at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date falling in or after December 2009 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. No such optional redemption of any Class B Notes may be made unless the Class C Notes are redeemed in full at the same time.

Optional Redemption of Class C Notes

In the event that the Issuer or any Paying Agent is obliged to make any withholding or deduction from payments in respect of the Class C Notes, or in the event that the Issuer or any Hedge Provider is obliged to make any withholding or deduction, under any applicable law of the United Kingdom, from amounts payable by it under any Hedge Agreement, or in the event of certain other United Kingdom taxation changes described in Condition 5(c) (Redemption for Taxation or Other Reasons) then, provided that there are no Class A Notes and no Class B Notes (irrespective of class) then outstanding or all the Class A Notes and the Class B Notes (irrespective of class) are to be redeemed in full at the same time, all (but not some only) of the Class C Notes will be subject to redemption, at the option of the Issuer, in whole at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date as more particularly provided in Condition 5(c). 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 each Currency Swap Agreement and the Basis Hedge

Agreement and may agree under any Permitted Basis Hedge 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 relevant Currency Swap Provider, Basis Hedge Provider or Permitted Basis Hedge Provider (as appropriate) (see "The Issuer – Hedging Arrangements").

As more particularly provided in Condition 5(d), provided that there are no Class A Notes or Class B Notes then outstanding or all of the Class A Notes and/or Class B Notes are to be redeemed in full at the same time, all (but not some only) of the Class C Notes, at the option of the Issuer, may be redeemed in full at their Principal Liability Outstanding together with accrued interest on any Interest Payment Date falling in or after December 2009 or, if the Class A Notes and the Class B 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 and the Class B Notes were redeemed in full.

Purchase of Notes

(i) The Class A1 Notes may be purchased in accordance with the A1 Note Mandatory Transfer Arrangements.

(ii) The Issuer may not purchase the Notes at any time.

Final Redemption

To the extent not otherwise redeemed:

(i) the Class A1 Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041;

(ii) the Class A2a Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041;

(iii) the Class A2b Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041;

(iv) the Class B1a Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041;

(v) the Class B1b Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041;

(vi) the Class C1a Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041; and

(vii) the Class C1b Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041.

Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor

The Principal Amount Outstanding of a Note shall be its Initial Principal Amount less the aggregate amount of the principal repayments that have been made or fallen due (whether or not paid) on that Note. The Principal Liability

Outstanding of a Note shall be its Initial Principal Amount less the aggregate amount of all Principal Payments in respect of that Note that have been paid prior to such date. The Pool Factor for each Note during an Interest Period will be determined by dividing the Principal Amount of such Note on the first day of that Interest Period (after deducting any principal repayment due on that day) by the Initial Principal Amount (expressed as an integer) of that Note and expressing the quotient to the sixth decimal place.

The Issuer will cause the Administrator to determine the Principal Amount Outstanding, Principal Liability 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 eighth 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 the Originators and in respect of which the relevant Originator remains the legal owner. All of the Mortgages comprise investment home mortgages (each an "**Investment Home Mortgage**"), which relate to property purchased by the borrower to be occupied by tenants or held as an investment.

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, Northern Ireland or Scotland (Mortgages where the borrowers are such limited liability companies being " **Corporate Mortgages**").

The Mortgages will be acquired by the Issuer from the relevant Seller pursuant to a mortgage sale agreement to be dated on or before the Closing Date, between the Issuer, each Seller, MTL, MTS (in its capacity as an Administrator), PFPLC, the Trustee and the Warehouser (the "**Mortgage Sale Agreement**"). Immediately prior to such acquisition, pursuant to the Mortgage Sale Agreement, PML will re-acquire the PML Mortgages and MTS will re-acquire the MTL Mortgages from the Warehouser (being a subsidiary of PGC which has previously purchased the beneficial interest in such PML Mortgages as part of PML's bank financed warehousing arrangements and has previously purchased the beneficial interest in such MTL Mortgages as part of MTL's bank financed warehousing arrangements).

Under the Mortgage Sale Agreement the Issuer may be required to purchase Non-Verified Mortgages from a Seller at any time up to and including the first Principal Determination Date in accordance with, and to the extent permitted by, the Mortgage Sale Agreement and the Administration Agreement, provided that there is a sufficient credit balance on the Pre-Funding Reserve Ledger, and that the other conditions precedent to such further purchase set out in the Mortgage Sale Agreement and the Administration Agreement have been met.

Location of the properties secured by the Mortgages

The Mortgages are secured by charges (the "**English Mortgages**") over freehold or leasehold residential properties located in England and Wales (the "**English Properties**"), by mortgages or charges (the "**Northern Irish Mortgages**") over freehold or long leasehold properties located in Northern Ireland (the "**Northern Irish Properties**") or by standard securities (the "**Scottish Mortgages**") over heritable or long leasehold residential properties located in Scotland (the "**Scottish Properties**" and, together with the English Properties and the Northern Irish Properties, the "**Properties**"). References herein to freehold property and to leasehold property shall, in respect of the Scottish Properties, be construed as being references to heritable property and long leasehold property respectively.

Accruals and arrears in respect of the Mortgages

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. 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 £3,654,482.64 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 the relevant Seller.

The cumulative maximum aggregate principal amount of Arrears Mortgages which may be purchased by the Issuer is £10,000,000 as determined at the time of purchase of the relevant Arrears Mortgage.

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 at an amount equal to such arrears. 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.

Deferred Purchase Consideration

As part consideration for the acquisition of the Mortgages, the Issuer shall pay "**Deferred Purchase Consideration**" (in relation to MTL Mortgages to MTS and in relation to PML Mortgages to PML) on each Interest Payment Date subject to and as specified in the applicable priority of payments in an amount equal to the remaining balance (if any) of the

moneys available on such Interest Payment Date for application in accordance with "Priority of Payments – prior to enforcement" above less an amount equal to 0.01 per cent. of the GBP Equivalent Principal Liability Outstanding of the Notes on the Principal Determination Date immediately prior to that Interest Payment Date, multiplied by the actual number of days in the relevant Collection Period divided by 365 in accordance with an agreement between PML, MTS and 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. Mortgages purchased by the Issuer after the Closing Date but on or prior to the first Principal Determination Date (the "**Non-Verified Mortgages**") must meet the criteria specified in the section "Pre-Funding Reserve" below.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 34 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.

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

Pre-Funding Reserve

On the Closing Date the Issuer will credit an amount to the Transaction Account, crediting a ledger (the "**Pre-Funding Reserve Ledger**"), which will equal the balance of the gross proceeds of the issue of the Notes and any drawing under the Subordinated Loan Agreement which is not applied on the Closing Date in purchasing Mortgages or in establishing the First Loss Fund (the "**Pre-Funding Reserve**").

It is expected that the Pre-Funding Reserve, as at the Closing Date, will be NIL.

The Issuer will only be entitled to apply such amount in purchasing Non-Verified Mortgages at any time up to and including the first Principal Determination Date if and to the extent that the Issuer is permitted to do so by, and in

accordance with, the Mortgage Sale Agreement and the Administration Agreement. In particular, any such purchase of Non-Verified Mortgages by the Issuer will be subject to (amongst other things):

(i) the confirmation of the Rating Agencies that such purchase will not adversely affect any of the then current ratings of the Notes;

(ii) the satisfaction as at the date of such purchase of those conditions precedent which were required in respect of the purchase of similar Mortgages as at the Closing Date;

(iii) the Non-Verified Mortgages meeting the same lending criteria as those which applied to similar Mortgages purchased on the Closing Date;

(iv) no Enforcement Notice having been served;

(v) the provision, by each of the Issuer, each Seller of those Non-Verified Mortgages and, if it has a beneficial interest in any of those Non-Verified Mortgages, the Warehouser, of solvency certificates, each dated the date of such purchase, signed by an authorised officer of the relevant company; and

(vi) there being no Event of Default under (and as defined in) Condition 9 of the Notes, nor any termination event in relation to either of the Administrators under the Administration Agreement which, in any such case, is continuing.

Each Seller of the relevant Non-Verified Mortgages, PFPLC (in its capacity as an Administrator) and, if the Non-Verified Mortgages include MTL Mortgages, MTS (in its capacity as Administrator of those MTL Mortgages) must provide a certificate to the Trustee dated the date of such purchase of any Non-Verified Mortgages, to the effect that, among other things, the conditions precedent listed in items (i) to (vi) above in this paragraph, and such other conditions precedent as are specified in the Administration Agreement have been satisfied as at the date of such certificate. In addition, each Seller of the relevant Non-Verified Mortgages will be required, pursuant to the terms of the Mortgage Sale Agreement, to make, as at the date of purchase, the same representations and warranties (including a warranty that at least one payment in respect of each Mortgage has fallen due and that the full amount of such payment was received) in respect of any purchases of Non-Verified Mortgages which that Seller gave as at the Closing Date in relation to the similar Mortgages purchased on such date.

Any outstanding balance in the Pre-Funding Reserve Ledger as at the first Principal Determination Date (taking into account any debits made on that ledger on such date) will be credited on that Principal Determination Date to the Principal Ledger and taken into account when determining the Available Redemption Funds on the first Interest Payment Date.

Further Advances in respect of the Mortgages

Each further advance (each a "**Further Advance**") made by or on behalf of the Issuer in relation to the Mortgages will be either a Mandatory Further Advance, a Flexible Drawing Capitalised Advance (see "The Mortgages – Information on the Mortgages – Flexible Mortgages" below) or a Discretionary Further Advance. Each further advance in respect of a Mortgage representing any part of the original advance retained pending completion of construction or refurbishment and each Flexible Drawing Cash Advance made to the borrower under a Flexible Mortgage (see "The Mortgages – Information on the Mortgages – Flexible Mortgages" below) 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**".

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 "Mandatory Redemption in Part" above). 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 the Subordinated Lenders under the Subordinated Loan Agreement and the Subordinated Lenders will be under an obligation to make any such amounts available to the Issuer. In addition, but without prejudice thereto, the Subordinated Lenders may, at their discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances (see "Subordinated Loan Agreement" below). To the extent that there are no Available Redemption Funds or amounts drawn by the Issuer (the Issuer being obliged to apply for such a drawing) under the Subordinated Loan Agreement to fund a Mandatory Further Advance in respect of a Flexible Drawing Cash Advance required to be made under a Flexible Mortgage beneficially owned by the Issuer, the Issuer will fund such Mandatory Further Advance by making a drawing under the Flexible Drawing Facility Agreement (up to the then Flexible Drawing Facility Available Amount). For further details of the Flexible Drawing Facility Agreement see "Credit Structure" below.

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 or greater 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 (other than those made in respect of Flexible Drawing Cash 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 subparagraph (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 (other than those made in respect of Flexible Drawing Cash 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 £160,056,411.

Discretionary Further Advances may only be made in respect of any Mortgage if the lending criteria so 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 and Mandatory 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, enter 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 the "**Collection Accounts**"

which are specified as such in the Trust Deed and which comprise: (a) an account in the name of PML at National Westminster Bank plc at 4 High Street, Solihull, West Midlands B91 3WL, (b) accounts in the name of MTS at Barclays Bank PLC at London Corporate Banking, 1 Churchill Place, London E14 5HP, and (c) each replacement or additional Collection Account in relation to the Mortgages in accordance with the Administration Agreement. Each person in whose name a Collection Account is maintained is a "**Collection Account Holder**".

All moneys received in respect of the Mortgages into a Collection Account will be transferred not later than the next following Business Day, or as soon as practicable thereafter, to the Transaction Account.

On or about the Closing Date each Collection Account Holder will enter into a declaration of trust (each being a "**Collection Account Declaration of Trust**") under which such Collection Account Holder 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 relevant 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 the Administrators, each Seller, each Originator, the Issuer and the Trustee (the "**Administration Agreement**"), PFPLC will administer the PML Mortgages on behalf of the Issuer and MTS will administer the MTL Mortgages on behalf of the Issuer. Each Administrator will set the rates of interest applicable to the Mortgages administered by it (where relevant). The Issuer will pay each Administrator fees for its services as an Administrator as follows: (i) an "**Administration Senior Fee**" comprising: (a) a fee to PFPLC as an Administrator at the rate of not more than 0.15 per cent. per annum, and (b) a fee to MTS as an Administrator at the rate of not more than 0.15 per cent. per annum, and (ii) an "**Administration Subordinated Fee**" comprising: (a) a fee to PFPLC as an Administrator at the rate of not more than 0.15 per cent. per annum, and (b) a fee to MTS as an Administrator at the rate of not more than 0.15 per cent. per annum, in each case such rates being inclusive of VAT and each such fee being calculated by applying such rate to the aggregate Interest Charging Balances of the outstanding Mortgages administered by the relevant Administrator at the beginning of each Collection Period and each such fee will be due quarterly in arrear on each Interest Payment Date and paid as specified in accordance with the applicable priority of payments. Any substitute administrator appointed 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 substitute administrator and, in the event that it became the administrator, it would become entitled (in place of PFPLC and/or MTS, as applicable) to the Administration Senior Fee at the rate of 0.15 per cent. per annum and the Administration Subordinated Fee at the rate of 0.15 per cent. per annum, in each case such rates being exclusive of VAT and each such fee being calculated by applying such rate to the aggregate Interest Charging Balances of the outstanding Mortgages to be administered by the Substitute Administrator at the beginning of each Collection Period and each such fee will be due quarterly in arrear on each Interest Payment Date and paid as specified in accordance with the applicable priority of payments.

Under the Administration Agreement, each 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 (as the case may be) 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, the relevant Originator 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) and the Mortgage Conditions in respect of such Mortgages may not require such borrowers to put in place such alternative funding arrangements (see "Risk Factors" below).

First Loss Fund

On the Closing Date, the Issuer will draw down under the Subordinated Loan Agreement an amount (the "**First Loss Fund Initial Amount**") which equals 1.86 per cent. of the aggregate GBP Equivalent Initial Principal Amount of the Notes and will credit such amount to the First Loss Ledger for the purpose of establishing a fund (the "**First Loss Fund**").

Subject to certain conditions as described under "Credit Structure – First Loss Fund" below, 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 (ix) inclusive 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 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 (ix) inclusive in the priority of payments set out in "Priority of Payments–prior to enforcement" above will be applied to replenish the First Loss Fund to the Required Amount.

Subject as provided in the following two paragraphs, the Required Amount (the "**Required Amount**") will be the amount of the First Loss Fund on the first Principal Determination Date unless otherwise increased 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 Principal Determination Date the then Current Balances of Mortgages which are then more than two months in arrears in aggregate comprise more than 3 per cent. of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than two months in arrears at any time if, at such time, amounts totalling in aggregate more than two times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised (in each case otherwise than as a result of the making of a Flexible Drawing Advance) within the 12 months immediately preceding such time), then the Required Amount will be increased to equal 2.36 per cent. of the aggregate GBP Equivalent Initial Principal Amount of the Notes.

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

If a Liquidity Amount Trigger, as defined in "Credit Structure – First Loss Fund" below, has occurred, the Required Amount will be equal to an amount which is the greater of:

(i) the Liquidity Amount (as defined in "Credit Structure – First Loss Fund" below) plus 1 per cent. of the GBP Equivalent Principal Liability Outstanding of the Notes on the Closing Date; and

(ii) the Required Amount or the Increased Required Amount, as the case may be, had a Liquidity Amount Trigger not occurred.

Shortfall Fund

The Issuer may at any time, with the prior consent of the Subordinated Lenders, 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 and all amounts recovered in respect of early redemption amounts (as to which see "Reinvestment of Income" below) is less than 1.6 per cent. (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 December 2010 and 2 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case above the GBP LIBOR 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.

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

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.

Flexible Drawing Facility

On or about the Closing Date the Issuer will enter into a sterling revolving credit facility agreement (the "**Flexible Drawing Facility Agreement**", which term will include any extended or replacement facility) with Barclays Bank PLC (the "**Flexible Drawing Facility Provider**", which term will include any replacement Flexible Drawing Facility Provider). Under the terms of the Flexible Drawing Facility Agreement, the Flexible Drawing Facility Provider will make available a

"**Flexible Drawing Facility**" which may be utilised by the Issuer on any date from time to time to fund Flexible Drawing Advances with respect to Flexible Mortgages beneficially owned by the Issuer to the extent that there are no Available Redemption Funds or amounts drawn by the Issuer (the Issuer being obliged to apply for such a drawing) under the Subordinated Loan Agreement for such purpose. On any Interest Payment Date (a) principal outstanding in respect of all Flexible Drawing Facility Advances will be repaid to the extent that funds standing to the credit of the Principal Ledger are to be applied on such Interest Payment Date in accordance with Condition 5(a) in such repayment, and (b) all other amounts (other than Flexible Drawing Facility Principal Debt) due and payable to the Flexible Drawing Facility Provider under the Flexible Drawing Facility Agreement on such Interest Payment Date shall be paid to the extent that funds are to be applied for such purpose in accordance with the Deed of Charge (see "Priority of Payments – prior to enforcement" above). For further details of the Flexible Drawing Facility Agreement see "Credit Structure" below.

Basis Hedging Arrangements

On the Closing Date, the Issuer will have entered into agreements (the "**Basis Hedge Agreements**" which expression shall include any replacement of such agreements and including the relevant confirmation to such agreements and replacements) with each of JPMorgan Chase Bank, National Association and ABN AMRO Bank N.V., London Branch as the basis hedge providers (the "**Basis Hedge Providers**") and one or more interest rate swaps or caps or other hedging arrangements thereunder, each in accordance with requirements of each Rating Agency to hedge any Fixed 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 Basis 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 Basis Hedge Providers under the respective Basis Hedge Agreements.

Currency Hedging Arrangements

The Issuer will pay interest and principal on the EUR Notes in EUR and the USD Notes in USD (unless and until the Class A1 Notes are purchased by the A1 Note Conditional Purchaser in accordance with the A1 Note Mandatory Transfer Arrangements). However, payments of interest and principal by borrowers under the Mortgages to the Issuer will be made in GBP. In addition, the EUR Notes will bear interest at rates based on margins over EURIBOR and the USD Notes will bear interest at rates based on margins over LIBOR for USD deposits as determined in accordance with Condition 4. In order to protect itself against its exposure to the relevant interest rates being calculated by reference to EURIBOR for EUR deposits and LIBOR for USD deposits and its currency exchange rate exposure in respect of the EUR Notes and the USD Notes, on or prior to the Closing Date the Issuer and HSBC Bank plc as the currency swap provider (including any replacement currency swap provider under any of the Currency Swap Agreements (as defined below), the "**Currency Swap Provider**" and together with the Basis Hedge Providers and each Permitted Basis Hedge Provider, the "**Hedge Providers**") will enter into the following agreements, each in accordance with requirements of each Rating Agency:

(i) the "**Currency Swap A1 Agreement**" in relation to the Class A1 Notes;

(ii) the "**Currency Swap A2b Agreement**" in relation to the Class A2b Notes;

(iii) the "**Currency Swap B1b Agreement**" in relation to the Class B1b Notes; and

(iv) the "**Currency Swap C1b Agreement**" in relation to the Class C1b Notes,

(in each case including any replacement of such agreement and including the relevant confirmation to such agreement and replacement, and together the "**Currency Swap Agreements**" and together with each Basis Hedge Agreement and each Permitted Basis Hedge Agreement, the "**Hedge Agreements**").

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 Fitch, Aaa by Moody's and AAA by Standard & Poor's or whose short term debt is rated at least F1 by Fitch, P-1 by Moody's and 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 or, if there are no Class A Notes and no Class B Notes outstanding, the Class C Notes) (each an "**Authorised Investment**"). Any Authorised 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 Fitch and Standard & Poor's of the entity in which the Authorised Investment is made must, in the case of the First Loss Fund, be at least F1+ by Fitch and at least A-1+ by Standard & Poor's.

Further, any moneys invested as Authorised Investments in entities rated F1 by Fitch may not be invested for a period of more than 30 days. 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 per cent. of the then aggregate GBP Equivalent Principal Amount Outstanding of the Notes.

The proceeds of, and any income earned on, any investment in any Authorised Investments will be credited to the Revenue Ledger for application as set out under "Priority of Payments – prior to enforcement" or "Priority of Payments – post enforcement", as the case may be, above.

Global Notes

Each GBP Note and EUR Note is being offered solely outside the United States in reliance on Regulation S to non-U.S. Persons in offshore transactions (as defined in Regulation S). Each USD Note is being offered (a) outside the United States in reliance on Regulation S to non-U.S. Persons in such offshore transactions and (b) within the United States in reliance on Rule 144A only to qualified institutional buyers as defined therein ("**Qualified Institutional Buyers**").

Notes ("**Rule 144A Notes**") sold to persons who are qualified institutional buyers in reliance on Rule 144A will be represented by one or more permanent global notes in fully registered form without interest coupons (each such global note in relation to a class of those Notes being a "**Global Rule 144A Note**"). Notes sold to non-U.S. Persons outside the United States in reliance on Regulation S ("**Reg S Notes**") will be represented by one or more permanent global notes in fully registered form without interest coupons (each such global note in relation to a class of those Notes being a "**Global Reg S Note**"). The Global Rule 144A Notes together with the Global Reg S Notes are the "**Global Notes**".

Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes (see "Description of the Notes and the Security – Issue of Notes in Definitive Form" below).

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

on the Closing Date. Each Global Reg S Note is expected to be deposited with, and registered in the name of, or a nominee of, Citibank, N.A., London Branch as common 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**" and together with Euroclear and DTC, the "**Clearing Systems**") on the Closing Date.

While Notes are represented by a Global Note, each payment on those Notes will be made via the Paying Agents to the relevant Holder (or its nominee) of that Global Note. After receipt of such a payment, that Holder should credit the relevant participants' accounts in the relevant Clearing System in proportion to those participants' holdings as shown on the records of that Clearing System, in accordance with that Clearing System's rules and procedures. Payments by participants in a Clearing System to the beneficial owners of the Notes will be governed by standing instructions, customary practice and any statutory or regulatory requirements as may be in effect from time to time, as is now the case with securities held by the accounts of customers registered in "street name". These payments will be the responsibility of the relevant participant and not of any Holder (or its nominee) of a Global Note, any Clearing System, any Paying Agent, the Trustee or the Issuer. None of the Issuer, the Trustee, any Manager nor any Paying Agent will have any responsibility or liability for any aspect of the records of the Clearing Systems relating to or payments or credits made by the Clearing Systems on account of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records of the Clearing Systems relating to those beneficial interests.

For so long as any Notes are represented by a Global Note registered in the name of a Holder (or its nominee), that Global Note will be transferable in accordance with the rules and procedures for the time being of the relevant Clearing System.

Transfers of interests in the Global Notes are subject to certain restrictions. **In particular, to enforce the restrictions on transfers of interests in any Global Note, the Trust Deed permits the Issuer to demand that the holder of (a) any interest in a Global Rule 144A Note held by a U.S. Person who is determined not to have been a Qualified Institutional Buyer at the time of acquisition of such Note and (b) any interest in a Global Reg S Note held by a U.S. Person at the time of acquisition of such interest if such acquisition occurred prior to the first Business Day that is 40 days after the later of the commencement of the offering of the Notes and the Closing Date, in each case, sell such interest to a holder that is permitted to hold such interest under the Trust Deed and, if the holder does not comply with such demand within 30 days thereof, the Issuer may sell such holder's interest in such Notes.** In addition, transferees of Global Notes will be deemed to have made certain representations relating to compliance with all applicable

securities, ERISA and tax laws (see "Restrictions on Purchase and Transfer of the Notes" below).

Relationship between classes of Noteholders

The trust deed constituting the Notes will contain provisions requiring the Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders as regards all of the powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise), but requiring the Trustee to have regard only to the interests of the Class A Noteholders if, in its opinion, there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and/or the Class C Noteholders and to have regard only to the interests of the Class B Noteholders if, in its opinion, there is a conflict between the interests of the Class B Noteholders and/or the interests of the Class C Noteholders. The trust deed will also contain provisions limiting the powers of the Class B Noteholders and the Class C 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 and the Class C Noteholders will not be entitled to request or direct the Trustee to accelerate payment by the Issuer of the Class B Notes or the Class C Notes upon the occurrence of an Event of Default unless payment of the Class A Notes is also accelerated or there are no Class A Notes outstanding. Except in certain circumstances, the trust deed will contain no such limitations on the powers of the Class A Noteholders, the exercise of which will be binding upon the Class B Noteholders and the Class C Noteholders, irrespective of the effect thereof upon their interests.

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

For the relationship between classes of Noteholders, see "Risk Factors" below.

Fee Letter

PFPLC (in such capacity, the "**Issue Services Provider**"), has agreed to arrange the issue of the Notes on behalf of the

Issuer. In particular, the Issue Services Provider 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 Managers. PFPLC (as defined in "Subordinated Lenders" below) will pay, on behalf of the Issuer, or reimburse to the Issuer, any expenses payable by the Issuer in connection with the issue of the Notes.

The Issuer will agree under a fee letter to be entered into on the Closing Date between the Issuer, PFPLC and the Trustee (the "**Fee Letter**") that it will pay the Issue Services Provider an arrangement fee of 0.4% per cent. of the aggregate GBP Equivalent Initial Principal Amount of the Notes and that it will repay PFPLC all expenses paid by PFPLC in connection with the issue of the Notes in instalments on the business day following each Interest Payment Date over a period of four years from the Closing Date. Amounts to be paid under the Fee Letter will bear interest at a rate of 4 per cent. per annum above the Reference Rate applicable to the GBP Notes during the Interest Period relating to the Notes ending on (but excluding) that Interest Payment Date as determined under Condition 4 (or such other rate which PFPLC and the Issuer agree to be a fair commercial rate at the time) payable in arrear on the business day following each Interest Payment Date and the payment of which will be subordinated as described in " Priority of Payments – prior to enforcement" above.

Services Letter

PFPLC will agree with the Issuer 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 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 the services (see "The Issuer – Management and Activities" below).

Subordinated Lenders

MTS, in its capacity as a Subordinated Lender (as defined below), and Paragon Finance PLC, a public company incorporated under the laws of England and a wholly owned subsidiary of PGC ("**PFPLC**"), will advance amounts in accordance with and under the terms of the Subordinated Loan Agreement (see "Subordinated Loan Agreement" below) in the proportions of 50 per cent. and 50 per cent..

Subordinated Loan Agreement

MTS (in such capacity, a "**Subordinated Lender**") and PFPLC (together with MTS, the "**Subordinated Lenders**") will make available to the Issuer under a subordinated loan agreement to be entered into on or before the Closing Date a subordinated loan facility (the "**Subordinated Loan Agreement**"). MTS will advance 50 per cent. and PFPLC will advance 50 per cent. of any amount or amounts drawn under the Subordinated Loan Agreement, and repayments of any amount advanced will be made *pro rata* to the share of each Subordinated Lender. 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 at the initial Required Amount and achieve the initial ratings on the Notes.

The Subordinated Lenders 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, but without prejudice thereto, the Subordinated Lenders may, at their discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances. In addition, the Subordinated Lenders may, at their 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, the Subordinated Lenders may, at their 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 (iii) to enable the Issuer to make any Discretionary Further Advances when it would otherwise be unable to do so.

The Subordinated Lenders 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 (x) inclusive in the priority of payments set out in "Priority of Payments – prior to enforcement" above, by paying directly to each Hedge Provider any Hedge Provider Subordinated Amounts due and payable on such Interest Payment Date, (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 and (iii) to enable the Issuer to pay that part of the purchase price for Mortgages represented by unamortised cashbacks and discounts.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of each Subordinated Lender, for the purpose of establishing or increasing the Shortfall Fund. In addition, the Subordinated Lenders may, at their 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 to the extent that any Mortgages are converted to Capped Rate Mortgages).

The Issuer may from time to time borrow further sums from each Subordinated Lender or other lenders (together with each Subordinated Lender, the "**Additional Subordinated 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 "Priority of Payments – prior to enforcement" above) (provided that while any Notes remain outstanding no such repayment may be made if it would result in the principal amount outstanding in respect of the Subordinated Loan Agreement being less than the Required Amount and provided further that the relevant Additional Subordinated Lender 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 Agreement" 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 or to one of PGC's subsidiaries for a consideration of £0.01 per Class B1a Note, €0.01 per Class B1b Note, £0.01 per Class C1a Note and €0.01 per Class C1b Note of all (but not some only) of the Class B Notes and the Class C 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 C Notes 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 the Class C Notes and all other claims ranking *pari passu* therewith under Condition 10 – "Enforcement and Post Enforcement Call Option". The Class B Noteholders and the Class C Noteholders will be bound by the terms and conditions of the Trust Deed and the 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 and the Class C Noteholders.

Governing law

Each Relevant Document and each Note and all matters arising from the Relevant Documents and the Notes are governed by, and shall be construed in accordance with, English law other than (a) those aspects of the Relevant Documents specific to the Scottish Mortgages, which are governed by, and shall be construed in accordance with, Scots law, and (b) those aspects of the Relevant Documents specific to the Northern Irish Mortgages, which are governed by, and shall be construed in accordance with, Northern Irish law.

RISK FACTORS

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

The Notes 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, the Warehouser, MTL, MTS, PGC, any other company in the same group of companies as PGC (other than the Issuer), the Trustee, the Managers, the Flexible Drawing Facility Provider or any other person other than the Issuer. Furthermore, none of PFPLC, PML, POPLC, the Warehouser, MTL, MTS, PGC, the Trustee, the Managers, the Flexible Drawing Facility Provider 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 Currency Swap Agreements, the Basis Hedge Agreement or otherwise, any Caps and any related guarantees, any Authorised Investments, the Subordinated Loan Agreement, the Flexible Drawing Facility Agreement and the insurances in which the Issuer has an interest. If the resources described above cannot provide the Issuer with sufficient funds to enable it to make required payments on the Notes, the Noteholders may incur a loss of interest and/or principal which would otherwise be due and payable on the Notes. Moreover, the proceeds of the enforcement of the Security for the Notes may be insufficient to pay all interest and principal due on the Notes.

Limited liquidity – Notes

There is not, at present, an active and liquid secondary market for the Notes. There can be no assurance that a secondary market for the Notes will develop or, if a secondary market does develop, that it will provide holders of the Notes with liquidity of investment, or that it will continue for the life of the Notes.

Risks related to the A1 Note Mandatory Transfer Arrangements

The ability of the Issuer to procure payment of the A1 Note Mandatory Transfer Price (as defined in the Terms and Conditions of the Notes) will be dependent upon the Remarketing Agent, as agent for the Issuer, either (a) agreeing terms for the sale of the Class A1 Notes to third party purchasers on or prior to the relevant A1 Note Mandatory Transfer Date (as defined in the Terms and Conditions of the Notes) and obtaining the required part of the A1 Note Mandatory Transfer Price from those third party purchasers or (b) exercising the Issuer's rights to require the A1 Note Conditional Purchaser to acquire the Class A1 Notes. Under the terms of the Remarketing Agreement, if the A1 Note Conditional Purchaser is required to purchase the Class A1 Notes, subject to receipt of information regarding the amount to be the Principal Amount Outstanding of the Class A1 Notes immediately following the relevant A1 Note Mandatory Transfer Date and of notice from the Administrator (on behalf of the Issuer) that no Event of Default under the Notes is then outstanding, the Remarketing Agent will give notice to the A1 Note Conditional Purchaser of the amount it is required to pay for the Class A1 Notes, three Business Days prior to the relevant A1 Note Mandatory Transfer Date.

When all the Class A1 Notes have been purchased by the A1 Note Conditional Purchaser, the Class A1 Notes will no longer be subject to any Mandatory Transfer under Condition 5(i). If an A1 Note Conditional Purchase Termination Event occurs prior to the relevant A1 Note Mandatory Transfer Date, the Class A1 Notes will no longer be subject to Mandatory Transfer under Condition 5(i). Furthermore, if an A1 Note Conditional Purchase Termination Event has occurred, the Class A1 Notes will not be eligible for purchase under Rule 2a-7 under the Investment Company Act.

There can be no assurance that the Remarketing Agent will be able to identify third party purchasers interested in acquiring the Class A1 Notes on any A1 Note Mandatory Transfer Date. The ability of the

A1 Note Conditional Purchaser to pay the A1 Note Mandatory Transfer Price and acquire the Class A1 Notes will be dependent upon its ability to raise necessary funds by either issuing commercial paper in accordance with its existing programme administration agreement (the "**Sheffield Administration Agreement**") or raising funds under a revolving asset purchase agreement (the "**Revolving Asset Purchase Agreement**").

The Revolving Asset Purchase Agreement will be entered into on or before the Closing Date between the A1 Note Conditional Purchaser and one or more financial or other institutions (the "**Liquidity Providers**", initially Barclays Bank PLC) pursuant to which the Liquidity Providers will commit, subject to certain conditions described below, to make funds available to the A1 Note Conditional Purchaser to purchase interests in the Class A1 Notes (in proportionate amounts to their respective commitments under the Revolving Asset Purchase Agreement) if the A1 Note Conditional Purchaser is unable to issue Commercial Paper (as defined below).

The A1 Note Conditional Purchaser may not be able to issue Commercial Paper on or before the relevant A1 Note Mandatory Transfer Date, and therefore may not be able to satisfy its obligations to purchase the Class A1 Notes under the A1 Note Conditional Purchase Agreement in certain circumstances. For example, there may be no market for the issue of Commercial Paper at that time or the A1 Note Conditional Purchaser may not be able to satisfy the conditions precedent under the Administration Agreement required for the issuance of Commercial Paper.

The issuance of Commercial Paper by the A1 Note Conditional Purchaser to fund its obligations under the A1 Note Conditional Purchase Agreement is subject to the following limitations:

(i) the aggregate face amount of commercial paper issued by the A1 Note Conditional Purchaser (the "**Commercial Paper**") outstanding at any time to fund any amount in respect of the Class A1 Notes may not exceed a face amount of Commercial Paper yielding aggregate proceeds to the A1 Note Conditional Purchaser that exceed the lesser of (a) the sum of the Principal Amount Outstanding of the Class A1 Notes (determined after giving effect to the application of such Commercial Paper proceeds) and (b) the commitments of the Liquidity Providers under the Revolving Asset Purchase Agreement;

(ii) the A1 Note Conditional Purchaser may not issue Commercial Paper to fund any amount in respect of the Class A1 Notes if such Commercial Paper matures later than 15 days prior to the earlier of (a) the scheduled expiration of the commitments of the Liquidity Providers under the Revolving Asset Purchase Agreement and (b) the specified termination date for any of the programme-wide credit enhancement facilities for the A1 Note Conditional Purchaser's Commercial Paper;

(iii) the A1 Note Conditional Purchaser may not issue any Commercial Paper if the appointment of the administrative agent under the Sheffield Administration Agreement has been terminated without appointment of a successor;

(iv) the A1 Note Conditional Purchaser may not issue any Commercial Paper if (a) a regulatory, tax or other authority has ordered that the A1 Note Conditional Purchaser cease its business or (b) issuance of the Commercial Paper would give rise to materially adverse tax, regulatory or accounting consequences for the A1 Note Conditional Purchaser;

(v) the A1 Note Conditional Purchaser may not issue any Commercial Paper if such Commercial Paper would be required to be registered under the Securities Act; and

(vi) the A1 Note Conditional Purchaser may not issue any Commercial Paper if any of the programme-wide credit enhancement facilities for the A1 Note Conditional Purchaser's Commercial Paper has become unavailable or has been depleted below specified levels for specified periods of time without being replenished.

If the A1 Note Conditional Purchaser is unable to issue Commercial Paper in order to satisfy its obligations to pay the amounts otherwise due under the A1 Note Conditional Purchase Agreement on the relevant A1 Note Mandatory Transfer Date it would, subject as described below, be able to draw funds from the Liquidity Providers under the Revolving Asset Purchase Agreement. However, the ability of the A1 Note Conditional Purchaser to raise funds under the Revolving Asset Purchase Agreement is subject to the limitations that no Liquidity Provider is obliged to make funds available to the A1 Note Conditional Purchaser under the Revolving Asset Purchase Agreement:

(i) in excess of, or following the expiration of, such Liquidity Provider's commitment thereunder (as to the latter see further the paragraph below);

(ii) if the A1 Note Conditional Purchaser is insolvent;

(iii) if an Event of Default has occurred and is continuing with respect to the Class A1 Notes; or

(iv) if the Class A1 Notes have been downgraded below Caa1 by Moody's, CCC+ by Fitch and CCC+ by S&P.

As of the Closing Date, (i) the aggregate commitments of the Liquidity Providers under the Revolving Asset Purchase Agreement will equal or exceed the amount necessary to permit the A1 Note Conditional Purchaser to issue Commercial Paper in an amount sufficient to enable the A1 Note Conditional Purchaser to pay the amounts otherwise due under the A1 Note Conditional Purchase Agreement and (ii) the commitments of the Liquidity Providers under the Revolving Asset Purchase Agreement will expire 364 days following the Closing Date, unless extended. However, if the Liquidity Providers' commitments are not renewed, the A1 Note Conditional Purchaser may draw the then committed funds under the Revolving Asset Purchase Agreement to ensure it can fulfil its obligations under the A1 Note Conditional Purchase Agreement.

As of the Closing Date, (i) the Commercial Paper programme-wide credit enhancement facilities will be available in the full amount required by the Sheffield Administration Agreement and related documents in order for the A1 Note Conditional Purchaser to issue Commercial Paper and (ii) the only specified termination date in respect of any such facilities is expected to be later than the first A1 Note Mandatory Transfer Date, which falls on 15 September 2006.

As long as the Class A1 Notes remain subject to the A1 Note Mandatory Transfer Arrangements, the A1 Note Conditional Purchaser shall be obliged under the A1 Note Conditional Purchase Agreement to certify to the Issuer, the Administrator and the Trustee on or prior to each Determination Date that as of such date, (i) the aggregate commitments of the Liquidity Providers under the Revolving Asset Purchase Agreement equal or exceed the amount necessary to permit the A1 Note Conditional Purchaser to pay the amounts otherwise due under the A1 Note Conditional Purchase Agreement on the next A1 Note Mandatory Transfer Date; (ii) the commitments of the Liquidity Providers under the Revolving Asset Purchase Agreement have not been terminated; and (iii) the A1 Note Conditional Purchaser is not insolvent. The Issuer must promptly inform the Class A1 Noteholders in accordance with Condition 12 if as of the date falling 5 days prior to an Interest Payment Date (the "**Determination Date**") the A1 Note Conditional Purchaser fails to certify to any of the foregoing.

As long as any Class A1 Notes remain subject to the A1 Note Mandatory Transfer Arrangements, the Trustee will be obliged under the Trust Deed to notify the Noteholders of any Event of Default: (a) as soon as reasonably practicable upon becoming aware of the occurrence of any Event of Default under Condition 9(ii); (b) as soon as reasonably practicable upon the required certification by the Trustee in the case of any Event of Default under Condition 9(iii), (iv) and (v); and (c) in the case of an Event of Default under Condition 9(i), within 30 days of the Trustee becoming aware of such Event of Default.

The A1 Note Conditional Purchaser's obligations under the A1 Note Conditional Purchase Agreement will constitute unsecured obligations of the A1 Note Conditional Purchaser and, except as indicated above, the A1 Note Conditional Purchaser is not expected to have any assets or sources of funds available for satisfying its obligations under the A1 Note Conditional Purchase Agreement. In addition, under the A1 Note Conditional Purchase Agreement the Issuer has undertaken not to take any steps to initiate or join in any person in initiating any insolvency proceedings under any law (including, but not limited to, liquidation, winding up, dissolution, administration or other analogous proceeding) in respect of the A1 Note Conditional Purchaser.

If the A1 Note Conditional Purchaser defaults on its obligation to pay the amounts otherwise due on the relevant A1 Note Mandatory Transfer Date under the A1 Note Conditional Purchase Agreement, the Issuer may not be able to procure the purchase of all or any of the Class A1 Notes on any A1 Note Mandatory Transfer Date. The Issuer will not be liable for such failure to the extent such failure is a result of the failure of the Remarketing Agent or the A1 Note Conditional Purchaser to perform its respective obligations under the Remarketing Agreement or the A1 Note Conditional Purchase Agreement. Accordingly in such circumstances, failure to pay the A1 Note Mandatory Transfer Price and complete the purchase of the Class A1 Notes on an A1 Note Mandatory Transfer Date will not constitute an Event of Default in respect of the Issuer.

The short-term rating of the Class A1 Notes will be based on the obligations of the A1 Note Conditional Purchaser under the A1 Note Conditional Purchase Agreement. These in turn may be dependent on the short-term unsecured and unsubordinated debt obligations of the Liquidity Providers, which at the date

of this Offering Circular have a short-term rating of F1+ from Fitch, A-1+ from S&P and P-1 from Moody's. If the short-term rating of such obligations of any/either of the Liquidity Providers are downgraded, then the short-term rating of the Class A1 Notes may be downgraded.

To the extent that there are principal amounts outstanding on the Class A1 Notes on any A1 Note Mandatory Transfer Date, the payment of the A1 Note Mandatory Transfer Price (as defined in the Terms and Conditions of the Notes) will be dependent (on any A1 Note Mandatory Transfer Date) upon the Remarketing Agent, as agent for the Issuer, agreeing terms for the sale of the Class A1 Notes to third party purchasers and arranging for the transfer of the proceeds on or prior to the relevant A1 Note Mandatory Transfer Date and/or (on any A1 Note Mandatory Transfer Date) the exercise of the Issuer's rights under the A1 Note Conditional Purchase Agreement, if appropriate, to require the A1 Note Conditional Purchaser to acquire the Class A1 Notes.

Matters relating to the Mortgages

Limited liquidity – Mortgages

Following the occurrence of an Event of Default in relation to the Notes while any of the Mortgages are still outstanding, the ability of the Issuer to redeem all of the Notes in full will depend upon whether the Mortgages can be realised to obtain an amount sufficient to redeem the Notes. There is not, at present, an active and liquid secondary market for secured residential mortgage loans in the United Kingdom. The Issuer or any receiver appointed by the Trustee may not, therefore, be able to sell Mortgages on appropriate terms should it be required to do so.

Setting of rates of interest in respect of the Mortgages

Each Administrator will, on behalf of the Issuer and the Trustee, set, where relevant, the rates of interest applicable to the Mortgages administered by it (other than Fixed Rate Mortgages and Capped Rate Mortgages (to the extent that any Mortgages are converted to Capped Rate Mortgages)) during the applicable fixed rate period and other than LIBOR-Linked Mortgages and Base Rate Tracker Mortgages. Each Administrator must ensure that the weighted average of the rates of interest applicable to the Mortgages, taking account 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 and all amounts recovered in respect of early redemption amounts, is not less than 1.6 per cent. (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 December 2010 and 2 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter in each case above GBP LIBOR (as defined in "Credit Structure – 3. Shortfall Fund" below) at that time. Each 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, each 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 (to the extent that any Mortgages are converted to Capped Rate Mortgages), each 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; in respect of LIBOR-Linked Mortgages, the interest rate is set at a fixed margin over LIBOR for three month GBP deposits (determined quarterly in accordance with the Mortgage Conditions); and in respect of Base Rate Tracker Mortgages, the interest rate is set at a fixed margin over the Bank of England base rate from time to time. 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 (to the extent that any Mortgages are converted to Capped Rate Mortgages), LIBOR-Linked Mortgages and Base Rate Tracker 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 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 (to the extent that any Mortgages are converted to Capped Rate Mortgages) during the applicable fixed

rate or capped rate period and, other than in relation to the LIBOR-Linked Mortgages and Base Rate Tracker Mortgages, the Trustee or the Issuer or any substitute administrator appointed by the Trustee or the Substitute Administrator will be entitled to set the rates of interest applicable to the MTL Mortgages and/or the PML Mortgages, as applicable. These circumstances include a breach by the relevant 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, subject to the terms of the Administration Agreement, terminate such Administrator's authority to set the rates of interest applicable to the Mortgages administered by it and/or terminate the appointment of such Administrator (see "Mortgage Administration – Termination of the appointment of the Administrators" below).

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 Notes will provide in relation to the Class B Notes and the Class C Notes that a Trustee's certificate, to the effect that the Issuer had sufficient funds available for the purpose, will be necessary to constitute an Event of Default if one or more interest payments on the Class A Notes, the Class B Notes or the Class C Notes is or are missed or not paid in full.

Representations and warranties

Each Seller will warrant in the Mortgage Sale Agreement, among other things, that, prior to the relevant Originator making the initial advance to a borrower under a Mortgage sold by that Seller to the Issuer, that Originator received from solicitors or licensed or (in Scotland) 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 the Sellers. For further information on the representations and warranties to be given by each Seller in respect of the Mortgages sold by it to the Issuer, see "The Mortgages – Searches and Warranties in respect of the Mortgages" below.

The sole remedy against a Seller in respect of breach of warranty shall be to require that Seller to repurchase any relevant Mortgage provided that this shall not limit any other remedies available if that Seller fails to repurchase, or procure the repurchase of, a Mortgage when obliged to do so. There can be no assurance that any Seller 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.

Each Seller will also agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage sold by it to the Issuer is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the Office 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.

Perfection of title

The Issuer's title to the Mortgages it acquires from the Sellers 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, the Northern Irish Mortgages or the Scottish Mortgages and they will not be able to apply to the Land Registry, the Central Land Charges Registry, the Land Registry of Northern Ireland, the Registry of Deeds Belfast or the Registers of Scotland to register transfers or assignations of the Mortgages to perfect and/or protect their interests. 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.

The effect of the agreement to transfer the Mortgages from the Sellers to the Issuer pursuant to the Mortgage Sale Agreement 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 interest. 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. For further information, see "The Mortgages – Perfection of title" below.

Collectability of loans

The collectability of amounts due under the Mortgages is subject to credit, liquidity and interest rate risks and will generally fluctuate in response to, among other things, market interest rates, general economic conditions, the financial standing of borrowers, the extent to which borrowers make prepayments and redraw amounts (in the case of Flexible Mortgages) under their Mortgages, and other similar factors. Other factors (which may not affect real property values) may have an impact on the ability of borrowers to repay Mortgages. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies and bankruptcy petitions by borrowers and could ultimately have an adverse impact on the ability of borrowers to repay Mortgages.

In addition, the ability of the Issuer to dispose of a property at a price sufficient to repay the amounts outstanding under the relevant Mortgage will depend upon the availability of buyers for the property.

Risks of losses associated with declining property values

The security for the Notes consists of, *inter alia*, the Issuer's interest in the Mortgages. This security may be affected by, among other things, a decline in property values. No assurance can be given that values of the properties have remained or will remain at the level at which they were on the dates of origination of the related Mortgages. If the residential property market in the United Kingdom should experience an overall decline in property values, such a decline could in certain circumstances result in the value of the security created by the Mortgages being significantly reduced and, ultimately, may result in losses to the Noteholders if the security is required to be enforced.

Investors should be aware that, other than the valuation of properties undertaken as at origination or revaluation of the relevant properties for the purposes of making Further Advances (as more fully described in "**Mortgage Administration**"), no revaluation of any property has been undertaken by MTL, PML, the Issuer, each Administrator, the Trustee or any other person for the purposes of the transactions described in this document.

Non-Verified Mortgages

Each Non-Verified Mortgage is required as at the date of its acquisition by the Issuer to comply with the representations and warranties specified in the Mortgage Sale Agreement and the Rating Agencies will have analysed and reviewed data provided to them relating, among other things, to the credit quality and characteristics of the relevant Non-Verified Mortgages being acquired by the Issuer, and the Rating Agencies will have confirmed that such acquisition will not adversely affect any of the then current ratings of the Notes. There can be no certainty that all Non-Verified Mortgages acquired by the Issuer will have similar proportions or similar concentration characteristics as set out in the tables in "The Provisional Mortgage Pool" below in relation to the Mortgages comprising the Provisional Mortgage Pool. If on the first Interest Payment Date the aggregate amounts applied by the Issuer to purchase Non-Verified Mortgages is less than the amount of the initial amount of the Pre-Funding Reserve, a prepayment of the principal to the holders of the Class A1 Notes will result. See "Summary – Pre-Funding Reserve" above for conditions applicable to the acquisition of Non-Verified Mortgages by the Issuer.

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 the Administrators, the Originators, the Sellers, 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 (see "Mortgage Administration – Further Advances" below). 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). The Issuer may not, however, receive sufficient funds 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 (or exercise the analogous rights in Scotland) 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 (a) borrow further amounts from the Subordinated Lenders under the Subordinated Loan Agreement and the Subordinated Lenders will be under an obligation to make any such amounts available to the Issuer (the Issuer being obliged to apply for such a drawing), or (b) in respect of a Flexible Drawing Cash Advance required to be made under a Flexible Mortgage to the extent that insufficient funds are drawn by the Issuer under the Subordinated Loan Agreement, by drawing a Flexible Drawing Facility Advance under the Flexible Drawing Facility Agreement.

Relationship between classes of Noteholders

The Trust Deed and the Deed of Charge contain provisions requiring the Trustee to have regard to the interests of the Noteholders equally 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/or the Class C Noteholders and/or 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 the Class C Noteholders and/or the interests of any of the other persons entitled to the benefit of the Security (other than the Class A Noteholders) and subject thereto to have regard only to interests of the Class C Noteholders if, in the Trustee's opinion, there is a conflict between the interests of the Class C Noteholders and the interests of any of the other persons entitled to the benefit of the Security (other than the Class A Noteholders and the Class B Noteholders).

Each of the Class A Notes, the Class B Notes and the Class C Notes constitute a separate series of Notes (each a " **Series**"). Following the giving of an Enforcement Notice all interest, principal and other amounts due to the Noteholders in the same Series will be paid to them *pro rata* irrespective of the class of Notes which they hold within that Series. Circumstances could potentially arise in which the interests of the holders of one class of Notes within a Series and any other class of Notes within that Series 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 Notes will, however, provide that any directions given to the Trustee by the holders of any specified percentage of Notes within the same Series will not differentiate between the classes of Notes within that Series. The Trust Deed will also provide that, except in the case of a Basic Terms Modification (see "Terms and Conditions of the Notes – 13. Meetings of 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 Noteholders within the same Series will not be required to be passed at separate meetings of the holders of each class of Notes within that Series, and that at any meeting of the Noteholders within the same Series the same voting rights will attach to each class of Notes within that Series provided that separate meetings of the holders of different classes of Notes in the same Series will be required to pass an Extraordinary Resolution where the Trustee determines that there is a conflict in the interests of the Noteholders of one class in a Series and the Noteholders of another class in that Series in relation to that Extraordinary Resolution. The Trust Deed will also provide that the Trustee will at all times regard each Series of 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 each separate class of Notes within that Series.

It should be noted that by virtue of the priority of application of Available Redemption Funds, the relative proportions of the GBP Equivalent Principal Liability Outstanding of each class of Class A Notes are not expected to be maintained at the relative proportions subsisting at the Closing Date.

Directors' certificates

The directors of the Warehouser and each Seller 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)(i)(b) 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

All of the Properties relating to the Mortgages in the Provisional Mortgage Pool are not owner occupied (see "The Provisional Mortgage Pool – Type of Occupancy" below). None of the Properties relating to Non-Verified Mortgages to be sold to the Issuer may be owner occupied. It is intended that the Properties (save in the case of certain properties held as investments) 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 an English or Northern Irish Mortgage in respect of a Property which is the subject of an existing tenancy, the relevant Administrator may not be able to obtain vacant possession of the Property in which case such 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 such 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 Default Procedures" below. In relation to the enforcement of a Scottish Mortgage over a Property which is the subject of an existing tenancy, see "The Mortgages – Scottish Mortgages" below.

Risk of losses associated with Interest-only Mortgages

Approximately 92.04 per cent. 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. Neither the Issuer, the Trustee, the Originators, the Sellers, the Administrators nor the Warehouser has verified that the borrower has any such other source of funds and has not obtained security over the borrower's right in respect of any such other source of funds. 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.

Regulatory Considerations

General

The Financial Services and Markets Act 2000 ("**FSMA**") regulates 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. Mortgage business as of 31 October 2004 (the "**Mortgage Regulation Date**") is regulated under the FSMA.

The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "**Regulated Activities Order**") provides that after the Mortgage Regulation Date the following four activities: (a) entering into as lender, (b) in certain circumstances administering, (c) arranging, and (d) advising on a regulated mortgage contract, will be regulated activities under the FSMA. Agreeing to carry on any of these activities will also be a regulated activity.

A contract is a "**regulated mortgage contract**" for the purposes of the Regulated Activities Order if it is originated after the Mortgage Regulation Date, or originated prior to the Mortgage Regulation Date but varied after the Mortgage Regulation Date such that a new contract is entered into, 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 charge (or, in Scotland, a first ranking standard security) on land (other than timeshare accommodation) in the United Kingdom and (iii) at least 40 per cent. 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, Northern Ireland or Scotland and not to an individual or to trustees, and Investment Home 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. The Provisional Mortgage Pool does not contain any regulated mortgage contracts.

The Regulated Activities Order sets out certain exclusions to these provisions. Among other things, these exclusions state that a person who is not an authorised person does not carry on the regulated activity of administering a regulated mortgage contract 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.

The Issuer will not itself be an authorised person under the FSMA. However, in the event that an Individual Mortgage is varied, such that a new contract is entered into and that contract constitutes a regulated mortgage contract then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an appropriately authorised entity. 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 the FSMA, 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 relevant Administrator will, unless the Issuer and the Trustee agree otherwise, be terminated with immediate effect if at any time that Administrator does not have any authorisation under the FSMA 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. MTS is an authorised person under the FSMA.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

The Unfair Terms in Consumer Contracts Regulations 1999 (the "**UTCCR**") will apply to any term of an agreement entered into from 1 October 1999 by a "consumer" within the meaning of the UTCCR where the term has not been individually negotiated (these superseded the 1994 regulations which will apply to agreements entered into from 1 July 1995 to 30 September 1999 and in all material respects are the same as the UTCCR). Any term found to be "unfair" within the meaning of the Regulations will not be binding on the consumer.

The Sellers will agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage sold by it to the Issuer is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the OFT or otherwise, to be an unfair term for the purposes of the UTCCR, it shall repurchase or procure the repurchase of the Individual Mortgage concerned.

Consumer Credit Act

Certain Individual Mortgages may be regulated credit agreements within the meaning of the Consumer Credit Act 1974 ("**CCA**"). Regulated credit agreements secured on land are unenforceable without a court order. Non-compliance with certain provisions of the CCA may render a regulated credit agreement totally unenforceable.

The Sellers will warrant in the Mortgage Sale Agreement that in the case of Individual Mortgages, no agreement for any Individual Mortgage is in whole or in part a consumer credit agreement (as defined in section 8 of the CCA) 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 CCA have been complied with in all material respects. The remedy against a Seller in respect of breach of warranty shall be to require the Seller to repurchase the relevant Mortgage.

Consumer Credit Bill

The DTI has introduced to Parliament a Bill to amend certain provisions of the CCA. The Bill is currently before the House of Commons and it is anticipated that Royal Assent will be given in late 2005 or early 2006 with provisions coming into force in late 2006 and 2007. The Bill contains a number of provisions which may impact the Individual Mortgages. In particular the Bill contains a power for a court to alter the terms of a credit agreement where it considers that the relationship between the creditor and the debtor arising out of the agreement is ''unfair'' because of one or more of the following:

(a) any of the terms of the agreement or of any related agreement;

(b) the way in which the creditor exercised or enforced any of his rights under the agreement or any related agreement;

(c) any other thing done (or not done) by, or on behalf of, the creditor (either before or after the making of the agreement or any related agreement).

In this context ''credit agreement'' includes all agreements which would otherwise be exempt under Section 16 of the CCA (other than regulated mortgage contracts under the terms of the FSMA regime). The clause is currently drafted to have full retrospective effect. An order made by the court where an agreement is found to be ''unfair'' may order a creditor to repay sums already paid by the debtor, reduce the amount of future payments or otherwise alter the terms of the credit or related agreement.

The current terms of the Bill may be subject to future amendment in its passage through Parliament.

Exchange rate risks

Repayments of principal and payments of interest on the EUR Notes will be made in EUR and on the USD Notes will be made in USD (unless and until the Class A1 Notes are purchased by the A1 Note Conditional Purchaser in accordance with the A1 Note Mandatory Transfer Arrangements), but payments made by borrowers under the Mortgages to the Issuer will be made in GBP. To hedge the Issuer's currency exchange rate exposure, including any interest rate exposure connected with that currency exposure, the Issuer will enter into the Currency Swap Agreements with the Currency Swap Provider.

Non-receipt of currency amounts under the Currency Swap Agreements

If the Issuer fails to make timely payments of amounts due under a Currency Swap Agreement, then it will have defaulted under that Currency Swap Agreement. Each Currency Swap Provider is only obliged to make payments to the Issuer under a Currency Swap Agreement as long as the Issuer makes payments under that Currency Swap Agreement.

If the relevant Currency Swap Provider is not obliged to make payments or if it defaults in its obligations to make payments of amounts in the relevant Note Currency (as defined in Condition 1(c)) equal to the full amount to be paid to the Issuer under the relevant Currency Swap Agreement in each case on the relevant Interest Payment Date, the Issuer will be exposed to changes in currency exchange rates. Unless a replacement currency swap is entered into the Issuer may have insufficient funds to make payments due on the Notes.

Termination payments under the Currency Swap Agreements

If any of the Currency Swap Agreements terminates, the Issuer may be obliged to make a termination payment to the relevant Currency Swap Provider. The amount of the termination payment will be based on the cost of entering into a replacement currency swap agreement. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under any Currency Swap Agreement. Nor can any assurance be given that the Issuer will be able to enter into a replacement currency swap agreement, or if one is entered into, that the credit rating of the replacement currency swap counterparty will be sufficiently high to prevent a downgrade of the then-current ratings of the Notes by the Rating Agencies.

Except in relation to any Hedge Provider Subordinated Amount, any termination payment due by the Issuer will rank *pari passu* with the relevant class of Notes. Any additional amounts required to be paid by the Issuer following termination of the relevant Currency Swap Agreement (including any extra costs incurred, for example, in entering into "spot" currency or interest rate swaps) if the Issuer cannot immediately enter into a replacement currency swap agreement, will also rank *pari passu* with the relevant class of Notes. Therefore, if the Issuer is obliged to make a termination payment to a Currency Swap Provider or pay any other additional amount as a result of the termination of the relevant Currency Swap Agreement, this could reduce the Issuer's ability to service payments on the Notes.

Conflicts of interests

Certain of the parties to the transaction, including, without limitation, the Originators, the Sellers and the Warehouser, may effect transactions in which they may have, directly or indirectly, a material interest or a relationship of any description with another party to such transaction or a related transaction, which may involve a potential conflict with an existing contractual duty to the Issuer under this transaction.

Certain United States legal investment considerations

No representation is made as to the proper characterisation of the Notes for legal investment purposes, financial institution regulatory purposes, or other purposes, or as to the ability of particular investors to purchase the Notes under applicable legal investment restrictions. These uncertainties may adversely affect the liquidity of the Notes. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult with their legal advisers in determining whether and to what extent the Notes constitute legal investments or are subject to investment, capital or other restrictions.

ERISA considerations

If the assets of the Issuer were deemed to be "plan assets", certain transactions that the Issuer may enter into in the ordinary course of business might constitute non-exempt prohibited transactions under ERISA and/or Section 4975 of the U.S. Internal Revenue Code as a result and might be subject to excise taxes and have to be rescinded. See "Restrictions on Purchase and Transfer of the Notes – ERISA and other restrictions on purchase of Notes by employee benefit plans; certain benefit plan considerations" below for a more detailed discussion of certain ERISA-related considerations with respect to an investment in the Notes.

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 euro; (ii) applicable provisions of law may allow the Issuer to redenominate the non-EUR Notes into euro and take additional measures in respect of the Notes and/or the Mortgages to be redenominated into euro 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 GBP 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 borrowers' 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.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State. However, Austria, Belgium and Luxembourg are required instead to apply a withholding system for a transitional period in relation to such payments,

deducting tax at rates rising over time to 35 per cent. The transitional period commences on 1 July 2005 and terminates at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

Until the details of any similar systems in the relevant non-EU countries have been finalised, it is not certain what effect, if any, the adoption of such systems would have on the payment of principal or interest in respect of the Notes. However, payments of interest on the Notes which are made or collected through Belgium, Luxembourg, Austria or any other relevant country may be subject to withholding tax which would prevent holders of the Notes from receiving interest on their Notes in full. The terms and conditions of the Notes provide that, to the extent that it is possible to do so, a paying agent will be maintained by the Issuer in a Member State that is not required to withhold tax pursuant to the directive.

Risk relating to the introduction of International Financial Reporting Standards

The Issuer's U.K. corporation tax position depends to a significant extent on the accounting treatment applicable to the Issuer. For periods of account beginning on or after 1 January 2005, the Issuer's accounts are required to comply with International Financial Reporting Standards ("**IFRS**") or with new U.K. Financial Reporting Standards reflecting IFRS ("**new U.K. GAAP**"). There is a concern that companies such as the Issuer might, under either IFRS or new U.K. GAAP, suffer timing differences that could result in profits or losses for accounting purposes, and accordingly for tax purposes, which bear little or no relationship to the company's cash position. However, the Finance Act 2005 contains legislation which allows "securitisation companies" to prepare tax computations for periods of account beginning on or after 1 January 2005 and ending before 1 January 2007 on the basis of U.K. GAAP as applicable up to 31 December 2004, notwithstanding any requirement to prepare statutory accounts under IFRS or new U.K. GAAP. The Finance Act 2005 in addition confers extensive and detailed powers on the U.K. Treasury to make regulations setting out a permanent scheme for securitisation companies. In order for a company to qualify as a securitisation company, it is necessary for the company to satisfy a number of tests as at the closing of the relevant securitisation and the results of applying those tests therefore cannot be finally determined until the Closing Date. However, the definition of "securitisation company" is designed to include companies such as the Issuer.

The stated policy of H.M. Revenue & Customs, though, is that the tax neutrality of securitisation companies in general should not be disrupted as a result of the transition to IFRS or new U.K. GAAP, and it is working with participants in the securitisation industry to establish a permanent regime that would prevent any such disruption. However, if further extensions or measures are not introduced by H.M. Revenue & Customs to deal with periods of account ending on or after 1 January 2007 or if IFRS itself is not changed in certain respects by such date, then the Issuer may be required to recognise profits or losses as a result of the application of IFRS or new U.K. GAAP which could have tax effects not contemplated in the cashflows for the transaction, and as such adversely affect the Issuer and therefore the Noteholders.

Change of Law

The structure of the Notes and the ratings which are to be assigned to the Notes are based on English law, tax, regulatory and administrative practice and, in relation to the Scottish Mortgages, Scottish law, and in relation to the Northern Irish Loans, Northern Irish law, in each case in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible changes to English law, Scottish law or Northern Irish law or administrative practice (including in relation to tax) in the United Kingdom after the date of this Offering Circular nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Notes.

Withholding Tax under the Notes

In the event that withholding taxes are imposed by or in any jurisdiction in respect of payments to Noteholders of amounts due pursuant to the Notes, neither the Issuer nor any Paying Agent nor any other person is obliged to gross up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of the imposition of such withholding taxes.

CREDIT STRUCTURE

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

	Rating		
Class of Notes	*Fitch*	*Moody's*	*Standard & Poor's*
Class A1	F1+	P-1	A-1+
Class A2a	AAA	Aaa	AAA
Class A2b	AAA	Aaa	AAA
Class B1a	AA	Aa2	AA
Class B1b	AA	Aa2	AA
Class C1a	A	A2	A
Class C1b	A	A2	A

Certain risks relating to the ratings of the Notes are described in "Risk Factors – The Issuer's ability to meet its obligations under the Notes" above. 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 (ix) 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 (ix) in 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), 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 1.86 per cent. of the aggregate of the GBP Equivalent Initial Principal Amount of the Notes as at the Closing Date for the purpose of establishing the First Loss Fund.

A "**Liquidity Amount Trigger**" will occur on any Interest Payment Date (and shall be deemed to have occurred on all following Interest Payment Dates until the redemption of the Class A Notes in full or the repayment in full of all the Mortgages) if on the immediately preceding Principal Determination Date the then aggregate outstanding balance, including arrears of interest and all other sums due and payable but unpaid (the "**Current Balance**") of Mortgages which are more than three months in arrears represents at least 7.5 per cent. of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised (in each case otherwise than as a result of the making of a Flexible Drawing Cash Advance) within the 12 months immediately preceding such time.

Once a Liquidity Amount Trigger has occurred, to the extent any Class A Note remains outstanding, the "**Liquidity Amount**" on each relevant Interest Payment Date will be equal to 1.6 per cent. of the then aggregate GBP Equivalent Principal Liability Outstanding of the Notes on the immediately preceding Principal Determination Date. At all other times, the Liquidity Amount will equal zero.

The amount by which the First Loss Fund exceeds the Liquidity Amount (the "**First Loss Liquidity Excess Amount**") will be applied by the Issuer on any Interest Payment Date towards the payment of the amounts referred to in items (i) to (ix) inclusive in the priority of payments specified under "Summary – Priority of Payments – prior to enforcement" above where the income of the Issuer,

and the amount available to the Issuer on such Interest Payment Date in the Shortfall Fund, is insufficient to pay such amounts. Following the application of the First Loss Liquidity Excess Amount, amounts remaining in the First Loss Fund (the "**Actual Liquidity Amount**") will be applied by the Issuer on any Interest Payment Date towards the payment in order of priority of:

(a) the amounts referred to in item (iii) in the priority of payments specified under "Summary – Priority of Payments – prior to enforcement" above;

(b) the amounts referred to in item (v) in the priority of payments specified under "Summary – Priority of Payments – prior to enforcement" above only if and to the extent the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, and such payments in this sub-paragraph (b) and sub-paragraph (a) above do not together exceed the sum of the aggregate GBP Equivalent Principal Liability Outstanding of the Class B Notes and the Class C Notes after the application of any amounts standing to the credit of the Revenue Ledger and the application of the First Loss Liquidity Excess Amount; and

(c) the amounts referred to in item (vii) in the priority of payments specified under "Summary – Priority of Payments – prior to enforcement" above only if and to the extent the sum of the debit balance on the Principal Deficiency Ledger, when expressed as a positive amount, and such payments in sub-paragraphs (a) and (b) above and this sub-paragraph (c) do not together exceed the sum of the aggregate GBP Equivalent Principal Liability Outstanding of the Class C Notes after the application of any amounts standing to the credit of the Revenue Ledger and the application of the First Loss Liquidity Excess Amount,

only, where the income of the Issuer, the amount available to the Issuer on such Interest Payment Date in the Shortfall Fund and the First Loss Liquidity Excess Amount is insufficient to pay such amounts.

If, after application of any funds required to be applied from the First Loss Fund 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 the Subordinated Lenders, 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. Following a Liquidity Amount Trigger, the Required Amount will be equal to the amount which is the greater of (i) the Liquidity Amount plus 1 per cent. of the GBP Equivalent Principal Liability Outstanding of the Notes on the Closing Date; and (ii) the Required Amount or the Increased Required Amount, as the case may be, had a Liquidity Amount Trigger not occurred.

3. Shortfall Fund

The Issuer may at any time, with the prior consent of the Subordinated Lenders, draw down under the Subordinated Loan Agreement for the purpose of establishing the Shortfall Fund. If at any time the relevant Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage administered by it so that the weighted average of the interest rates applicable to such 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 and all amounts recovered in respect of early redemption amounts, is less than 1.6 per cent. (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 December 2010, and 2 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case above GBP LIBOR at that time, then such 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.

In this Offering Circular, " **GBP LIBOR**" means in respect of any Interest Period the Reference Rate in respect of the GBP Notes in respect of that Interest Period as determined in accordance with Condition 4(c)(i) or, in the event that no GBP Notes are outstanding, determined by the Administrator using the same method set out in Condition 4(c)(i).

4. Transfer of Funds from the Collection Accounts

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 a 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 each Collection Account Declaration of Trust, the relevant Collection Account Holder 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 relevant Collection Account are held on trust for the Issuer until they are applied in the manner described above.

5. Principal Deficiency Ledger

The allocation of funds standing to the credit of the Transaction Account will be recorded in various ledgers, including the Principal Ledger and the Revenue Ledger, maintained by the Administrator in the Issuer's book-keeping records.

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 A2a Notes and the Class A1 Notes (in the event that the Class A1 Notes are purchased by the A1 Note Conditional Purchaser in accordance with the A1 Note Mandatory Transfer Arrangements), to pay amounts (other than Withholding Compensation Amounts or Hedge Provider Subordinated Amounts) payable to a Currency Swap Provider under the Currency Swap A1 Agreement (unless the Class A1 Notes are purchased by the A1 Note Conditional Purchaser in accordance with the A1 Note Mandatory Transfer Arrangements) or the Currency Swap A2b Agreement, each Basis Hedge Provider under the respective Basis Hedge Agreement or to any Permitted Basis Hedge Provider under any other hedging arrangements entered into by the Issuer (other than Withholding Compensation Amounts or Hedge Provider Subordinated Amounts), to pay amounts due and payable to the Flexible Drawing Facility Provider under the Flexible Drawing Facility Agreement (excluding Flexible Drawing Facility Principal Debt) 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 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 and in increasing the First Loss Fund up to the Liquidity Amount.

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 (ix) 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. The Principal Deficiency Ledger will also be credited on each occasion a Flexible Drawing Capitalised Advance is made in respect of a Flexible Mortgage, by the amount of such Flexible Drawing Capitalised Advance (see "The Mortgages – Information on the Mortgages – Flexible Mortgages" below).

If during the period immediately following an Interest Payment Date to (but excluding) the next

Principal Determination Date there is a credit balance on the Principal Deficiency Ledger and during such period there are funds from time to time standing to the credit of the Principal Ledger which are not expected to be applied in making Further Advances, such funds shall be transferred and credited to the Revenue Ledger and corresponding debits made to the Principal Deficiency Ledger until there is no longer any such credit balance on the Principal Deficiency Ledger.

Amounts may also be drawn, at the discretion of the Subordinated Lenders, 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 A Notes, the Class B Notes and the Class C Notes

Neither the Class B Noteholders nor the Class C Noteholders will 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 and the Class C Noteholders will not be entitled to receive any payment of interest unless and until all interest amounts then due to the Class B 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, the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate GBP Equivalent Principal Amount Outstanding of the Class B Notes and the Class C Notes (after deducting the amount of any Subordinated Available Redemption Funds on the Principal Determination Date relating to such Interest Payment Date), then an amount up to such excess shall be applied at item (iv) as set out under "Priority of Payments – prior to enforcement" above in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger (and the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds).

In the event that on any Interest Payment Date, while any Class B Note (irrespective of class) remains outstanding, the amount of any remaining debit balance on the Principal Deficiency Ledger (expressed as a positive sum) exceeds the aggregate GBP Equivalent Principal Amount Outstanding of the Class C Notes (after deducting an amount to be applied in the redemption of the Class C Notes on the Principal Determination Date relating to such Interest Payment Date), then an amount up to such excess shall be applied at item (vi) as set out under "Priority of Payments – prior to enforcement" above in making a provision for an amount up to, and to that extent reducing, any debit balance on the Principal Deficiency Ledger (and the amount of any such reduction will be deemed to be principal received when calculating the amount of Available Redemption Funds).

The Class A Notes (irrespective of class) will rank *pari passu* and rateably in their right to receive interest but, prior to the enforcement of the security, the Class A1 Notes will rank in priority to the Class A2 Notes in their right to receive principal. Following enforcement of the security all the Class A Notes (irrespective of class) will rank pari passu and rateably in their right to receive both interest and principal without any preference or priority. On each Interest Payment Date which occurs before a 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 in full.

On each Interest Payment Date which occurs on or after a Determination Event, provided that each of the following are satisfied ((a) and (b) together referred to as the "**Redemption Tests**"):

(a) on such Interest Payment Date, after (i) 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" above (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 Interest Payment Date, and (ii) any drawing made under the Subordinated Loan Agreement on that Interest Payment Date, there is a credit balance of zero or greater on the Principal Deficiency Ledger; and

(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 per cent. of the then Current Balances of all of the Mortgages (and for these purposes a Mortgage will be more than three months in arrears at any time if at such time amounts totalling in aggregate more than three times the then current monthly payment due from the borrower under such Mortgage have not been paid and/or have been capitalised (in each case otherwise than as a result of the making of a Flexible Drawing Advance) within the 12 months immediately preceding such time *then*:

(i) while any Class A Note remains outstanding, Available Redemption Funds will be applied in redemption of the Class A Notes (with the Class A1 Notes being redeemed in full prior to the Class A2 Notes being redeemed), the Class B Notes and the Class C Notes so that the ratio referred to under the definition of Determination Event is achieved and then maintained, provided that any Available Redemption Funds applied to redeem the Class B Notes and the Class C Notes will be applied *pro rata* and provided that the aggregate of the GBP Equivalent Principal Liability Outstanding of the Class B Notes and the GBP Equivalent Principal Liability Outstanding of the Class C Notes is greater than or equal to £47,616,783; or

(ii) if all Class A Notes have been redeemed in full (with the Class A1 Notes being redeemed prior to the A2 Notes in accordance with the "Terms and Conditions of the Notes – 5. Redemption and Purchase"), all Available Redemption Funds will be applied to redeem *pro rata* the Class B Notes and the Class C Notes.

If any of the Redemption Tests is not satisfied then all Available Redemption Funds will be applied to redeem firstly the Class A Notes in full (with the Class A1 Notes being redeemed in priority to the Class A2 Notes), secondly the Class B Notes in full and thirdly the Class C Notes in full.

Notwithstanding the foregoing, on each Interest Payment Date which occurs after the occurrence of a Determination Event, the Subordinated Available Redemption Funds (as defined in Condition 5(a)), being a specified portion of the Available Redemption Funds, will be applied in or towards mandatory redemption of the Class B Notes (after applying amounts to cover item (v) as set out under "Priority of Payments – prior to enforcement" above) and the Class C Notes (after applying amounts to cover item (vii) as set out under "Priority of Payments – prior to enforcement" above) and the Class A Available Redemption Funds (as defined in Condition 5(a)), being the remainder of the Available Redemption Funds, will be applied in mandatory redemption of the Class A Notes (with the Class A1 Notes being redeemed prior to the Class A2 Notes) until all the Class A Notes have been redeemed in full.

The Class A Notes, the Class B Notes and the Class C 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 and the Class C Notes and the Class B Notes will rank in priority to the Class C Notes.

7. Subordinated Loan Agreement

The Subordinated Lenders 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 to the Required Amount 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. Any amounts drawn will be advanced by the Subordinated Lenders in the proportions of 50 per cent. from MTS and 50 per cent. from PFPLC and repayments will be made to each Subordinated Lender pro rata to its share of any advance.

Each Subordinated Lender 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, but without prejudice thereto, the Subordinated Lenders may, at their discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances. In addition, the Subordinated Lenders may, at their 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, the Subordinated Lenders may, at their 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.

The Subordinated Lenders 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 (x) inclusive set out in "Summary – Priority of Payments – prior to enforcement" above, to pay any Hedge Provider Subordinated Amounts due and payable to any Hedge Provider on such Interest Payment Date;

(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; and

(iii) to fund (if necessary) purchases by the Issuer of amounts represented by unamortised cashbacks and discounts in relation to Mortgages by the Issuer.

Further drawings may be made by the Issuer under the Subordinated Loan Agreement, with the prior consent of the relevant Additional Subordinated Lender (1) for the purpose of establishing or increasing the Shortfall Fund, and/or (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 (to the extent that any Mortgage is converted to a Capped Rate Mortgage). The Issuer may from time to time borrow further sums from any Additional Subordinated Lender 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, while any Notes remain outstanding, no such repayment may be made if it would result in the Principal Amount Outstanding in respect of the Subordinated Loan being less than the Required Amount and provided further that each Subordinated Lender or relevant Additional Subordinated Lender and the Issuer may agree that any such repayment may be waived or deferred in whole or in part).

8. Hedging Arrangements

Each Administrator will have responsibility for setting the interest rates on the Mortgages administered by it 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 GBP Notes are calculated as a margin over LIBOR for GBP deposits as described in Condition 4.

In respect of Fixed Rate Mortgages, each 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 (to the extent that any Mortgage is converted to a Capped Rate Mortgage), 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; in respect of LIBOR-Linked Mortgages, the interest rate is set at a fixed margin over LIBOR for three month GBP deposits (determined quarterly in accordance with the Mortgage Conditions); and in respect of Base Rate Tracker Mortgages, the interest rate is set at a fixed margin over the Bank of England base rate from time to time. 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, LIBOR-Linked Mortgages and Base Rate Tracker Mortgages, on the one hand, and the rate of interest payable on the Notes on the other hand.

On the Closing Date, the Issuer will have entered into hedging arrangements under the Basis Hedge Agreements, in accordance with the requirements of the Rating Agencies, to hedge any Fixed Rate Mortgages which were acquired by it on the Closing Date. In addition, in relation to any Fixed Rate Mortgages or Capped Rate Mortgages (to the extent that any Mortgage is converted to a Capped Rate Mortgage) which arise upon conversion of any Mortgages subsequent to the Closing Date, the Issuer will be obliged to enter into additional hedging arrangements if not to do so would adversely affect any of the then current ratings of the Notes.

The Issuer will pay interest and principal on the EUR Notes in EUR and the USD Notes in USD (unless and until the Class A1 Notes are purchased by the A1 Note Conditional Purchaser in accordance with the A1 Note Mandatory Transfer Arrangements). However, payments of interest and principal by borrowers under the Mortgages to the Issuer will be made in GBP. In addition, the EUR Notes will bear interest at rates based on margins over EURIBOR and the USD Notes will bear interest at rates based on margins over LIBOR for USD deposits as determined in accordance with Condition 4. In order to hedge against its exposure to the relevant interest rates being calculated by reference to EURIBOR and LIBOR for USD deposits and its currency exchange rate exposure in respect of the EUR Notes and the USD Notes, on or prior to the Closing Date the Issuer and the Currency Swap Provider will enter into the Currency Swap Agreements (comprising the Currency Swap A1 Agreement, the Currency Swap A2b Agreement, the Currency Swap B1b Agreement and the Currency Swap C1b Agreement).

See "The Issuer – Hedging Arrangements" below for further information on aspects of the Issuer's hedging arrangements.

9. Pre-Funding Reserve

On or prior to the first Principal Determination Date following the Closing Date, the Issuer will be entitled to apply any amount standing to the credit of the Pre-Funding Reserve Ledger of the Transaction Account in purchasing Non-Verified Mortgages if and to the extent that the Issuer is permitted to do so by, and in accordance with, the Mortgage Sale Agreement and the Administration Agreement. In particular, any such purchase of Non-Verified Mortgages will require the confirmation from the Rating Agencies, that such purchase will not adversely affect any of the then current ratings of the Notes.

Any outstanding balance in the Pre-Funding Reserve Ledger as at the first Principal Determination Date (taking into account any debits made on that ledger on such date) will be credited on that Principal Determination Date to the Principal Ledger and will be taken into account when determining the Available Redemption Funds in respect of the first Interest Payment Date.

10. Flexible Drawing Facility

On or about the Closing Date the Issuer will enter into the Flexible Drawing Facility Agreement with the Flexible Drawing Facility Provider. Under the terms of the Flexible Drawing Facility Agreement, the Flexible Drawing Facility Provider will make available a Flexible Drawing Facility which may be utilised by the Issuer on any date from time to time to fund Flexible Drawing Advances with respect to Flexible Mortgages beneficially owned by the Issuer to the extent that there are no Available Redemption Funds or amounts drawn by the Issuer (the Issuer being obliged to apply for such a drawing) under the Subordinated Loan Agreement for such purpose.

The "**Flexible Drawing Facility Limit**" means £5,750,000 except that on any Interest Payment Date it shall be the greater of (i) 5 per cent. of the aggregate of the Flexible Mortgage Maximum Balance at the immediately preceding Interest Payment Date, (ii) £2,300,000 and (iii) the maximum amount which the Flexible Drawing Facility Limit has been on any Interest Payment Date on or after the date upon which the Flexible Drawing Facility is first drawn. Notwithstanding the foregoing, any variation of the Flexible Drawing Facility Limit shall require that the Rating Agencies have given prior written confirmation that such variation will not adversely affect the then current ratings of the Notes. The Flexible Drawing Facility Provider will not be obliged by any party to advance funds on any Interest Payment Date beyond such maximum amount.

The maximum amount that can be drawn on any Business Day under the Flexible Drawing Facility is the then "**Flexible Drawing Facility Available Amount**", being the lower of (a) the then Flexible Drawing Facility Limit less the aggregate amount of each advance (each a " **Flexible Drawing**

Facility Advance" which expression shall include each amount at that time which has been debited to the Flexible Drawing Facility Ledger and is to be treated as a drawing under the Flexible Drawing Facility) then outstanding under the Flexible Drawing Facility; and (b) the then aggregate Principal Amount Outstanding of the Class A Notes. The Flexible Drawing Facility Provider will not be obliged to advance funds on any date beyond such Flexible Drawing Facility Available Amount.

The commitment of the Flexible Drawing Facility Provider under the Flexible Drawing Facility will expire on the earlier of (a) the Interest Payment Date falling in June 2041, (b) the date the Class A Notes are redeemed in full, and (c) enforcement of the Security in accordance with the Deed of Charge unless cancelled on an earlier date pursuant to the provisions of the Flexible Drawing Facility Agreement.

On any Interest Payment Date (a) principal outstanding in respect of all Flexible Drawing Facility Advances will be repaid to the extent that funds standing to the credit of the Principal Ledger are to be applied on such Interest Payment Date in accordance with Condition 5(a) in such repayment and paid directly to the Flexible Drawing Facility Provider, and (b) all other amounts (other than Flexible Drawing Facility Principal Debt) due and payable to the Flexible Drawing Facility Provider under the Flexible Drawing Facility Agreement on such Interest Payment Date shall be paid to the extent that funds are to be applied for such purpose in accordance with the Deed of Charge (see "Summary – Priority of Payments – prior to enforcement" above).

If at any time the short term unsecured, unguaranteed and unsubordinated debt rating of the Flexible Drawing Facility Provider falls below F1+ from Fitch, P-1 from Moody's or A-1+ from S&P (unless the applicable Rating Agency confirms in writing that such event would not cause it to downgrade the then current rating of the Notes) (the "**Flexible Drawing Facility Provider Required Rating**") and the Flexible Drawing Facility Provider is not replaced by a suitable Flexible Drawing Facility Provider with the Flexible Drawing Facility Provider Required Rating within 30 days of such downgrade, the Issuer shall request an advance equal to the then Flexible Drawing Facility Available Amount and shall pay such advance into the Transaction Account and shall establish and credit such amount to a ledger in the Issuer's accounting books (the "**Flexible Drawing Facility Ledger**"). In that event drawings and repayment of drawings in respect of the Flexible Drawing Facility shall be by means of debits and credits to the Flexible Drawing Facility Ledger until such time (if any) that the Flexible Drawing Facility Provider subsequently obtains the Flexible Drawing Facility Provider Required Rating again or is replaced by a suitable Flexible Drawing Facility Provider with the Flexible Drawing Facility Provider Required Rating.

11. The A1 Note Mandatory Transfer Arrangements

Introduction

The Class A1 Notes are intended to constitute 'eligible securities' for purchase by money market funds ("**MMFs**") under Rule 2a-7 of the Investment Company Act of 1940, as amended (the "**1940 Act**") and are sold subject to the A1 Note Mandatory Transfer Arrangements referred to in Condition 5(i). MMFs are open-ended management companies registered under the 1940 Act. Rule 2a-7 contains various conditions intended to maintain the quality of securities held by an MMF including the condition in Rule 2a-7(c)(2)(i) that an MMF may not purchase any instrument with a remaining maturity of greater than 397 calendar days (approximately 13 months).

Remarketing Mechanism

Under the terms of the A1 Note Mandatory Transfer Arrangements, the Class A1 Noteholders will be obliged to transfer and the Issuer will be obliged to procure the purchase of the Class A1 Notes annually on each A1 Note Mandatory Transfer Date (the "**Mandatory Transfer**"). Subject to the conditions outlined below, the Class A1 Notes will, in the first instance, be purchased by third parties through the Remarketing Agent or purchased by the A1 Note Conditional Purchaser by default.

Under the Remarketing Agreement, the Issuer will appoint the Remarketing Agent to identify third party purchasers for the Class A1 Notes on any A1 Note Mandatory Transfer Date subject to a Remarketing Termination Event not having occurred. However, if a Remarketing Termination Event (other than an Event of Default under the Notes) occurs on or before any A1 Note Mandatory Transfer Date, the A1 Note Conditional Purchaser will be obliged to purchase all the Class A1 Notes outstanding on such A1 Note Mandatory Transfer Date at the A1 Note Mandatory Transfer Price

unless an A1 Note Conditional Purchase Termination Event has occurred prior to the A1 Note Mandatory Transfer Date. If the Remarketing Termination Event is caused by the Liquidity Providers' commitments not being renewed in respect of the period up to the next A1 Note Mandatory Transfer Date, the A1 Note Conditional Purchaser may draw the then committed funds under the Revolving Asset Purchase Agreement to enable it to purchase the Class A1 Notes.

If the Remarketing Agent is unable to identify third party purchasers for all the Class A1 Notes then outstanding or if the Reset Margin determined by the Remarketing Agent in accordance with the following section would, if implemented, be greater than the Maximum Reset Margin, the A1 Note Conditional Purchaser, on receipt of notice from the Remarketing Agent on behalf of the Issuer, will be required to purchase all the Class A1 Notes outstanding on such A1 Note Mandatory Transfer Date at the A1 Note Mandatory Transfer Price.

Once the A1 Note Conditional Purchaser has purchased all the Class A1 Notes outstanding on a particular A1 Note Mandatory Transfer Date, the Class A1 Notes will not be remarketable by the A1 Note Conditional Purchaser and will be retained by the A1 Note Conditional Purchaser until redeemed. All principal monies and interest due in respect of the Class A1 Notes after such purchase will be made in GBP and calculated on the basis of a fixed rate of exchange as set out in the A1 Note Conditional Purchase Agreement.

However, purchase of the Class A1 Notes by the A1 Note Conditonal Purchaser is ultimately subject to limitations on its ability to fund its obligations as set out in "**Risks Related to the A1 Note Mandatory Transfer Arrangements**".

Margin Setting

The Remarketing Agent may increase or decrease the margin on the Class A1 Notes from that payable as at the Closing Date. Such increase or decrease may apply from the A1 Note Mandatory Transfer Date falling on 15 September 2006 in accordance with the Remarketing Agreement.

Five Business Days prior to each A1 Note Mandatory Transfer Date, while the A1 Note Mandatory Transfer Arrangements are in place, the Administrator will, on behalf of the Issuer, have determined the amount of Class A Available Redemption Funds and will notify the Remarketing Agent and/or the A1 Note Conditional Purchaser of the estimated amount that will, following application of the Class A Available Redemption Funds, be the Principal Amount Outstanding of the Class A1 Notes on such A1 Note Mandatory Transfer Date.

In respect of any A1 Note Mandatory Transfer Date, if none of the termination events described below has occurred, the Remarketing Agent will seek bids from investors for the margin to apply to the Class A1 Notes from such A1 Note Mandatory Transfer Date. If there are one or more third parties willing to purchase in aggregate all the outstanding Class A1 Notes, the margin on all of the Class A1 Notes will be reset at the percentage margin at which the Remarketing Agent is able to sell on the Class A1 Notes (the "**Reset Margin**")). Details of the Reset Margin will be notified to the Tender Agent and the Principal Paying Agent at least three Business Days prior to the relevant A1 Note Mandatory Transfer Date.

The Reset Margin will not exceed the Maximum Reset Margin, as defined in the Conditions to the Notes, however, if the Reset Margin determined by the Remarketing Agent would, if implemented, be greater than the Maximum Reset Margin, then all the outstanding Class A1 Notes will require to be purchased by the A1 Note Conditional Purchaser.

If the Class A1 Notes are purchased by the A1 Note Conditional Purchaser, the margin on the Class A1 Notes will be reset to the sum of the applicable reference rate, which is three month GBP LIBOR, plus the Maximum Reset Margin. If an A1 Note Conditional Purchase Termination Event occurs, the margin will be reset to the Maximum Reset Margin.

Arrangements for Transfer

Under the A1 Note Mandatory Transfer Arrangements, upon payment to the then Class A1 Noteholders of the A1 Note Mandatory Transfer Price, all rights in respect of the Class A1 Notes will be transferred as directed by the Remarketing Agent, or to or for the account of the A1 Note Conditional Purchaser.

Appointment of Tender Agent

To facilitate the transfer of interests in the Class A1 Notes as part of the A1 Note Mandatory Transfer Arrangements, the Tender Agent will arrange delivery and payment by and to the A1 Noteholders on the relevant A1 Note Mandatory Transfer Date. No further action will be required by the Class A1 Noteholders for the transfer of the Class A1 Notes.

Termination of Mandatory Transfer obligations

However, in general, there shall be no Mandatory Transfer on any A1 Note Mandatory Transfer Date if:

(a) the Class A1 Notes are fully redeemed or if any Event of Default under the Notes has occurred on or prior to such A1 Note Mandatory Transfer Date and is continuing; or

(b) an A1 Note Conditional Purchase Termination Event has occurred prior to the A1 Note Mandatory Transfer Date. If this occurs, the A1 Note Conditional Purchaser shall be released from its obligation to purchase Class A1 Notes, the Issuer shall be released from its obligation to procure the purchase of the Class A1 Notes and the then Class A1 Noteholders will be released from their obligation to sell the Class A1 Notes on that A1 Note Mandatory Transfer Date. The Class A1 Notes will then not be eligible for purchase by MMFs under Rule 2a7 of the 1940 Act from the previous A1 Note Mandatory Transfer Date; or

(c) an A1 Note Mandatory Transfer Termination Event has occurred. If this occurs and an A1 Note Conditional Purchaser Confirmation has been given, the Issuer will not be obliged to procure the purchase of the Class A1 Notes on any subsequent A1 Note Mandatory Transfer Date and the Remarketing Agent will not be obliged to further remarket the Class A1 Notes.

Given that various circumstances may occur on or prior to an A1 Note Mandatory Transfer Date, there can be no assurance that the Class A1 Notes will be remarketed.

For the purposes of this section:

"**A1 Note Conditional Purchase Agreement**" means the agreement between the A1 Note Conditional Purchaser, the Issuer and others under which the A1 Note Conditional Purchaser purchases the Class A1 Notes on each A1 Note Mandatory Transfer Date;

"**A1 Note Conditional Purchaser**" means Sheffield Receivables Corporation;

"**A1 Note Conditional Purchaser Confirmation**" means confirmation to the Issuer, the Administrator and the Principal Paying Agent by the Remarketing Agent or Tender Agent that the interests in the Class A1 Notes has been transferred to the name or account of, or on behalf of, the A1 Note Conditional Purchaser;

"**A1 Note Conditional Purchase Termination Event**" means that the A1 Note Conditional Purchaser is unable to raise funds under (a) the Sheffield Administration Agreement and (b) the Revolving Asset Purchase Agreement, to purchase the Class A1 Notes (see *Risks related to the A1 Note Mandatory Transfer Arrangements*).

"**A1 Note Mandatory Transfer Arrangements**" means the arrangements in respect of the annual mandatory transfer of the Class A1 Notes in accordance with the A1 Note Conditional Purchase Agreement, the Remarketing Agreement and the Trust Deed;

"**A1 Note Mandatory Transfer Date**" means each Payment Date falling on 15 September annually and commencing on 15 September 2006;

"**A1 Note Mandatory Transfer Price**" means the amount of the payment to the A1 Noteholders on the relevant A1 Note Mandatory Transfer Date constituting the Principal Amount Outstanding on the Class A1 Notes on that date (following application of the Class A Available Redemption Funds on that date and without prejudice to the Issuer's obligations to make payments on the Class A1 Notes on that date) (except to the extent that the Class A1 Notes are purchased by the A1 Note Conditional Purchaser where the A1 Note Mandatory Transfer Price shall be the GBP Equivalent of such amount);

"**A1 Note Mandatory Transfer Termination Event**" means the A1 Note Conditional Purchaser has purchased all the Class A1 Notes under the terms of the A1 Note Mandatory Transfer Arrangements and an A1 Note Conditional Purchaser Confirmation has been given;

"**Liquidity Providers**" means one or more financial or other institutions which enter into the Revolving Asset Purchase Agreement on or before the Closing Date with the A1 Note Conditional Purchaser;

"**Maximum Reset Margin**" means 0.09 per cent. per annum;

"**Remarketing Agent**" means Barclays Bank PLC;

"**Remarketing Agreement**" means the agreement dated on or around the Closing Date between the Issuer and Barclays Bank PLC whereby Barclays Bank PLC is appointed as Remarketing Agent;

"**Remarketing Termination Event**" means:

(a) an Event of Default under the Notes has occurred and is continuing;

(b) there has been an event beyond the control of the Remarketing Agent or Issuer which means that it is unable to perform its obligations under the Remarketing Agreement;

(c) the Issuer is in material breach of any representations and warranties given by it in the A1 Note Conditional Purchase Agreement as at the Closing Date;

(d) the A1 Note Conditional Purchaser's liquidity arrangements have expired and no new liquidity arrangements have been made by the A1 Note Conditional Purchaser on a similar basis up to and including the next A1 Note Mandatory Transfer Date, as evidenced by a notice to such effect from the A1 Note Conditional Purchaser or its administrative agent;

(e) the Issuer and Remarketing Agent have agreed not to remarket the Class A1 Notes because to do so would be unfeasible, unduly burdensome or uneconomic for the Issuer.

and, in the case of (a) to (c) above, the Remarketing Agent has delivered a termination notice to the Issuer, the Administrator, the Tender Agent and the Principal Paying Agent;

"**Revolving Asset Purchase Agreement**" means the revolving asset purchase agreement between the A1 Note Conditional Purchaser and the Liquidity Providers under which the A1 Note Conditional Purchaser will raise funds to pay the required part of the A1 Note Mandatory Transfer Price and acquire the Class A1 Notes;

"**Sheffield Administration Agreement**" means the existing programme administration agreement whereby the A1 Note Conditional Purchaser issues commercial paper in order to raise the necessary funds to purchase the Class A1 Notes;

"**Tender Agent**" means Citibank N.A., London branch.

DESCRIPTION OF THE NOTES AND THE SECURITY

The issue of the Notes is and will be authorised by resolutions of the Board of Directors of the Issuer passed on or about 11 November 2005. The 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 Noteholders (as defined in Condition 1(a)). The proceeds of the Notes will be applied by the Issuer as described in "Use of Proceeds" below.

The statements set out below include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Deed of Charge to be entered into by the Issuer, the Trustee, PFPLC, PML, MTL, MTS, the Issue Services Provider, the Flexible Drawing Facility Provider, the Subordinated Lenders, GHL Mortgage Services Limited (the "**Substitute Administrator**"), the Currency Swap Provider and the Basis Hedge Providers (the "**Deed of Charge**"). Certain words and expressions used below have the meanings defined in the Trust Deed or the Deed of Charge.

The Noteholders will be entitled to the benefit of, will be bound by, and will be deemed to have notice of, all the provisions of the Trust Deed and the Deed of Charge 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.

Certain United States legal investment considerations

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any state of the United States or any other relevant jurisdiction. For certain restrictions on resales, see "Restrictions on Purchase and Transfer of the Notes".

Each GBP Note and EUR Note is being offered solely outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") to non-U.S. Persons in offshore transactions (as defined in Regulation S).

Each USD Note is being offered solely (a) outside the United States in reliance on Regulation S to non-U.S. Persons in such offshore transactions or (b) within the United States in reliance on Rule 144A under the Securities Act ("**Rule 144A**") only to qualified institutional buyers as defined therein ("**qualified institutional buyers**").

The Class A1 Notes are intended to qualify as "eligible securities" for purchase by money market funds under Rule 2a-7 of the Investment Company Act. However, any determination as to such qualification and compliance with other aspects of Rule 2a-7 is solely the responsibility of each money market fund and its investment adviser. The Class A1 Notes will also be sold subject to the A1 Note Mandatory Transfer Arrangements.

Form of Notes – Global Notes in fully registered form

Global Notes representing the Rule 144A Notes

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

Global Notes representing the Reg S Notes

Notes sold to non-U.S. Persons outside the United States in reliance on Regulation S will be represented by one or more permanent global notes in fully registered form without interest coupons (each such global note in relation to a class of those Notes being a "**Global Reg S Note**").

The Global Rule 144A Notes together with the Global Reg S Notes are the "**Global Notes**". Save in certain limited circumstances, Notes in definitive form will not be issued in exchange for the Global Notes (see "Issue of Notes in Definitive Form" below). The Trust Deed will include the form of the Global Notes and the Definitive Notes.

Initial principal amount of Global Notes and denomination

The Initial Principal Amount of each Global Reg S Note relating to a class of the GBP Notes or the EUR Notes will equal the aggregate initial principal amount of each Note in the class of Notes represented by that Global Reg S Note. The Initial Principal Amount of each Global Rule 144A Note and the Initial Principal Amount of its related Global Reg S Note will in aggregate equal the aggregate initial principal amount of each Note in the class of Notes represented by that Global Rule 144A Note and Global Reg S Note.

The "**USD Notes**" (being the Class A1 Notes) are issued in minimum denominations of $100,000, the "**GBP Notes**" (being the Class A2a Notes, the Class B1a Notes and the Class C1a Notes) are issued in minimum denominations of £50,000, and the "**EUR Notes**" (being the Class A2b Notes, the Class B1b Notes and the Class C1b Notes) are issued in minimum denominations of €50,000. Each holding of Notes must be an integral multiple $100,000 in the case of USD Notes, £50,000 in the case of GBP Notes and €50,000 in the case of EUR Notes and, in each case, for not less than the relevant minimum denomination.

Deposit of Global Notes in Clearing Systems

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

Each Global Reg S Note is expected to be deposited with, and registered in the name of, or a nominee of, Citibank, N.A., London Branch as common 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**" and together with Euroclear and DTC, the "**Clearing Systems**") on the Closing Date.

The following table indicates the Clearing System in which each Global Note will be deposited on the Closing Date:

	Clearing System(s)
Global A1 Rule 144A Note	DTC
Global A1 Reg S Note	Euroclear and Clearstream, Luxembourg
Global A2a Reg S Note	Euroclear and Clearstream, Luxembourg
Global A2b Reg S Note	Euroclear and Clearstream, Luxembourg
Global B1a Reg S Note	Euroclear and Clearstream, Luxembourg
Global B1b Reg S Note	Euroclear and Clearstream, Luxembourg
Global C1a Reg S Note	Euroclear and Clearstream, Luxembourg
Global C1b Reg S Note	Euroclear and Clearstream, Luxembourg

Upon deposit of a Global Note in a Clearing System, the relevant Clearing System will credit each subscriber of the Notes represented by that Global Note with the principal amount of Notes for which that subscriber has subscribed and paid. The accounts to be credited shall be designated by the Lead Managers.

DTC

DTC has advised the Issuer as follows: DTC is a limited-purpose trust company organised under the New York Banking Law, a "banking organisation" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). DTC was created to hold securities of its participants and to facilitate the clearance and settlement of transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations, some of whom (and/or their representative) own DTC.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg have advised the Issuer as follows: Euroclear and Clearstream, Luxembourg each hold securities for their account holders and facilitate the clearance and settlement of

securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for physical movements of certificates and any risk from lack of simultaneous transfers of securities. Euroclear and Clearstream, Luxembourg each provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg each also deal with domestic securities markets in several countries through established depository and custodial relationships. The respective systems of Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective account holders may settle trades with each other. Account holders in both Euroclear and Clearstream, Luxembourg are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to both Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system. An account holder's overall contractual relations with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under such rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective account holders.

Notices to Noteholders may be made to the Clearing System

Any notice to Noteholders in respect of Notes represented by Global Notes shall be deemed to have been duly given if sent to DTC, Euroclear and/or Clearstream, Luxembourg (as applicable) and shall be deemed to have been given on the date on which such notice was so sent.

Clearance and settlement of transfers of interests in Global Notes

Title to the Global Notes and, if issued, any Definitive Notes (see "Issue of Notes in Definitive Form" below) will pass by transfer and registration as described in Condition 1 ("Issue, Form, Denomination and Title"). **Restrictions on the offer, sale, purchase, resale, pledge or transfer of Notes are described in "Restrictions on Purchase and Transfer of the Notes" below**.

Holding of beneficial interests in Global Notes

Ownership of beneficial interests in the Global Notes will be limited to persons that have accounts with a Clearing System ("**participants**") or persons that hold interests in the Global Notes through participants ("**indirect participants**"), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearing System, either directly or indirectly. Indirect participants shall also include persons that hold beneficial interests through such indirect participants. Euroclear, Clearstream, Luxembourg and DTC, as applicable, will credit the participants' accounts with the respective amount of Notes beneficially owned by such participants on each of their respective book-entry registration and transfer systems.

Investors may hold beneficial interests in respect of a Global Rule 144A Note directly through DTC (if they are participants in such system), or indirectly through organisations which are participants in such system. All beneficial interests in a Global Rule 144A Note will be subject to the procedures and requirements of DTC.

Investors may hold beneficial interests in respect of a Global Reg S Note directly through Euroclear or Clearstream, Luxembourg, if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. After the expiration of the Distribution Compliance Period (as defined below) but not earlier, investors may also hold such beneficial interests through organisations, other than Euroclear or Clearstream, Luxembourg, that are participants in the DTC system. Euroclear and Clearstream, Luxembourg will hold beneficial interests in each Global Reg S Note on behalf of their account holders through securities accounts in the respective account holders' name on Euroclear's and Clearstream, Luxembourg's respective book-entry registration and transfer system.

Beneficial interests in the Global Notes will be shown on, and transfers of book-entry interests or the interest therein will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg or DTC (with respect to the interests of their participants) and on the records of participants or indirect participants (with respect to the interests of their indirect participants).

Except as described below under "Issue of Notes in Definitive Form", participants or indirect participants in a Clearing System will not be entitled to have Notes registered in their names, will not receive or be

entitled to receive physical delivery of Notes in definitive form and will not be considered the holders thereof under the Trust Deed or the Notes. Such participants or indirect participants in a Clearing System will have no rights under the Trust Deed with respect to the Global Reg S Notes and the Global Rule 144A Notes held on their behalf by the Custodian (with respect to the Global Rule 144A Notes) and by the Common Depositary for Euroclear and Clearstream, Luxembourg (with respect to the Global Reg S Notes) and by DTC (with respect to the Global Rule 144A Notes) and the Common Depositary for Euroclear and Clearstream, Luxembourg (with respect to the Global Reg S Notes) may be treated by the Issuer, the Trustee and any agent of the Issuer or the Trustee as the holder of such Global Reg S Notes or Rule 144A Global Notes, as the case may be, for all purposes whatsoever. Accordingly, each person holding a beneficial interest in the Global Notes must rely on the rules and procedures of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and indirect participants must rely on the procedures of the participants or indirect participants through which such person owns its interest in the relevant Global Notes, to exercise any rights and obligations of a holder of Notes under the Trust Deed.

The Issuer understands that, under existing industry practices, if either the Issuer or the Trustee requests any action of owners of beneficial interests in Global Notes or if an owner of a beneficial interest in a Global Note desires to give instructions or take any action that a holder is entitled to give or take under the Trust Deed, Euroclear, Clearstream, Luxembourg or DTC, as the case may be, would authorise the participants owning the relevant beneficial interest in the Global Note to give instructions or take such action, and such participants would authorise indirect participants to give or take such action or would otherwise act upon the instructions of such indirect participants.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Global Rule 144A Notes for exchange) only at the direction of a participant in DTC to whose account with DTC interests in the relevant Global Rule 144A Note are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which that participant in DTC has given such direction.

Procedures applicable to transfers of beneficial interests in Global Notes

For so long as a Note is represented by a Global Note, permitted transfers of such Note and beneficial interests in that Note will be subject to and effected in accordance with the rules and procedures for the time being of Euroclear, Clearstream, Luxembourg or DTC, as appropriate.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC's rules and will be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to Notes under "Restrictions on Purchase and Transfer of the Notes", cross-market transfers between DTC, on the one hand, and, directly or indirectly through Euroclear or Clearstream, Luxembourg, or their respective participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be; however, these cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in the system in accordance with its rules and procedures and within its established deadlines (Brussels time). Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to the Common Depositary to take action to effect final settlement on its behalf by delivering or receiving interest in a Global Reg S Note in DTC, and making or receiving payment in accordance with normal procedures for immediately available funds settlement applicable to DTC. Participants in Euroclear or Clearstream, Luxembourg may not deliver instructions directly to the Common Depositary.

Because of time zone differences, the securities account of a participant in Euroclear or Clearstream, Luxembourg purchasing an interest in a Global Note from a participant in DTC will be credited during the securities settlement processing day (which must be a business day for Euroclear and Clearstream, Luxembourg) immediately following the DTC settlement date and the credit of any transaction in respect of interests in a Global Note settled during the processing day will be reported to the relevant participant in Euroclear or Clearstream, Luxembourg, as the case may be, on that day. Cash received by Euroclear or Clearstream, Luxembourg as a result of sale interests in a Global Note by or through a participant in Euroclear or Clearstream, Luxembourg to a participant in DTC will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day following settlement in DTC.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of beneficial interests in the Global Notes among participants of DTC and account holders of

Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants or account holders of their respective obligations under the rules and procedures governing their operations.

No service charge will be made for any registration of transfer or exchange of Notes of any class, but the Issuer and the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Procedures for payments in respect of the Notes

Agency Agreement

Each payment of principal and interest in respect of the Notes shall be made 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., London Branch as principal paying agent (the "**Principal Paying Agent**", which expression shall include its successors as principal paying agent under the Agency Agreement), as reference agent (the "**Reference Agent**", which expression shall include its successors as reference agent under the Agency Agreement), as registrar for the Notes (the "**Registrar**" which expression shall include its successors as registrar under the Agency Agreement) and Citibank, N.A., New York Branch as U.S. paying agent (the "**US Paying Agent**", which expression shall include its successors as U.S. paying agent under the Agency Agreement). The Agency Agreement shall include provision for the appointment of further paying agents (together with the Principal Paying Agent and US 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 Notes will be made by the Paying Agents and the Reference Agent will make the determinations therein specified.

Payments in respect of the Global Notes

Principal and interest on each Note represented by a Global Note will be payable to the registered owner of that Global Note and such registered owner will be the only person entitled to receive payments in respect of that Note and the Issuer will be discharged by payment to, or to the order of the registered owner of that Global Note in respect of each amount so paid. No person other than the registered owner of the Global Notes representing a Note shall have any claim against the Issuer in respect of any payment due on that Note.

While a Note is represented by a Global Note, each payment in respect of that Note will be made via the Paying Agents to the relevant Holder (as defined in Condition 1(d)) (or its nominee) of that Global Note.

The Issuer expects that in accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment in respect of a Global Reg S Note held by the Common Depositary for Euroclear and Clearstream, Luxembourg, the respective systems will, in accordance with their rules and procedures, promptly credit their participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Reg S Note as shown in the records of Euroclear or of Clearstream, Luxembourg. The Issuer expects that in the case of DTC, upon receipt of any payment in respect of the Global Rule 144A Note, DTC will, in accordance with its rules and procedures, promptly credit its participants' accounts with payments in amounts proportionate to their respective beneficial interests in such Global Rule 144A Note as shown on the records of DTC or its nominee. None of the Issuer, the Trustee, any Manager, any Paying Agent and any of their respective agents will have any responsibility or liability for any aspect of the records of the Clearing Systems relating to or payments or credits made by the Clearing Systems on account of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records of the Clearing Systems relating to those beneficial interests.

The Issuer also expects that payments by participants to owners of beneficial interests in a Global Note held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers registered in "street name" or in the names of nominees for such customers. Such payments will be the responsibility of such participants or indirect participants. None of the Issuer, the Trustee, any Manager, any Paying Agent and any of their respective agents will have any responsibility or liability for any aspect

of the records relating to or payments made on account of a participant's ownership of beneficial interests in such Global Notes or for maintaining, supervising or reviewing any records relating to a participant's ownership of beneficial interests in such Global Notes.

A record of each payment made on a Global Note, distinguishing between any payment of principal and/or payment of interest, will be recorded in the Register in respect of such Global Note by the Registrar and such record shall be *prima facie* evidence that the payment in question has been made.

Issue of Notes in Definitive Form

If (i) in the case of a Global Reg S Note, 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 (ii) in the case of a Global Rule 144A Note, DTC has notified the Issuer that it is at any time unwilling or unable to continue as the holder with respect to that Global Rule 144A Note, or is at any time unwilling or unable to continue as, or ceases to be a "clearing agency" (as defined in the Exchange Act) registered under the Exchange Act and a successor to DTC registered as such a clearing agency is not appointed by the Issuer within 90 days of such notification or cessation; or (iii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision 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 the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of a Note which would not be required were that Note in definitive physical registered form, then the Issuer will (at the Issuer's expense) issue Notes in definitive physical registered form (each a "**Definitive Note**") in exchange for the whole outstanding interest in the relevant Global Reg S Note (in the case of (i) or (iii) above) or the relevant Global Rule 144A Note (in the case of (ii) or (iii) above) within 30 days of the occurrence of the relevant event but in any event not prior to the expiry of the Distribution Compliance Period.

Security

The security for the 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 Noteholders:

(1) a sub-charge over the Mortgages (including any Non-Verified Mortgages) which comprise English Mortgages and Northern Irish Mortgages and an assignation in security of the Issuer's interest in the Mortgages which comprise Scottish Mortgages (consisting of the Issuer's beneficial interest under the trusts declared by the Originators pursuant to the Scottish Declarations of Trust) purchased by the Issuer from any Seller 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 Flexible Drawing Facility Agreement, 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 Declarations of Trust, under the Cross-collateral Mortgage Rights Deed, under the Subscription Agreement, under each Currency Swap Agreement, under the Basis Hedge Agreement and under any Caps or other hedging arrangements entered into by the Issuer and under the Remarketing Agreement and the A1 Note Conditional Purchase Agreement;

(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 (the "**Floating Charge**") (ranking behind the claims of certain preferential creditors) over the undertaking and all the assets of the Issuer which are not already subject to fixed security but extending over all the Issuer's undertaking and all the assets of the Issuer as are situated in Scotland or governed by Scots law.

The assets of the Issuer, which will constitute the security for the Notes, are referred to as the "**Security**". The Security will also stand as security for any amounts payable by the Issuer to any Receiver, the Trustee, the Substitute Administrator, PML, PFPLC, MTL, MTS, the Issue Services Provider, the Flexible Drawing Facility Provider, the Subordinated Lenders, any Additional Subordinated Lender, the Currency Swap Provider, each Basis Hedge Provider and each Permitted Basis Hedge 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 Flexible Drawing Facility Agreement, the Subordinated Loan Agreement, each Currency Swap Agreement, the Basis Hedge Agreement and each Permitted Basis Hedge 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.

Certain provisions of "**Recent Insolvency Legislation**" (comprising the Enterprise Act 2002, the Insolvency Act 2000 and the subordinate legislation made pursuant to those Acts) which, among other things, amended the corporate insolvency provisions of the Insolvency Act 1986, will apply to aspects of the Deed of Charge and the security created by the Issuer pursuant to the Deed of Charge. In particular: (a) if and when the applicable conditions in the Deed of Charge which entitle the Trustee to appoint an administrative receiver are satisfied, the Recent Insolvency Legislation preserves the Trustee's entitlement to make such an appointment, (b) the Recent Insolvency Legislation requires that up to £600,000 of enforcement realisations under the Floating Charge in respect of net property (being the amount of the Issuer's property which could be available for satisfaction of debts due to the holder(s) of any debenture secured by the Floating Charge) shall be made available for the satisfaction of the Issuer's unsecured debts (if any) in priority to the liabilities secured by the Floating Charge, and (c) the Issuer is exempt from the provisions of the Recent Insolvency Legislation which enable directors of a "small" company to obtain a moratorium for the company where those directors propose a company voluntary arrangement.

The corporate insolvency provisions of the Enterprise Act 2002 do not apply in Northern Ireland and the current law is contained in the Insolvency (Northern Ireland) Order 1989 as amended by the Insolvency (Northern Ireland) Order 2002. In 2004, however, the Department of Enterprise Trade and Investment issued a draft Insolvency (Northern Ireland) Order and invited responses (with a deadline for responses of 29 October 2004) on proposals to implement in Northern Ireland corporate insolvency provisions which are likely to be identical to those introduced by the provisions of the Enterprise Act 2002 in England, Wales and Scotland. It is likely that such provisions will be introduced in Northern Ireland during 2006. The changes introduced in England, Wales and Scotland by the Insolvency Act 2000 in relation to "small" companies are mirrored in the Insolvency (Northern Ireland) Order 2002.

The Deed of Charge is governed by English law other than (a) 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, and (b) such provisions thereof relating to the Northern Irish Mortgages and their collateral security as are particular to Northern Irish law, which shall be construed in accordance with Northern Irish law.

RESTRICTIONS ON PURCHASE AND TRANSFER OF THE NOTES

Because of the restrictions applicable to each Note (the "**Transfer Regulations**"), purchasers are advised to consult legal counsel prior to making any offer, sale, purchase, resale, pledge or transfer of the Notes.

The Notes have not been registered under the Securities Act or any United States state securities or "Blue Sky" laws or the securities laws of any other jurisdiction and, accordingly, may not be reoffered, resold, pledged or otherwise transferred except in accordance with the restrictions set forth in the Trust Deed and described under "Important Notice" above.

Certain restrictions in relation to the Notes

Transfers of Notes and interests in the Notes are subject to certain restrictions. A person acquiring a beneficial interest in a Note will be deemed to have made certain representations relating to compliance with all applicable securities, ERISA (as defined below) and tax laws (see "Representations and agreements by Note Purchasers" below) and shall be deemed to have agreed to be bound by the transfer restrictions applicable to such Note and may be requested to agree in writing to be so bound.

In particular, to enforce the Transfer Regulations in relation to interests in any Global Note, the Trust Deed permits the Issuer to demand that the holder of (a) any interest in a Global Rule 144A Note held by a U.S. person as defined in Regulation S (a "U.S. Person") who is determined not to have been a Qualified Institutional Buyer at the time of acquisition of such Note and (b) any interest in a Global Reg S Note held by a U.S. Person at the time of acquisition of such interest if such interest occurred prior to the first Business Day that is 40 days after the later of the commencement of the offering of the Notes and the Closing Date (such period, the "Distribution Compliance Period") in each case, sell such interest to a holder that is permitted under the Trust Deed and, if the holder does not comply with such demand within 30 days thereof, the Issuer may sell such holder's interest in such Notes.

Prior to expiry of the Distribution Compliance Period U.S. Persons cannot hold interests in Global Reg S Notes

Investors may hold their interests in a Global Reg S Note directly through Euroclear or Clearstream, Luxembourg, if they are participants in Euroclear or Clearstream, Luxembourg, as the case may be, or indirectly through organisations that are participants in Euroclear or Clearstream, Luxembourg. Beneficial interests in a Global Reg S Note may be held only through Euroclear or Clearstream, Luxembourg at any time. Prior to the expiry of the Distribution Compliance Period, beneficial interests in a Global Reg S Note may not be held by a U.S. Person.

Transfers of interests from a Global Reg S Note to a Global Rule 144A Note

A beneficial interest in the Global Reg S Note relating to the USD Notes may be transferred to a person who takes delivery in the form of a beneficial interest in the Global Rule 144A Note relating to that class only upon receipt by the Registrar of a written certificate from the transferor (in the form provided in the Trust Deed) to the effect that, among other things, such transfer is being made to a person whom the transferor reasonably believes is a Qualified Institutional Buyer. Any beneficial interest in a Global Reg S Note that is so transferred will, upon transfer, cease to be represented by a beneficial interest in such Global Reg S Note and will become represented by a beneficial interest in the Global Rule 144A Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such Global Rule 144A Note.

Subject to payment of the A1 Note Mandatory Transfer Price on or before an A1 Note Mandatory Transfer Date, the beneficial interest in the Global Rule 144 Notes relating to the Class A1 Notes will be transferred to such entity as designated by the Remarketing Agent (as those expressions are defined in the Conditions) without further confirmatory action being required by any holder of any beneficial interest.

Transfers of interests from a Global Rule 144A Note to a Global Reg S Note

A beneficial interest in a Global Rule 144A Note may be transferred to a person who takes delivery in the form of a beneficial interest in the corresponding Global Reg S Note relating to the same class of USD Notes, whether during or after the expiration of the Distribution Compliance Period, only upon

receipt by the Registrar of a written certification from the transferor (in the form provided in the Trust Deed) to the effect that among other things, such transfer is being made outside the United States to a non-U.S. person in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act and that, if such transfer occurs during the Distribution Compliance Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg. Each beneficial interest in a Global Rule 144A Note so transferred will, upon transfer, cease to be represented by a beneficial interest in that Global Rule 144A Note and will become represented by a beneficial interest in that Global Reg S Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in that Global Reg S Note.

Transfers of Global Notes while held by or for the Clearing Systems

Unless and until beneficial interests in the Global Notes are exchanged for Definitive Notes (see "Description of the Notes and the Security – Issue of Notes in Definitive Form" above), the Global Notes registered in the name of a nominee for a Clearing System may not be transferred except (i) to reduce the Principal Liability Outstanding of a Global Note of one class and to increase the Principal Liability Outstanding of the corresponding Global Note of the same class as provided in the regulations concerning transfers of Notes described in this "Restrictions on Purchase and Transfer of the Notes" section, and (ii) as a whole (a) in the case of a Global Rule 144A Note, by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC, or by DTC or any such nominee to a successor of DTC, and (b) in the case of a Global Reg S Note, by Euroclear or Clearstream, Luxembourg to the Common Depositary or by the Common Depositary to Euroclear or Clearstream, Luxembourg, or another nominee of Euroclear and Clearstream, Luxembourg or by Euroclear and Clearstream, Luxembourg or any such nominee to a successor of Euroclear or Clearstream, Luxembourg, as the case may be, or a nominee of such successor.

Restrictions relating to the form of the Notes

The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. While a Note is represented by a Global Note this may impair the ability to own, transfer or pledge book-entry interests.

ERISA and other restrictions on purchase of Notes by employee benefit plans; certain benefit plan considerations

Prior to making an investment in Notes, prospective employee benefit plan investors (whether or not subject to Section 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and/or Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "U.S. Revenue Code") should consult with their legal and other advisors concerning the impact of ERISA and the U.S. Revenue Code (and, particularly in the case of non-ERISA plans and arrangements, any additional U.S. state and local, and non-U.S., law considerations), as applicable, and the potential consequences in their specific circumstances of an investment in Notes. The following is only a summary of some of the considerations that may be relevant to such an investment.

The Notes are a permitted asset class for benefit plan investors under ERISA and the U.S. Revenue Code and should be evaluated for the fixed income portion of a plan's investment portfolio while a permitted asset class. Plan fiduciaries should consider the risks and requirements of ERISA and the U.S. Revenue Code described below with respect to transactions involving the Notes and their underlying assets.

Section 406 of ERISA and/or Section 4975 of the U.S. Revenue Code prohibit a fiduciary of a pension, profit-sharing or other employee benefit plan, including an individual retirement account or Keogh Plan subject to ERISA and/or Section 4975 of the US Revenue Code (each, a "**Benefit Plan**") from causing a Benefit Plan to engage in certain transactions with persons that are "parties in interest" under ERISA or "disqualified persons" under the U.S. Revenue Code with respect to such Benefit Plan. A violation of these "prohibited transactions" rules may result in an excise tax or other penalties and liabilities under ERISA and the U.S. Revenue Code for such persons. Title I of ERISA also requires that fiduciaries of a Benefit Plan subject to ERISA make investments that are prudent, diversified (except if prudent not to do so) and in accordance with governing plan documents. Fiduciary duties include the duty to ensure sufficient liquidity to pay plan benefits and reasonable administrative expenses as they become due.

Certain transactions involving the purchase, holding or transfer of the Issuer's assets might be deemed to constitute prohibited transactions under ERISA and the U.S. Revenue Code if such assets were deemed to be assets of a Benefit Plan. Under a regulation issued by the United States Department of Labor (the "**Plan Assets Regulation**"), the assets of the Issuer would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the U.S. Revenue Code only if the Benefit Plan acquires an "equity interest" in the Issuer and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest for the purposes of the Plan Assets Regulation is an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. If the Notes were to be deemed equity rather than debt, resulting in the underlying assets of the Issuer being deemed to be Benefit Plan assets, the obligations and other responsibilities of Benefit Plan sponsors, Benefit Plan fiduciaries and Benefit Plan administrators under Parts 1 and 4 of Subtitle B of Title I of ERISA and may be expanded. Certain transactions involving the Issuer and/or the Mortgages or other Issuer assets could be deemed to constitute prohibited transactions under Section 406 of ERISA and Section 4975 of the US Revenue Code. In addition, various providers of fiduciary or other services to the entity, or any person handling the Issuer's assets, and any other parties with authority or control with respect to the entity, could be deemed to be Benefit Plan fiduciaries or otherwise parties in interest or disqualified persons by virtue of their provision of such services or the handling of such assets. Besides excise taxes and other penalties, one result could be an improper delegation of authority to such providers.

Regardless of whether the assets of the Issuer are deemed to be "plan assets", prohibited transactions could arise in connection with the purchase and holding of a Note by a Benefit Plan. Each purchaser of a Note will be deemed to have represented and agreed that (a) it is not and for so long as it holds any such Note will not be (i) a Benefit Plan, (ii) an employee benefit plan subject to any Similar Benefit Plan Law (defined below), (iii) an entity using the assets of or acting on behalf of a Benefit Plan, or (iv) an entity whose underlying assets are deemed for the purposes of ERISA, Section 4975 of the U.S. Revenue Code or any federal, state or local law substantially similar to section 406 of ERISA or Section 4975 of the U.S. Revenue Code ("**Similar Benefit Plan Law**") to include plan assets of any such Benefit Plan, or other employee benefit plan, or (b) its purchase and holding of any Note will not result in a non-exempt prohibited transaction under ERISA, the U.S. Revenue Code or, as applicable, any Similar Benefit Plan Law.

Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA) and certain church plans (as defined in Section 3(33) of ERISA) and other plans are not subject to ERISA requirements, but may be subject to State, Foreign or other laws applicable to employee benefit plans.

Restrictions contained in legends on the Global Notes

Unless determined otherwise by the Issuer in accordance with applicable law and so long as any class of Notes is outstanding, each Global Note will bear a legend substantially as follows:

"This Note has not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), any state securities laws in the United States or the securities laws of any other jurisdiction and may not be reoffered, resold, pledged or otherwise transferred except as permitted by this legend. The holder hereof, by its acceptance of this Note, represents, acknowledges and agrees that it will not reoffer, resell, pledge or otherwise transfer this Note except in compliance with the Securities Act and other applicable laws and except (a) in the case of a Global Rule 144A Note, to a transferee that is a "qualified institutional buyer", as defined in Rule 144A under the Securities Act, purchasing for its own account or for the account of a qualified institutional buyer or (b) in the case of a Global Reg S Note, to a person that is not a U.S. person (as defined in Regulation S under the Securities Act) outside the United States in compliance with Rule 903 or 904 of Regulation S under the Securities Act and (c) in each case (1) upon delivery of all certifications, opinions and other documents that the Issuer or the Trustee may require and (2) in accordance with any applicable securities law of any state of the United States and any other jurisdiction. Further, no sale or transfer of this Note to a person investing assets of a plan subject to Part 4 of Title 1 of the United States Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "U.S. Revenue Code") or any similar provisions of other law ("Other Similar Law") may be made unless such sale or transfer will satisfy the requirements of a class exemption from the prohibited transaction rules of Section 406 of ERISA and Section 4975 of the U.S. Revenue Code or otherwise will not result in a nonexempt prohibited

transaction or other violation of ERISA, the US Revenue Code or Other Similar Law. Transfers of the Notes must be accompanied by appropriate tax and ERISA transfer documentation and are subject to restrictions as provided in the Trust Deed.

This Note is not transferable except in accordance with the restrictions described herein and in the Trust Deed. Any sale or transfer in violation of the foregoing will be of no force and effect, will be void ab initio, and will not operate to transfer any rights to the transferee, notwithstanding any instructions to the contrary to the Issuer, the Trustee or any intermediary. Each transferor of this Note agrees to provide notice of the transfer restrictions set forth herein and in the Trust Deed to the transferee".

Representations and agreements by Note Purchasers

Each purchaser and subsequent transferee (the "**Purchaser**") of Notes represented by an interest in a Global Note (or any Definitive Note issued in exchange for an interest in a Global Note as described below under "Terms and Conditions of the Notes – 1. Issue, Form, Denomination and Title") will be deemed to have represented and agreed as follows:

(1) In connection with the purchase of the Notes:

(A) the Purchaser acknowledges that none of the Issuer or the Managers is acting as a fiduciary or financial or investment adviser for such Purchaser;

(B) such Purchaser is not relying (for the purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Issuer or the Managers other than any statements in a current offering circular for such Notes;

(C) such Purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisers to the extent it has deemed necessary and has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the Trust Deed) based upon its own judgment and upon any advice from such advisers as it has deemed necessary and not upon any view expressed by the Issuer or the Managers; and

(D) (i) in the case of a Global Rule 144A Note, such Purchaser is a qualified institutional buyer (as defined under Rule 144A of the Securities Act); is aware that the sale of the Notes to it is being made in reliance on Rule 144A; is acquiring its interest in the Notes for its own account, or for the account of a qualified institutional buyer, for investment purposes and not for distribution in violation of the Securities Act; and is able to bear the economic risk of an investment in the Notes and has such knowledge and experience in financial and business matters as to be capable of evaluating risks and merits of purchasing the Notes; or (ii) in the case of a Global Reg S Note, such Purchaser is not a "U.S. person" as defined in Regulation S, nor it is acquiring the Notes for the account of a U.S. person and is acquiring the Notes outside the United States in an offshore transaction meeting the requirements of Regulation S.

(2) On each day from the date on which such Purchaser acquires such Note through and including the date on which such Purchaser disposes of its interests in such Note, in connection with the purchase of the Notes, either (i) such Purchaser is not a Benefit Plan, an entity whose underlying assets include the assets of any Benefit Plan, or a plan that is subject to any Similar Benefit Plan Law or (ii) such Purchaser's purchase, holding and disposition of such Note will, if it would otherwise be a prohibited transaction, satisfy the requirements for exemptive relief under Prohibited Transaction Class Exemptions 96-23, 95-60, 91-38, 90-1, 84-14 for the purposes of ERISA, or any similar exemption (or, in the case of a plan subject to Similar Benefit Plan Law, will not result in a non-exempt violation of such Similar Benefit Plan Law).

(3) Such Purchaser understands that the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, the Notes have not been and will not be registered under the Securities Act, and, if in the future such Purchaser decides to offer, resell, pledge or otherwise transfer the Notes, such Notes may be offered, resold, pledged or otherwise transferred only in accordance with the provisions of the Trust Deed and the legend on such Notes. Such Purchaser acknowledges that no representation has been made as to the availability of any exemption under the Securities Act or any state securities laws for resale of the Notes.

(4) Such Purchaser is aware that, except as otherwise provided in the Trust Deed, Notes being sold to it, if any, in reliance on Regulation S will be represented by one or more permanent Global Reg S Notes, and that in each case beneficial interests therein may be held only through Euroclear or Clearstream, Luxembourg.

(5) Such Purchaser understands that any resale or other transfer of beneficial interests in a Global Reg S Note prior to expiry of the Distribution Compliance Period to U.S. Persons, and any resale or other transfer of beneficial interests in a Global Rule 144A Note to any person other than a Qualified Institutional Buyer shall not be permitted.

(6) Such Purchaser understands and agrees that the Trustee shall have no responsibility or obligation to any Purchaser, a member of, or a participant in, DTC or other person with respect to the accuracy of the records of DTC or its nominee or of any participant or member thereof, with respect to any ownership interest in the Notes or with respect to the delivery to any participant, member, Purchaser or other Person (other than DTC) of any notice (including any notice of redemption) or the payment of any amount or delivery of any Notes (or other security or property) under or with respect to such Notes. All notices and communications to be given to the Holders and all payments to be made to Holders in respect of the Notes shall be given or made only to or upon the order of the registered Holders (which shall be DTC or its nominee in the case of a Global Rule 144A Note). The Trustee may rely and shall be fully protected in relying upon information furnished by DTC with respect to its members, participants and any Purchasers.

(7) Such Purchaser will provide notice to each Person to whom it proposes to transfer any interest in the Notes of the transfer restrictions and representations set forth in the Trust Deed.

(8) Such Purchaser understands that the Issuer will treat the Notes as indebtedness for U.S. federal income tax purposes. Such Purchaser agrees to treat its interest in the Notes for U.S. federal income tax purposes as indebtedness.

TERMS AND CONDITIONS OF THE NOTES

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

1. Issue, Form, Denomination and Title

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

Paragon Mortgages (No.10) PLC (the "**Issuer**") has issued the "**Notes**" (which comprise:

(i) the "**Class A Notes**" which comprise:

(A) the "**Class A1 Notes**" which comprise the $1,100,000,000 Class A1 Notes (the "**Class A1 Notes**") and

(B) the "**Class A2 Notes**" which comprise the £105,000,000 Class A2a Notes (the " **Class A2a Notes**") and the €222,000,000 Class A2b Notes (the "**Class A2b Notes**"); and

(ii) the "**Class B Notes**" which comprise the £31,000,000 Class B1a Notes (the "**Class B1a Notes**"), and the €19,500,000 Class B1b Notes (the "**Class B1b Notes**"); and

(iii) the "**Class C Notes**" which comprise the £51,500,000 Class C1a Notes (the " **Class C1a Notes**") and the €27,500,000 Class C1b Notes (the "**Class C1b Notes**")),

pursuant to a trust deed (the "**Trust Deed**") dated on or about 17 November 2005 or such later date agreed between the Issuer and the Lead Managers for the issue of the Notes (the "**Closing Date**") between the Issuer and Citicorp Trustee Company Limited (the "**Trustee**", which expression shall include its successors as trustee under the Trust Deed) as trustee of the Holders (as defined in Condition 1(d)) for the time being of the Class A Notes (together the "**Class A Noteholders**"), the Holders for the time being of the Class B Notes (together the "**Class B Noteholders**") and the Holders for the time being of the Class C Notes (together the "**Class C Noteholders**" and, together with the Class A Noteholders and the Class B Noteholders, the "**Noteholders**"). The Class A Notes, the Class B Notes and the Class C Notes each constitute a separate series of Notes (each a " **Series**").

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

(b) *Form of the Notes*

Notes ("**Reg S Notes**") sold to non-U.S. Persons outside the United States in reliance on Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**") will be represented by one or more permanent global notes in fully registered form without interest coupons (each such global note in relation to a class of those Notes being a "**Global Reg S Note**").

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

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

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

Each Global Reg S Note is expected to be deposited with, and registered in the name of, or a nominee of, Citibank, N.A., London Branch as common 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**" and together with Euroclear and DTC, the "**Clearing Systems**") on the Closing Date.

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

(c) *Denomination of the Notes*

The "**USD Notes**" (being the Class A1 Notes) are issued in minimum denominations of $100,000, the "**GBP Notes**" (being the Class A2a Notes, the Class B1a Notes and the Class C1a Notes) are issued in minimum denominations of £50,000, and the "**EUR Notes**" (being the Class A2b Notes, the Class B1b Notes and the Class C1b Notes) are issued in minimum denominations of €50,000. Each holding of Notes must be an integral multiple $100,000 in the case of USD Notes, £50,000 in the case of GBP Notes and €50,000 in the case of EUR Notes and, in each case, for not less than the relevant minimum denomination.

The "**Note Currency**" in relation to a Note is the currency in which that Note is denominated and the "**Note Currency Unit**" in relation to a Note is £0.01 for a GBP Note, $0.01 for a USD Note and €0.01 for a EUR Note. In these Conditions "**GBP Equivalent**" in relation to an amount means (i) where that amount is expressed in GBP, that amount at the Expected Exchange Time; and (ii) where that amount is expressed in any currency other than GBP, the GBP equivalent of that amount ascertained using (A) if that amount relates to a Note other than a GBP Note and the Currency Swap Agreement relating to that Note has not or is not expected to have terminated early on or before the Expected Exchange Time, the exchange rate specified in that Currency Swap Agreement; or (B) in any other case, the applicable spot rate of exchange at (or as expected to be at) the Expected Exchange Time as determined by the Administrator (prior to the Security (as defined below) becoming enforceable) or the Trustee (from or after the Security becoming enforceable); and "**Expected Exchange Time**" means the date the GBP Equivalent is to be determined, unless it is clear from the context that the relevant reference to GBP Equivalent relates to and is being used to anticipate currency exchanges which will be made at a specific future date, in which case it means that future date.

(d) *Title to the Notes*

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

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

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

Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current Transfer Regulations will be sent by the Registrar to any Holder of a Note who so requests and by the Principal Paying Agent to any Holder of a Note who so requests.

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

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

2. Status and Relationship between the Classes of Notes

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

Notes in the same class within each Series rank *pari passu* and rateably without any preference or priority among themselves in their right to receive principal and interest save that prior to the enforcement of the Security, the Class A1 Notes will rank in priority to the Class A2 Notes in their right to receive principal. Following enforcement of the Security all the Class A Notes will rank *pari passu* and rateably in their right to receive both principal and interest. Prior to the Security becoming enforceable the Notes rank according to the priority of payments set out in clause 6.1.2 of the Deed of Charge (the "**Revenue Priority of Payments**") and clause 6.2 of the Deed of Charge (the "**Principal Priority of Payments**") and from and after the Security becoming enforceable the Notes rank according to the priority of payments set out in clause 8.2 of the Deed of Charge (the "**Enforcement Priority of Payments**"), in each case according to the terms of the Relevant Documents (as defined Condition 3(a)(i)(B)) and the Notes.

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

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

3. Covenants of the Issuer

(a) So long as any of the Notes remain outstanding (as defined in the Trust Deed), the Issuer shall not, save to the extent permitted by the Relevant Documents or with the prior written consent of the Trustee:

(i) carry on any business other than as described in the Offering Circular dated 14 November 2005 relating to the issue of the Notes (and then only in relation to the Mortgages and the related activities described therein) and in respect of that business shall not engage in any activity or do anything whatsoever except:

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

(B) preserve and/or exercise and/or enforce any of its rights and perform and observe its obligations under the Mortgage Sale Agreement, the Notes, the Subscription Agreement, the A1 Note Conditional Purchase Agreement, the Remarketing Agreement and the other agreements relating to the issue of the Notes (or any of them), the Agency Agreement, the Trust Deed, the Administration Agreement, the Substitute Administrator Agreement, the Fee Letter, the Flexible Drawing Facility Agreement, the Subordinated Loan Agreement, the Mortgages, the Deed of Charge, the Collection Account Declarations of Trust, each Currency Swap Agreement, the Basis Hedge Agreement, any Caps, any Permitted Basis Hedge Agreement, any other hedging arrangements entered into by the Issuer from time to time, the VAT Declaration of Trust, the Services Letter, the Insurance Contracts, the other insurances in which the Issuer at any time has an interest, each Scottish Declaration of Trust, the Cross-collateral Mortgage Rights Deed and all other agreements and documents comprised in the Security for the Notes (all as defined in the Trust Deed, the Deed of Charge or the Mortgage Sale Agreement) (together the "**Relevant Documents**");

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

(D) use, invest or dispose of, or otherwise deal with, or agree or attempt or purport to dispose of, any of its property or assets or grant any option or right to acquire the same in the manner provided in or contemplated by the Relevant Documents or for the purpose of realising sufficient funds to exercise its option to redeem Notes in accordance with their respective terms and conditions; and

(E) perform any act incidental to or necessary in connection with (A), (B), (C) or (D) above;

(ii) incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness excluding, for the avoidance of doubt, indebtedness under the Deed of Charge, the Trust Deed, the Notes, the Fee Letter, the Services Letter, the Flexible Drawing Facility Agreement, each Currency Swap Agreement, the Basis Hedge Agreement, any Permitted Basis Hedge 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;

(iii) create any mortgage, sub-mortgage, charge, sub-charge, pledge, lien or other security interest whatsoever (other than any which arise by operation of law) over any of its assets;

(iv) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any person, other than as contemplated by the Deed of Charge, the Trust Deed or the Administration Agreement, unless:

(A) the person (if other than the Issuer) formed by or surviving such consolidation or merger or which acquires by conveyance or transfer the properties and assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, whose main objects are the funding, purchase and administration of mortgages, and which shall expressly assume, by a deed supplemental to the Trust Deed, in a form satisfactory to the Trustee, the due and punctual payment of principal and interest on the Notes and the performance and observance of every covenant in the Trust Deed and in these Conditions on the part of the Issuer to be performed or observed;

(B) immediately after giving effect to such transaction, no Event of Default shall have occurred and be continuing;

(C) the Trustee is satisfied that the interests of the Noteholders will not be materially prejudiced by such consolidation, merger, conveyance or transfer;

(D) the Issuer shall have delivered to the Trustee a legal opinion containing such confirmations in respect of such consolidation, merger, conveyance or transfer and such supplemental deed and other deeds as the Trustee may require; and

(E) the then current ratings of the Notes are not adversely affected;

(v) permit the validity or effectiveness of the Trust Deed or the Deed of Charge or the priority of the Security created thereby to be amended, terminated, postponed or discharged, or permit any person whose obligations form part of the Security to be released from such obligations;

(vi) in a manner which adversely affects the then current ratings of the Notes, have any employees or premises or have any subsidiary;

(vii) have an interest in any bank account, other than the Transaction Account, the VAT Account (as defined in the VAT Declaration of Trust) and the Collection Accounts (as defined in the Trust Deed), unless such account or interest is charged to the Trustee on terms acceptable to it; or

(viii) engage, or permit any of its affiliates to engage, in any activities in the United States (directly or through agents), derive, or permit any of its affiliates to derive, any income from sources within the United States as determined under U.S. federal income tax principles, and hold, or permit any of its affiliates to hold, any mortgaged property that would cause it or any of its affiliates to be engaged or deemed to be engaged in a trade or business within the United States as determined under U.S. federal income tax principles.

(b) So long as any of the Notes remains outstanding the Issuer will procure that there will at all times be one or more persons appointed as administrator of the Mortgages (each an "**Administrator**"). Any appointment of an Administrator is subject to the approval of the Trustee and must be of a person with experience of administration of mortgages in England, Wales, Northern Ireland and Scotland. An Administrator will not be permitted to terminate its appointment without, *inter alia*, the prior written consent of the Trustee. The appointment of any Administrator may be terminated by the Trustee if, among other things, such Administrator is in breach of its obligations under the Administration Agreement, which breach, in the opinion of the Trustee, is materially prejudicial to the interests of the Class A Noteholders or, if the Class A Notes have been redeemed in full, the Class B Noteholders or, if the Class A Notes and the Class B Notes have been redeemed in full, the Class C Noteholders and such breach is not remedied or deemed to be remedied in accordance with the terms of the Administration Agreement. Upon the termination of the appointment of any Administrator and, in the absence of appointment of any other substitute administrator, the Substitute Administrator will act as Administrator, pursuant to the terms of the Substitute Administrator Agreement, but will have no liability under the Mortgage Sale Agreement.

4. Interest

(a) *Interest Payment Dates*

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

Subject to Condition 4(b), such accrued interest ("**Normal Interest**") in respect of each Note (excepting the Class A1 Notes) is due and payable in arrear on 15 March 2006 and thereafter quarterly on each subsequent 15 June, 15 September, 15 December and 15 March, and in respect of the Class A1 Notes on 15 December 2005 and thereafter on the fifteenth day of each subsequent month, or if any such day is not a Business Day (as defined below), the next succeeding Business Day (each such day as so adjusted, on which payment of interest in respect of the Class A1 Notes is due, being an "**A1 Interest Payment Date**" and, together with each other day as so adjusted, shall be referred to as an "**Interest Payment Date**").

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

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

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

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

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

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

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

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

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

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

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

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

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

(v) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class A Notes will be applied as follows:

(A) first, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Normal Interest then due on each of those Notes; and

(B) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Default Interest then outstanding on each of those Notes.

(vi) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class B Notes will be applied as follows:

(A) first, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Normal Interest then due on each of those Notes; and

(B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Deferred Interest then outstanding on each of those Notes; and

(C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Additional Interest then outstanding on each of those Notes; and

(D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Default Interest then outstanding on each of those Notes.

(vii) On each Interest Payment Date which occurs prior to the Security becoming enforceable, the amount available under the Revenue Priority of Payments to be applied on that Interest Payment Date in payment of interest in respect of the Class C Notes will be applied as follows:

(A) first, in or towards the payment of any Normal Interest then due in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Normal Interest then due on each of those Notes; and

(B) then, in or towards payment of any Deferred Interest then outstanding in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Deferred Interest then outstanding on each of those Notes; and

(C) then, in or towards payment of any Additional Interest then outstanding in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Additional Interest then outstanding on each of those Notes; and

(D) then, in or towards payment of any Default Interest then outstanding in respect of each of those Notes *pro rata* to the GBP Equivalent of the amount of Default Interest then outstanding on each of those Notes.

(c) *Rate of Interest*

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

(i) In these Conditions:

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

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

"**Note Interest Rate Margin**" means in relation to:

(A) each Class A1 Note, 0.00 per cent. per annum up to and including the first A1 Note Mandatory Transfer Date in 2006 and thereafter either (i) the Reset Margin or (ii) the sum of the applicable reference rate (three month GBP LIBOR) plus the Maximum Reset Margin will apply;

(B) each Class A2a Note, 0.16 per cent. per annum up to and including the Interest Period relating to that Note ending in December 2010 and thereafter 0.32 per cent. per annum;

(C) each Class A2b Note, 0.16 per cent. per annum up to and including the Interest Period relating to that Note ending in December 2010 and thereafter 0.32 per cent. per annum;

(D) each Class B1a Note 0.27 per cent. per annum up to and including the Interest Period relating to that Note ending in December 2010 and thereafter 0.54 per cent. per annum;

(E) each Class B1b Note 0.27 per cent. per annum up to and including the Interest Period relating to that Note ending in December 2010 and thereafter 0.54 per cent. per annum;

(F) each Class C1a Note, 0.55 per cent. per annum up to and including the Interest Period relating to that Note ending in December 2010 and thereafter 1.10 per cent. per annum; and

(G) each Class C1b Note, 0.55 per cent. per annum up to and including the Interest Period relating to that Note ending in December 2010 and thereafter 1.10 per cent. per annum.

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

"**Reference Rate**" means:

(A) in respect of the first Interest Period for each Class A1 Note, the linear interpolation of:

(1) the arithmetic mean of the Reference Quotations for one week Quotation Deposits; and

(2) the arithmetic mean of the Reference Quotations for one month Quotation Deposits; and

(B) in respect of subsequent Interest Periods for each Class A1 Note, the arithmetic mean of the Reference Quotations for one month Quotation Deposits,

(C) in respect of the first Interest Period for each Note (except the Class A1 Notes), the linear interpolation of:

(1) the arithmetic mean of the Reference Quotations for three month Quotation Deposits; and

(2) the arithmetic mean of the Reference Quotations for four month Quotation Deposits; and

(D) in respect of subsequent Interest Periods for that Note, the arithmetic mean of the Reference Quotations for three month Quotation Deposits,

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

"**Reference Quotations**" means:

(A) where the Reference Screen is being used, quotations to leading banks for the relevant Quotation Deposits for same day value in the Quotation Market at or about the Quotation Time as displayed on the Reference Screen; and

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

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

"**Quotation Deposits**" means (a) in respect of GBP Notes, deposits of £10,000,000; (b) in respect of USD Notes, deposits of $10,000,000; and (c) in respect of EUR Notes, deposits of €10,000,000;

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

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

(ii) In relation to each class of Notes, at or about the Quotation Time on each Interest Determination Date in relation to such class:

(A) the Reference Agent shall determine the Reference Rate on the basis of Reference Quotations using the Reference Screen in respect of such class; or

(B) if the Reference Agent is unable to determine a Reference Rate under paragraph (A) above, the Reference Agent shall determine that Reference Rate using the Reference Banks if, upon the Reference Agent requesting the relevant Reference Quotations from the principal London office of each of the Reference Banks, at least two of such Reference Banks provide the relevant details of those Reference Quotations to the Reference Agent; or

(C) if only one Reference Bank provides the Reference Agent with the relevant Reference Quotations under paragraph (B) above, the Reference Agent shall determine the relevant Reference Rate using the Reference Quotations of that Reference Bank and Reference Quotations of an additional bank which the Trustee indicates to the Reference Agent is, in the opinion of the Trustee, suitable to be and shall be treated as an additional Reference Bank for such purpose on that Interest Determination Date; or

(D) if no Reference Bank provides the Reference Agent with the relevant Reference Quotations under paragraph (B) above, the Reference Agent shall determine the relevant Reference Rate using the Reference Quotations of two other banks which the Trustee indicates to the Reference Agent are, in the opinion of the Trustee, suitable to be and shall be treated as Reference Banks for such purpose on that Interest Determination Date; or

(E) if the Trustee does not provide the indication contemplated under paragraph (C) above or does not provide either or both of the indications contemplated under paragraph (D) above (as applicable), or the relevant additional bank under paragraph (C) above or

either or both of the other banks under paragraph (D) above (as applicable) does not or do not provide the relevant Reference Quotations, then the Reference Agent shall determine the relevant Reference Rate to be the most recent Reference Rate for that class which was determined under either paragraph (A) or (B) above.

(iii) The Rate of Interest for each class of Notes for each Interest Period relating to such class shall be the aggregate of:

(A) the Note Interest Rate Margin in respect of that class; and

(B) the Reference Rate for that class as determined under paragraph (ii) above on the Interest Determination Date relating to that Interest Period.

(iv) There shall be no maximum or minimum Rate of Interest.

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

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

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

where the Calculation Reference Period shall be:

(A) 365 where the Calculation Amount relates to GBP Notes; and

(B) 360 where the Calculation Amount relates to EUR Notes and USD Notes.

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

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

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

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

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

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

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

(iii) On (or as soon as practicable after) the last Business Day of the month preceding the month in which an Interest Payment Date falls, the Issuer shall determine (or cause the Administrator to determine) in respect of each Note to which that Interest Payment Date relates:

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

(B) the amount, if any, of Deferred Interest which will be paid on each Class B Note and Class C Note on that Interest Payment Date;

(C) the amount, if any, of Deferred Interest which will have accrued and remain outstanding on each Class B Note and Class C Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date);

(D) the amount, if any, of Additional Interest which will have accrued on each Class B Note and Class C Note during the Interest Period ending on (but excluding) that Interest Payment Date by:

(1) separately calculating for each class of Class B Notes and Class C Notes an amount in respect of that class in accordance with Condition 4(d)(i) using the Rate of Interest applicable to Additional Interest in respect of that Interest Period as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period, and using the aggregate amount of Deferred Interest outstanding in respect of that class of Notes as at the end of the first day of that Interest Period as the Calculation Amount; and

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

(E) the amount, if any, of Additional Interest which will be paid on each Class B Note and Class C Note on that Interest Payment Date;

(F) the amount, if any, of Additional Interest which will have accrued and remain outstanding on each Class B Note and Class C Note on that Interest Payment Date (taking account of all payments to be made on that Interest Payment Date);

(G) the amount, if any, of Default Interest which will have accrued on each Note during the Interest Period ending on (but excluding) that Interest Payment Date by:

(1) separately calculating for each class of Notes an amount in respect of that class in accordance with Condition 4(d)(i) using the Rate of Interest applicable to Default Interest in respect of that Interest Period as the Calculation Interest Rate, using the actual number of days in that Interest Period as the Calculation Period, and using the aggregate amount of Overdue Interest outstanding in respect of that class of Notes as at the end of the first day of that Interest Period as the Calculation Amount; and

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

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

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

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

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

The Issuer will cause the Deferred Interest (if any), the Additional Interest (if any) and the Default Interest (if any) applicable to the Class C Notes for each Interest Period to be notified to the Trustee,

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

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

(f) *Determination or Calculation by Trustee*

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

(g) *Reference Banks and Reference Agent*

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

5. Redemption and Purchase

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

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

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

(i) first:

(A) the amount of the Class A Available Redemption Funds (as defined below) on the Principal Determination Date relating to that Interest Payment Date shall be allocated: if any Class A1 Note is outstanding on that Principal Determination Date, to the Class A1 Notes *pro rata* to the aggregate GBP Equivalent Principal Liability Outstanding of each such class as at that Principal Determination Date provided that the amount so allocated to any such class shall not exceed the aggregate GBP Equivalent Principal Liability Outstanding of that class, and then

(B) any excess to the Class A2 Notes pro rata to the aggregate GBP Equivalent Principal Liability Outstanding of each such class as at that Principal Determination Date provided that the amount so allocated to any such class shall not exceed the aggregate GBP Equivalent Principal Liability Outstanding of that Class, and then

(C) the amount of the Subordinated Available Redemption Funds (as defined below) on that Principal Determination Date to be applied to redeem the Class B Notes, shall be allocated to each class of Class B Notes *pro rata* to the aggregate GBP Equivalent Principal Liability Outstanding of each such class as at that Principal Determination Date provided that the amount so allocated to any such class shall not exceed the aggregate GBP Equivalent Principal Liability Outstanding of that class, and then

(D) the amount of the Subordinated Available Redemption Funds (as defined below) on that Principal Determination Date to be applied to redeem the Class C Notes, shall be allocated to each class of Class C Notes *pro rata* to the aggregate GBP Equivalent Principal Liability Outstanding of each such class as at that Principal Determination Date provided that the amount so allocated to any such class shall not exceed the aggregate GBP Equivalent Principal Liability Outstanding of that class;

(ii) then for each class which does not comprise GBP Notes, the equivalent amount in the relevant Note Currency of the amount allocated, if any, to that class under paragraph (i) above shall be determined using the exchange rate specified in the relevant Currency Swap Agreement relating to that class or, if that Currency Swap Agreement has terminated early or is expected to terminate early on or before the next Interest Payment Date, the applicable spot rate of exchange expected to be used at that Interest Payment Date as determined by the Administrator (prior to the Security (as defined below) becoming enforceable) or the Trustee (from or after the Security becoming enforceable); and

(iii) then in respect of each class of Notes:

(A) the amount, if any, so allocated to that class under paragraph (i) above (where that class comprises GBP Notes), or

(B) the equivalent amount in respect of that class determined under paragraph (ii) above (where that class does not comprise GBP Notes),

shall be allocated to each Note in that class *pro rata* to the GBP Equivalent Principal Liability Outstanding of each such Note in that class, provided always that the amount so allocated shall not exceed the Principal Liability Outstanding of the relevant Note.

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

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

(i) in respect of the GBP Notes, in redemption of each of those Notes in an amount equal to the Principal Payment allocated on that Principal Determination Date to each of those Notes; and

(ii) in respect of each of the other Notes:

(A) if the Currency Swap Agreement relating to any class of those other Notes has not terminated early on or before that Interest Payment Date, in payment to the relevant Currency Swap Provider of an amount equal to the GBP Equivalent of the aggregate of the Principal Payments allocated on that Principal Determination Date to such other Notes; and

(B) if the Currency Swap Agreement relating to any class of those other Notes has terminated early on or before that Interest Payment Date, in payment of an amount equal to the GBP Equivalent of the aggregate of the Principal Payments allocated on that Principal Determination Date to those other Notes in exchange for receipt of an amount in the relevant Note Currency of such other Notes at the applicable spot rate;

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

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

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

(iii) the aggregate of:

(A) the sum of all principal received or recovered in respect of the Mortgages or deemed to have been received (including, without limitation, (aa) repayments of principal by

borrowers and purchase moneys paid to the Issuer (other than in respect of accrued interest) on the repurchase or purchase of any Mortgages pursuant to the terms of the Relevant Documents and all Purchased Pre-Closing Arrears and Accruals relating thereto received by or on behalf of the Issuer but excluding any such amount which under the Mortgage Sale Agreement is held on trust for, or is to be accounted to, a person other than the Issuer; and (bb) amounts credited to the Principal Deficiency Ledger (thereby reducing the balance thereof) (but excluding amounts so credited as the result of the occurrence of Flexible Drawing Capitalised Advances) during the period from (but excluding) the preceding Principal Determination Date (or, if applicable, in the case of the first calculation of Available Redemption Funds, the period from (and including) the Closing Date) to (and including) the Principal Determination Date on which such calculation occurs (the "**Collection Period**");

(B) in the case of the first Principal Determination Date, the amount (if any) by which the sum of (aa) the aggregate GBP Equivalent Initial Principal Amount of the Class A Notes, the Class B Notes and the Class C Notes and (bb) the amount drawn down on the Closing Date by the Issuer under the Subordinated Loan Agreement exceeds the aggregate of (x) the amounts paid by the Issuer to the Sellers by way of purchase price for the Mortgages purchased by the Issuer on the Closing Date in accordance with the Mortgage Sale Agreement, (y) the amount applied to establish the First Loss Fund on the Closing Date and (z) amounts debited from the Pre-Funding Reserve up to and including the first Principal Determination Date;

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

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

less

(iv) the aggregate of:

(A) the amount estimated by the Issuer to be the likely shortfall, on the Interest Payment Date which will occur before the next Principal Determination Date, of funds available to pay interest due or overdue on the Class A Notes and any other amounts ranking *pari passu* with or in priority to such interest and to meet certain expenses of the Issuer payable on each such Interest Payment Date;

(B) the amount estimated by the Issuer to be, on the immediately succeeding Interest Payment Date, the extent to which the First Loss Fund will be less than the Liquidity Amount following the application of the priority of payments set out in clause 6.1.2 of the Deed of Charge (such principal amounts being used to increase the First Loss Fund up to the Liquidity Amount and a corresponding debit being made to the Principal Deficiency Ledger);

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

(D) the aggregate principal amount of Mandatory Further Advances made by the Issuer during the relevant Collection Period (or expected to be made on or prior to the Interest Payment Date immediately succeeding the relevant Collection Period) to the extent that such principal amount has been funded using amounts falling within (A) above;

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

(F) the aggregate amount (the "**Flexible Drawing Facility Principal Debt**") of principal which has or will become due and repayable on or before the next Interest Payment Date in respect of Flexible Drawing Facility Advances,

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

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

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

(i) on any Principal Determination Date falling up to and including the occurrence of the "**Determination Event**" (being the later of:

(A) the earlier of the Interest Payment Date falling in December 2010 and the date upon which the Class A Notes are fully redeemed; and

(B) the first Interest Payment Date on which the ratio of (I) the aggregate GBP Equivalent Principal Amount Outstanding of the Class B Notes and the Class C Notes to (II) the sum of the aggregate GBP Equivalent Principal Amount Outstanding of the Class A Notes, the Class B Notes and the Class C Notes is 0.229 : 1 or more (in each case after the application of Available Redemption Funds on that Interest Payment Date)),

all of the Available Redemption Funds determined as at such Principal Determination up to the aggregate GBP Equivalent Principal Amount Outstanding of the Class A Notes (with the Class A1 Notes being redeemed prior to the Class A2 Notes); and

(ii) on any other Principal Determination Date, the Available Redemption Funds determined as at such date, less the Subordinated Available Redemption Funds determined as at such date.

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

(i) where the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined falls up to and including the occurrence of the Determination Event (unless on the immediately following Interest Payment Date the Class A Notes are redeemed in full) or falls after the Determination Event and:

(A) on the Interest Payment Date immediately following the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined, after the application of the moneys in the Transaction Account in accordance with the provisions of the Deed of Charge and the Administration Agreement on that Interest Payment Date and any drawing made under the Subordinated Loan Agreement on that Interest Payment Date, there is any credit balance of zero or greater on the Principal Deficiency Ledger; or

(B) on the Principal Determination Date on which the Subordinated Available Redemption Funds are to be determined the then Current Balances (as defined in the Trust Deed) of Mortgages which are more than three months in arrears (as defined in the Trust Deed) represent 7.5% per cent. or more of the then Current Balances of all of the Mortgages (paragraphs (A) and (B) together being the "**Redemption Tests**"),

nil; and

(i) on each Interest Payment Date which falls after the occurrence of a Determination Event (or on the Interest Payment Date upon which the Class A Notes are redeemed in full), provided that both the Redemption Tests are satisfied:

(A) that amount of the Available Redemption Funds (*pro rata* to the amount of the Class B Notes and the Class C Notes) determined as at such date which, if applied to the redemption of the Class B Notes and the Class C Notes, would cause the ratio of (I) the aggregate GBP Equivalent Principal Liability Outstanding of the Class B Notes and the aggregate GBP Equivalent Principal Liability Outstanding of the Class C Notes to (II) the sum of the aggregate GBP Equivalent Principal Liability Outstanding of the Class A

Notes and the aggregate GBP Equivalent Principal Liability Outstanding of the Class B Notes and the aggregate GBP Equivalent Principal Liability Outstanding of the Class C Notes after such application to become as nearly as possible equal to 0:229 : 1; provided that the aggregate GBP Equivalent Principal Liability Outstanding of the Class B Notes and the Class C Notes after such application shall not, so long as any of the Class A Notes remains outstanding, be reduced below £47,616,783; and

(B) on any other Principal Determination Date which is immediately prior to an Interest Payment Date on which no Class A Note remains outstanding, the total amount of the Available Redemption Funds and on the Principal Determination Date immediately prior to the Interest Payment Date on which the Class A Notes are to be redeemed in full, the amount of Available Redemption Funds in excess of the aggregate GBP Equivalent Principal Liability Outstanding of the Class A Notes on such Principal Determination Date.

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

On each Interest Payment Date an amount equal to the relevant Flexible Drawing Facility Principal Debt (as determined on the preceding Principal Determination Date) shall be paid from the Transaction Account (and debited to the Principal Ledger) and applied in or towards repayment of principal due and repayable in respect of Flexible Drawing Facility Advances.

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

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

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

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

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

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

determination of a Principal Payment, Principal Liability Outstanding, Principal Amount Outstanding and Pool Factor to be published in accordance with Condition 12 on the next following Business Day, or as soon as practicable thereafter. If no Principal Payment is due to be made on the Notes of a particular class on any Interest Payment Date a notice to this effect will be given to the Noteholders of that class.

(iii) If the Issuer does not at any time for any reason determine (or cause the Administrator to determine) a Principal Payment, the Principal Amount Outstanding, the Principal Liability Outstanding or the Pool Factor applicable to Notes of a particular class in accordance with the preceding provisions of this paragraph, such Principal Payment, Principal Amount Outstanding, Principal Liability Outstanding and Pool Factor shall be determined by the Trustee in accordance with this paragraph (b) and paragraph (a) above (but based on the information in its possession as to the Available Redemption Funds) and each such determination or calculation shall be deemed to have been made by the Issuer.

(c) *Redemption for Taxation or Other Reasons*

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

(i) on the next Interest Payment Date:

(A) the Issuer or any Paying Agent would be required to deduct or withhold from any payment of principal or interest in respect of any Notes; or

(B) the Issuer or any Hedge Provider would be required to deduct or withhold from amounts payable by it under any Hedge Agreement,

any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the United Kingdom or any other jurisdiction or any political sub-division thereof or any authority thereof or therein; or

(ii) the total amount payable in respect of interest in relation to any of the Mortgages for an Interest Period ceases to be receivable (whether or not actually received) by the Issuer during such Interest Period; or

(iii) the Issuer would, by virtue of a change in tax law applicable in the Issuer's jurisdiction, not be entitled to relief for the purposes of such tax law for any material amount which it is obliged to pay, or against tax arising as a result of any payment the Issuer is treated as receiving for the purposes of such tax law under the Relevant Documents;

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

(i) the Issuer has given written notice in accordance with Condition 12 not more than 60 days and not less than 20 days before that Interest Payment Date to the Trustee and the Noteholders in that class of its intention to redeem that class under this Condition 5(c); and

(ii) the Issuer will be in a position on that Interest Payment Date to discharge (and so certifies to the Trustee):

(A) all its liabilities in respect of that class of Notes and each other class of Notes to be redeemed by the Issuer on that Interest Payment Date (including, in each case, all accrued Normal Interest, Deferred Interest, Additional Interest and Default Interest outstanding); and

(B) all amounts required under the Deed of Charge to be paid in priority to or *pari passu* with those liabilities; and

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

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

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

(d) *Optional Redemption in Full*

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

(i) the Issuer has given written notice in accordance with Condition 12 not more than 60 days and not less than 20 days before that Interest Payment Date to the Trustee and the Noteholders in that class of its intention to redeem that class under this Condition 5(d); and

(ii) if an Event of Default has occurred or occurs on or before that Interest Payment Date, no Enforcement Notice has been served; and

(iii) the Issuer will be in a position on that Interest Payment Date to discharge (and so certifies to the Trustee):

(A) all its liabilities in respect of that class of Notes and each other class of Notes to be redeemed by the Issuer on that Interest Payment Date (including, in each case, all accrued Normal Interest, Deferred Interest, Additional Interest and Default Interest outstanding); and

(B) all amounts required under the Deed of Charge to be paid in priority to or *pari passu* with those liabilities; and

(iv) if that Interest Payment Date will fall prior to December 2009, then:

(A) on that Interest Payment Date the aggregate GBP Equivalent Principal Liability Outstanding of all of the Notes is less than £200,070,514; and

(B) the Issuer also duly gives notice under and in accordance with this Condition 5(d) of its intention to redeem each other class of Notes then outstanding on that Interest Payment Date; and

(v) if that Interest Payment Date will fall in or after December 2009, then each of the following is satisfied:

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

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

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

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

(e) *Redemption on Maturity*

If not otherwise redeemed:

(i) the Class A1 Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041;

(ii) the Class A2a Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041;

(iii) the Class A2b Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041;

(iv) the Class B1a Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041;

(v) the Class B1b Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041;

(vi) the Class C1a Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041; and

(vii) the Class C1b Notes will be redeemed at their Principal Liability Outstanding on the Interest Payment Date falling in June 2041.

(f) *Purchases*

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

(g) *Cancellation*

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

(h) *Certification*

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

(i) *A1 Note Mandatory Transfer Arrangements*

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

(ii) There shall be no Mandatory Transfer on an A1 Note Mandatory Transfer Date if: (a) the Class A1 Notes are fully redeemed on or prior to such A1 Note Mandatory Transfer Date; (b) an A1 Note Conditional Purchase Termination Event has occurred prior to such A1 Note Mandatory Transfer Date, or (c) an A1 Note Mandatory Transfer Termination Event has occurred (as confirmed by the Remarketing Agent or Tender Agent by the provision of an A1 Note Conditional Purchaser Confirmation) prior to such A1 Note Mandatory Transfer Date.

(iii) Subject to (i) and (ii) above, all of the Class A1 Noteholders' interests in the Class A1 Notes shall be transferred on the relevant A1 Note Mandatory Transfer Date either as directed by the Remarketing Agent or to the A1 Note Conditional Purchaser, or, if Definitive A1 Notes are then issued, the Class A1 Notes will be registered by the Registrar as notified by or on behalf of the Remarketing Agent and the Register will be amended accordingly with effect from the relevant A1 Note Mandatory Transfer Date.

(iv) As long as any Class A1 Notes remain subject to the A1 Note Mandatory Transfer Arrangements, the A1 Note Conditional Purchaser shall be obliged under the A1 Note Conditional Purchase Agreement to certify to the Issuer, the Administrator and the Trustee on or prior to each Determination Date that as of such date, (a) the aggregate commitments of the Liquidity Providers under the Revolving Asset Purchase Agreement equal or exceed the amount necessary to permit the A1 Note Conditional Purchaser to pay the amounts otherwise due under the A1 Note Conditional Purchase Agreement on the next A1 Note Mandatory Transfer Date; (b) the commitments of the Liquidity Providers under the Revolving Asset Purchase Agreement have not been terminated; and (c) the A1 Note Conditional Purchaser is not insolvent. The Issuer will promptly inform the Class A1 Noteholders in accordance with Condition 12, if as of the date falling 5 days prior to an A1 Interest Payment Date (the "**Determination Date**") the A1 Note Conditional Purchaser fails to certify any of the foregoing or if an A1 Note Conditional Purchase Termination Event has occurred prior to the A1 Note Mandatory Transfer Date.

In these Conditions:

"**A1 Note Conditional Purchase Agreement**" means the agreement between the A1 Note Conditional Purchaser, the Issuer and others under which the A1 Note Conditional Purchaser purchases the Class A1 Notes on each A1 Note Mandatory Transfer Date;

"**A1 Note Conditional Purchaser**" means Sheffield Receivables Corporation.

"**A1 Note Conditional Purchaser Confirmation**" means confirmation to the Issuer, the Administrator and the Principal Paying Agent by the Remarketing Agent or Tender Agent that the interests in the Class A1 Notes has been transferred to the name or account of, or on behalf of, the A1 Note Conditional Purchaser;

"**A1 Note Conditional Purchase Termination Event**" means that the A1 Note Conditional Purchaser is unable to raise funds under (a) the Sheffield Administration Agreement and (b) the Revolving Asset Purchase Agreement, to purchase the Class A1 Notes (see "Risk Factors—A1 Note Mandatory Transfer Arrangements" above).

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

"**A1 Note Mandatory Transfer Date**" means the Payment Dates falling on 15 September annually and commencing on 15 September 2006;

"**A1 Note Mandatory Transfer Price**" means the amount of the payment to the Class A1 Noteholders on the relevant A1 Note Mandatory Transfer Date constituting the Principal Amount Outstanding on the Class A1 Notes on that date (following application of Available Redemption Funds on that date and without prejudice to the Issuer's obligations to make payments on the Class A1 Notes on that date) (except to the extent that the Class A1 Notes are purchased by the A1 Note Conditional Purchaser where the A1 Note Mandatory Transfer Price shall be the GBP Equivalent of such amount);

"**A1 Note Mandatory Transfer Termination Event**" means the A1 Note Conditional Purchaser has purchased all the Class A1 Notes under the terms of the A1 Note Mandatory Transfer Arrangements and an A1 Note Conditional Purchaser Confirmation has been given;

"**Liquidity Providers**" means one or more financial or other institutions which enter into the Revolving Asset Purchase Agreement on or before the Closing Date with the A1 Note Conditional Purchaser;

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

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

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

"**Revolving Asset Purchase Agreement**" means the revolving asset purchase agreement between the A1 Note Conditional Purchaser and the Liquidity Providers under which the A1 Note Conditional Purchaser will raise funds to pay the required part of the A1 Note Mandatory Transfer Price and acquire the Class A1 Notes; and

"**Tender Agent**" means Citibank N.A., London branch.

6. Payments

(a) *Definitions relating to payments*

In these Conditions:

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

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

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

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

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

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

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

(b) *Means of making payments*

Interest Payments and Principal Payments in respect of each Note:

(i) will be made to the relevant Payee; and

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

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

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

(c) *Time of payment*

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

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

(ii) (in the case of payments of interest payable other than on redemption) on the Payment Date.

(d) *Delays in making payments*

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

(i) a payment not being made, a transfer not being initiated or a Cheque not being mailed on the due date for a payment as a result of that due date not being a Local Business Day;

(ii) a Cheque mailed in accordance with this Condition 6 arriving after the due date for payment or being lost in the mail;

(iii) (in relation to a payment to be made by Cheque in relation to a Reg S Note) the relevant Paying Agent having not received before the relevant Record Date written notice of a valid mailing address outside the United States and its possessions for the Payee; and

(iv) (in relation to a payment to be made by transfer in relation to a Reg S Note) the relevant

Paying Agent having not received before the relevant Record Date written notice of a Permitted Account for the Payee.

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

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

(f) *Partial payments*

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

(g) *Duty to maintain a Paying Agent*

The initial Principal Paying Agent is Citibank, N.A., London Branch at its office at 5 Carmelite Street, London EC4Y 0PA. The Issuer may at any time (with the previous written approval of the Trustee) vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will at all times maintain a Paying Agent having a specified office in the City of London (the "**London Paying Agent**") and a Paying Agent (which may be the London Paying Agent) in an EU member state that will not be obliged to withhold or deduct amounts for and on account of tax pursuant to EU Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive and, in the case of the Paying Agent for the Reg S Notes, require that such Paying Agent's office for administering payments in respect of such Notes is located outside the United States or its possessions. Notice of any such termination or appointment and of any change in the office through which any Paying Agent will act will be given in accordance with Condition 12.

7. Taxation

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

8. Prescription

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

As used in these Conditions, the "**Relevant Date**" means the date on which a payment first becomes due but, if the full amount of the money payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such date, it means the date on which, the full amount of such money having been so received, notice to that effect shall have been duly given in accordance with Condition 12.

9. Events of Default

The Trustee at its discretion may, or if so requested in writing by the holders of (1) at least one-quarter of the aggregate of the GBP Equivalent Initial Principal Amount of the Class A Notes outstanding, (2) if all of the Class A Notes have been redeemed in full, at least one-quarter of the aggregate of the GBP Equivalent Initial Principal Amount of the Class B Notes outstanding or (3) if all of the Class A Notes and the Class B Notes have been redeemed in full, at least one-quarter of the aggregate of the GBP Equivalent Initial Principal Amount of the Class C Notes outstanding, or if so directed by (a) an Extraordinary Resolution of the Class A Noteholders, (b) if all of the Class A Notes have been redeemed in full, an Extraordinary Resolution of the Class B Noteholders or (c) if all of the Class A Notes and the

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

(i) default is made for a period of seven days or more in the payment on the due date of any principal due on the Notes or any of them, or for a period of 15 days or more in the payment on the due date of any interest upon the Notes or any of them, or default is made for a period of 15 days in the payment of any A1 Note Mandatory Transfer Price on any Class A1 Note when and as the same ought to be paid in accordance with these Conditions provided that for the avoidance of doubt a failure to make or procure any payment required under Condition 5(i) by reason of any failure on the part of the Remarketing Agent or the A1 Note Conditional Purchaser to perform its respective obligations under the Relevant Documents shall not constitute a default for the purposes of this Condition 9; or

(ii) an order is made or an effective resolution is passed for winding up the Issuer except a winding up for the purpose of a merger, reconstruction or amalgamation, the terms of which have previously been approved either in writing by the Trustee or by an Extraordinary Resolution of the Class A Noteholders or, if there are no Class A Notes then outstanding, by an Extraordinary Resolution of the Class B Noteholders or, if there are no Class A Notes or Class B Notes then outstanding, by an Extraordinary Resolution of the Class C Noteholders; or

(iii) proceedings shall be initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws including, for the avoidance of doubt, presentation to the court of an application for an administration order, or an administrative receiver or other receiver, administrator or other similar official shall be appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Issuer or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and in any of the foregoing cases it shall not be discharged within 14 days or if the Issuer shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of its creditors generally; or

(iv) default is made by the Issuer in the performance or observance of any obligation, condition or provision binding on it under the Notes or the Trust Deed or the Deed of Charge or the Administration Agreement (other than any obligation for the payment of any principal or interest on the Notes) and, except where in the opinion of the Trustee such default is not capable of remedy, such default continues for 30 days after written notice by the Trustee to the Issuer requiring the same to be remedied provided that for the avoidance of doubt, a failure to make or procure any payment required under Condition 5(i) by reason of any failure on the part of the Remarketing Agent or the A1 Note Conditional Purchaser to perform its respective obligations under the relevant Documents shall not constitute a default for the purposes of this Condition 9; or

(v) the Issuer ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended,

modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities but ignoring any liability under the Subordinated Loan Agreement, the Fee Letter and the Services Letter) or otherwise becomes insolvent.

10. Enforcement and Post Enforcement Call Option

At any time after the Notes become due and repayable at their Principal Amount Outstanding, subject to Condition 7, the Trustee may, at its discretion and without further notice, take such steps and/or institute such proceedings as it may think fit to enforce the Security for the Notes and to enforce repayment of the Notes and payment of interest, but it shall not be bound to take any such steps or proceedings unless (i) it shall have been (1) so directed in writing by the holders of at least one-quarter of the aggregate of the GBP Equivalent Principal Amount Outstanding of the Class A Notes outstanding or if so directed by an Extraordinary Resolution of the Class A Noteholders, or (2) if there are no Class A Notes then outstanding, so directed in writing by the holders of at least one-quarter of the aggregate of the GBP Equivalent Principal Amount Outstanding of the Class B Notes outstanding or if so directed by an Extraordinary Resolution of the Class B Noteholders, or (3) if there are no Class A Notes and no Class B Notes then outstanding, so directed in writing by the holders of at least one-quarter of the GBP Equivalent Principal Amount Outstanding of the Class C Notes outstanding or if so directed by an Extraordinary Resolution of the Class C Noteholders and (ii) it shall have been indemnified to its satisfaction.

Notwithstanding the foregoing:

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

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

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

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

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class B Notes under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class B Notes and all other claims ranking *pari passu* therewith, then the Class B Noteholders shall, upon the Security having been enforced and realised to the maximum possible extent as certified by the Trustee, be forthwith entitled to their respective shares of such remaining proceeds (as determined in accordance with the provisions of the Deed of Charge) and, after payment to each Class B Noteholder of its respective share of such remaining proceeds, all interests in the Permanent Global Class B Note of a particular class will be automatically exchanged for equivalent interests in an equivalent amount of Class B Notes of such class in definitive form and such Permanent Global Class B Note (if any) will be cancelled. On the date of such exchange, the Trustee (on behalf of all of the Class B Noteholders) will, at the request of Paragon Options PLC ("**POPLC**"), transfer for a consideration of £0.01 per Class Ba Note and €0.01 per Class B1b Note all (but not some only) of the Class B Notes to POPLC or to one of PGC's subsidiaries pursuant to the option granted to POPLC by the Trustee (as agent for the Class B7a Noteholders but without any personal liability on the part of the Trustee) pursuant to the Post-Enforcement Call Option Deed. Immediately upon such transfer, no such former Class B Noteholder shall have any further interest in the Class B Notes of the relevant class. Each of the Class B Noteholders acknowledges that the Trustee has the authority and the power to bind the Class B Noteholders in accordance with the terms and conditions set out in the Post-Enforcement Call Option Deed and each Class B Noteholder, by subscribing for or purchasing Class B Notes, agrees to be bound.

In the event that the Security is enforced and, after payment of all other claims ranking in priority to the Class C Notes under the Deed of Charge, the remaining proceeds of such enforcement are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Class C Notes and all other claims ranking *pari passu* therewith, then the Class C Noteholders shall, upon the Security having been enforced and realised to the maximum possible extent as certified by the Trustee, be forthwith entitled to their respective shares of such remaining proceeds as determined in accordance with the provisions of the Deed of Charge and, after payment to each Class C Noteholder of its respective share of such remaining proceeds, all interests in the Permanent Global Class C Note of a particular class will be automatically exchanged for equivalent interests in an equivalent amount of Class C Notes of such class in definitive form and such Permanent Global Class C Note (if any) will be cancelled. On the date of such exchange, the Trustee (on behalf of all of the Class C Noteholders) will, at the request of POPLC, transfer for a consideration of £0.01 per Class C1a Note and €0.01 per Class C1b Note all (but not some only) of the Class C Notes to POPLC or to one of PGC's subsidiaries pursuant to the option granted to POPLC by the Trustee (as agent for the Class C Noteholders but without any personal liability on the part of the Trustee) pursuant to the Post-Enforcement Call Option Deed. Immediately upon such transfer, no such former Class C Noteholder shall have any further interest in the Class C Notes of the relevant class. Each of the Class C Noteholders acknowledges that the Trustee has the authority and the power to bind the Class C Noteholders in accordance with the terms and conditions set out in the Post-Enforcement Call Option Deed and each Class C Noteholder, by subscribing for or purchasing Class C Notes, agrees to be bound.

11. Replacement of Notes

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

12. Notices

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

(a) if information concerned in such notice shall appear on the relevant page of the Reuters Screen (presently page PGCPM10) or such other medium for the electronic display of data as may be approved by the Trustee and notified to Noteholders (the "**Relevant Screen**"), and in such case such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen; or

(b) if published in the *Financial Times* and *The Wall Street Journal* or, if any such newspaper shall cease to be published or, if timely publication therein is not practicable, in such other leading daily newspaper or newspapers printed in the English language as the Trustee shall approve in advance having (individually or in combination) a general circulation in the United Kingdom, Europe and, while any Rule 144A Note remains outstanding, the United States, and in each such case such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper or in one of the newspapers referred to above; or

(c) if sent to them by first class post (or its equivalent) or (if posted to an address outside the United Kingdom) by airmail at the respective addresses on the Register, and in such case such notice will be deemed to have been given on the fourth day after the date of posting; or

(d) whilst the Notes then held by those Noteholders are represented by a Global Note, if delivered to DTC in the case of the Global Rule 144A Note, or to Euroclear and/or Clearstream, Luxembourg in the case of a Global Reg S Note, for communication by them to those Noteholders, and in such case such notice shall be deemed to have been given to the relevant Noteholders on the day of such delivery to DTC, Euroclear and/or Clearstream, Luxembourg, as appropriate; or

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

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

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

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

13. Meetings of Noteholders; Modifications; Consents; Waiver

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

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

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

Resolution by the Relevant Noteholders shall be two or more persons holding or representing over 75 per cent. of the aggregate GBP Equivalent Initial Principal Amount of the Notes then outstanding held by the Relevant Noteholders, or at any adjourned such meeting two or more persons holding or representing over 25 per cent. of the aggregate GBP Equivalent Initial Principal Amount of the Notes then outstanding held by the Relevant Noteholders. The quorum at any meeting of the Relevant Noteholders of any class of Notes for all business other than voting on an Extraordinary Resolution shall be two or more persons holding or representing not less than 5 per cent. of the aggregate GBP Equivalent Initial Principal Amount then outstanding held by the Relevant Noteholders or at any adjourned such meeting, two or more persons being or representing the Relevant Noteholders, whatever the aggregate GBP Equivalent Initial Principal Amount of the Notes then outstanding held by the Relevant Noteholders. While any Notes are represented by a Global Note or all such Notes are held by the same person, the holder of that Global Note or that person (as the case may be) shall be deemed to constitute a quorum for the purposes of meetings of or including the Relevant Noteholders of those Notes.

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

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

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

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

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

waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification shall be notified to the Noteholders in accordance with Condition 12 as soon as practicable thereafter.

14. Indemnification of the Trustee

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

15. Notifications and Other Matters to be Final

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

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

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

17. Governing Law and Jurisdiction

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

USE OF PROCEEDS

The gross proceeds from the issue of the Notes on the Closing Date will be £1,000,352,569 (after exchanging the proceeds of the USD Notes and EUR Notes under the relevant Currency Swap Agreements). Commissions will be payable to the Managers under the Subscription Agreement in connection with the issue of certain classes of the Notes as described in "Subscription and Sale" below. These commissions, together with certain other expenses of the issues, will be paid on behalf of or reimbursed to the Issuer by the Issue Services Provider as described in "The Issuer – Fee Letter" below. The net proceeds from the issue of the Notes, which will be approximately £999,502,269 (after exchanging the proceeds of the USD Notes and EUR Notes under the relevant Currency Swap Agreements and the sums paid by the Issue Services Provider to the Issuer in respect of such commissions and expenses on the Closing Date), will be applied towards payment to the Sellers of the purchase price for the Mortgages to be purchased pursuant to the Mortgage Sale Agreement on the Closing Date and creating the Pre-Funding Reserve which may be applied up to the first Principal Determination Date in purchase of the Non-Verified Mortgages.

RATINGS

The classes of Notes are expected on issue to be assigned the following ratings:

	Rating		
Class of Notes	*Fitch*	*Moody's*	*Standard & Poor's*
Class A1	F1+	P-1	A-1+
Class A2a	AAA	Aaa	AAA
Class A2b	AAA	Aaa	AAA
Class B1a	AA	Aa2	AA
Class B1b	AA	Aa2	AA
Class C1a	A	A2	A
Class C1b	A	A2	A

Certain risks relating to the ratings of the Notes are described in "Risk Factors – The Issuer's ability to meet its obligations under the Notes" above. 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.

ESTIMATED AVERAGE LIVES OF THE NOTES

For the purposes of this section of this Offering Circular, the average life of the Notes refers to the average amount of time that will elapse from the date of issuance of the Notes to the date of distribution to the relevant Noteholder of amounts distributed in net reduction of principal of such Notes (assuming no losses).

The average lives of the Notes cannot be predicted with any certainty, as the actual rate of redemption and prepayments under the Mortgages and a number of other relevant factors are unknown.

Calculations of the estimated average lives of the Notes can be made based on a model using certain assumptions. For example, the following tables were prepared based on the characteristics of the Mortgages to be included in the pool of Mortgages to be purchased by the Issuer and the following additional modelling assumptions:

(a) the portfolio of Mortgages to be purchased by the Issuer consists of Mortgages acquired on the Closing Date, each having the characteristics defined below:

Collateral Line	*Principal Balance*	*WA Initial Rate*	*WA Rem Term (Months)*	*Interest Only Period (Months)*	*Repline*
1	166,530,533.18	5.99%	256	255	IO, Float
2	439,059,658.41	5.29%	264	263	IO, Fix
3	33,535,007.99	5.38%	272	—	REP, Fix
4	18,827,400.99	6.25%	216	—	REP, Float
	657,952,600.57	**5.50%**	**261**		

(b) the Issuer exercises its rights to redeem the Notes on the earlier to occur of (i) the Interest Payment Date falling in December 2010 and (ii) the Interest Payment Date on which the aggregate GBP Equivalent Principal Liability Outstanding of all of the Notes is less than £200,070,514;

(c) the Mortgages are subject to repayments (without including Flexible Drawing Advances) at annualised rates expressed as a percentage of the outstanding principal amount of the Mortgages ("**CPR**") assumed to fall into the range indicated in the relevant column headings in the table below;

(d) there are no enforcements after the Closing Date;

(e) no Mortgages are sold or purchased by the Issuer after the Closing Date;

(f) there are no Further Advances or conversions in respect of the Mortgages;

(g) the Mortgages continue to be fully performing;

(h) no principal deficiency arises;

(i) the portfolio composition of Mortgage characteristics remains the same throughout the life of the Notes;

(j) the Notes will be redeemed in accordance with the Conditions;

(k) the Class A1 Notes will be transferred on the first A1 Note Mandatory Transfer Date; and

(l) the Closing Date is 17 November 2005.

The average annualised repayment, redemption and prepayment rates on the Mortgages referred to in assumption (c) above may substantially vary from one Interest Period to another. The average annualised repayment, redemption and prepayment rates shown above are purely illustrative and do not represent the full range of possibilities for such Mortgages.

Assumptions (d) to (k) above relate to circumstances which are not predictable.

The actual characteristics and performance of the Mortgages are likely to differ from the assumptions used in constructing the tables set forth below, which are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected that the Mortgages will prepay at a constant rate until maturity, that all of the Mortgages will prepay at the same rate or that there will be no defaults or delinquencies on the Mortgages. Any difference between such assumptions and the actual characteristics and performance of the Mortgages will cause the weighted average life of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage of CPR.

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of payment of principal (including prepayments, redemptions before the end of the mortgage term, Flexible Drawing Advances under Flexible Mortgages, sale proceeds arising on enforcement of a Mortgage and repurchases of Mortgages due to, among other things, breaches of any of the warranties given by the Sellers under the Mortgage Sale Agreement) on the Mortgages and the price paid by the holders of the Notes. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayments on the Mortgages.

It will also be affected by the fact that 13.94 per cent. of Mortgages by value of drawn balances in the Provisional Mortgage Pool are Flexible Mortgages which provide the relevant Borrower with the option to obtain Flexible Drawing Advances if and to the extent that such Borrower has previously made prepayments on its Mortgage in excess of the scheduled principal repayments and has not previously redrawn the whole of such excess payments. However, the amount of such Flexible Drawing Advance is limited to ensure that the outstanding balance of the Mortgage after such Flexible Drawing Advance is no greater than the principal balance of the Mortgage which would have been outstanding at such time if the Borrower had made payments in accordance with the repayment plan used by the Administrator to provide a baseline for repayment of the Mortgage. See "Mortgage Administration – Further Advances – Mandatory Further Advances" below for a description of how Flexible Drawing Advances are to be funded by the Issuer.

Redemptions before the end of a mortgage term may be as a result of a Borrower voluntarily refinancing or selling the relevant property or as a result of enforcement proceedings under the relevant Mortgage, as well as the receipt of proceeds from buildings insurance and life insurance policies (where relevant).

In addition, repurchases of Mortgages required to be made under the Mortgage Sale Agreement will have the same effect as early redemption of such Mortgages.

The rates of redemption and prepayment and the amount of Flexible Drawing Advances by Borrowers under Flexible Mortgages cannot be predicted and are influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing, local and regional economic conditions and homeowner mobility. Therefore, no assurance can be given as to the level of prepayments, redemptions and Flexible Drawing Advances that the Mortgage Pool will experience.

Subject to the foregoing discussions and assumptions, the following tables indicate the estimated average lives of the Notes calculated on the basis indicated above:

Estimated average life of the Notes in years

Class	*0 per cent. CPR*	*5 per cent. CPR*	*10 per cent. CPR*	*15 per cent. CPR*	*20 per cent. CPR*	*25 per cent. CPR*	*30 per cent. CPR*	*35 per cent. CPR*
A1 Notes . . .	0.83	0.81	0.79	0.77	0.75	0.73	0.71	0.69
A2 Notes . . .	5.08	5.08	5.08	5.08	5.03	4.66	3.97	3.32
B Notes	5.08	5.08	5.08	5.08	5.08	5.08	4.58	3.83
C Notes	5.08	5.08	5.08	5.08	5.08	5.08	4.58	3.83

The average lives of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the above assumptions and estimates will prove in any way to be realistic and the above estimated average lives must therefore be viewed with caution.

THE ISSUER

Introduction

The Issuer was incorporated in England (registered number 4514738) as a public limited company under the Companies Act 1985 on 20 August 2002 as Paragon Mortgages (No.10) PLC. The registered office of the Issuer is at St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. Twenty six per cent. of the share capital of the Issuer is held by Paragon Mortgages (No. 16) Limited, a company limited by guarantee incorporated under the laws of England (registered number 4786771) and seventy four per cent. of the share capital of the Issuer is held by 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. 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 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 the Paragon VAT Group and, in each case, any other activities incidental to any of the foregoing. The Issuer has not, prior to the Closing Date, commenced operations.

Since 20 August 2002, being the date of incorporation of the Issuer, there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer.

Directors and Secretary

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

Name	*Business Address*	*Principal activities*
Nicholas Keen	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Finance Director of PGC, PFPLC, POPLC, each Seller, MTL and the Warehouser
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, POPLC, each Seller, MTL and the Warehouser
Richard Shelton	St. Catherine's Court Herbert Road Solihull West Midlands B91 3QE	Solicitor and Director of PFPLC, POPLC, each Seller, MTL and the Warehouser
Adem Mehmet	30-34 Moorgate London EC2R 6PQ	Director of PFPLC, POPLC, each Seller, MTL and the Warehouser
James Fairrie	Tower 42, Level 11 25 Old Broad Street London EC2N 1HQ	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 in arrear on or after the first Business Day after each Interest Payment Date 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 "Terms and Conditions of the Notes – 3. Covenants of the Issuer" above.

Fee Letter

PFPLC (in such capacity, the "**Issue Services Provider**"), has agreed to arrange the issue of the Notes on behalf of the Issuer. In particular, the Issue Services Provider 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 Managers. PFPLC will pay, on behalf of the Issuer, or reimburse to the Issuer, any expenses payable by the Issuer in connection with the issue of the Notes.

The Issuer will agree under a fee letter to be entered into on the Closing Date between the Issuer, PFPLC, and the Trustee (the "**Fee Letter**") that it will pay the Issue Services Provider an arrangement fee of 0.4 per cent. of the aggregate GBP Equivalent Initial Principal Amount of the Notes and that it will repay PFPLC all expenses paid by PFPLC in connection with the issue of the Notes in instalments on the business day following each Interest Payment Date over a period of four years from the Closing Date. Amounts to be paid under the Fee Letter will bear interest at a rate of 4 per cent. per annum above the Reference Rate applicable to the GBP Notes during the Interest Period relating to the Notes ending on (but excluding) that Interest Payment Date as determined under Condition 4 (or such other rate which PFPLC and the Issuer agree to be a fair commercial rate at the time) payable in arrear on the business day following each Interest Payment Date (including any value added tax chargeable thereon as applicable). Amounts owing to the Issue Services Provider under the Fee Letter will be subordinated in the manner described in "Summary – Priority of Payments – prior to enforcement" above.

Subordinated Loan Agreement

By the Subordinated Loan Agreement (which is to be made between each Subordinated Lender, the Issuer and the Trustee and to be dated the Closing Date) the Subordinated Lenders 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, the Subordinated Lenders 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, but without prejudice thereto, each Subordinated Lender may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances.

In addition, the Subordinated Lenders may, at their 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, the Subordinated Lenders may, at their 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 each Subordinated Lender, for the purpose of establishing or increasing the Shortfall Fund and, in addition, the Subordinated Lenders 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 the Additional Subordinated Lenders on the terms of the Subordinated Loan Agreement. Amounts owing to any Additional Subordinated Lenders under the Subordinated Loan Agreement will be subordinated in the manner described in "Summary – Priority of Payments – prior to enforcement" above.

The Subordinated Lenders 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 Hedge Provider Subordinated Amounts due and payable to each 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.

In addition, further drawings will be made by the Issuer under the Subordinated Loan Agreement in order to fund (if necessary) purchases by the Issuer of amounts represented by unamortised cashbacks and discounts in relation to Non-Verified Mortgages.

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 15 March 2006 on the amount of the loan at the rate of 4 per cent. per annum above the Reference Rate applicable to the GBP Notes during the Interest Period relating to those Notes ending on (but excluding) that Interest Payment Date as determined under Condition 4 (or such other rate which each Subordinated Lender 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 June 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, while any Notes remain outstanding, no such repayment may be made if it would result in the principal amount outstanding in respect of the Subordinated Loan being less than the Required Amount). 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. The Subordinated Lenders 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

Interest rate basis hedging arrangements

On the Closing Date, the Issuer will have entered into hedging arrangements under the Basis Hedge Agreement in accordance with the Rating Agencies' requirements to hedge any Fixed 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 Basis Hedge Providers under the Basis Hedge Agreement.

After payment of, or allocation of amounts to, items (i) to (ix) 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 paragraphs below relating to Withholding Compensation Amounts, under no circumstances will the Issuer be liable to make any payment to the provider of any Cap.

Currency and interest rate hedging arrangements

The Issuer will pay interest and principal on the EUR Notes in EUR and the USD Notes in USD. However, payments of interest and principal by borrowers under the Mortgages to the Issuer will be made in GBP. In addition, the EUR Notes will bear interest at rates based on margins over EURIBOR and the USD Notes will bear interest at rates based on margins over LIBOR for USD deposits as determined in accordance with Condition 4. In order to protect itself against its exposure to the relevant interest rates being calculated by reference to EURIBOR and LIBOR for USD deposits and its currency exchange rate exposure in respect of the EUR Notes and the USD Notes, on or prior to the Closing Date the Issuer and the Currency Swap Provider will enter into the Currency Swap Agreements (comprising the Currency Swap A1 Agreement, the Currency Swap A2b Agreement, the Currency Swap B1b Agreement and the Currency Swap C1b Agreement).

Under the terms of each Currency Swap Agreement, the Issuer will pay to the Currency Swap Provider: (a) on the Closing Date, the proceeds received on the issue of the relevant class of Notes; (b) on each Interest Payment Date, an amount in GBP (each a "**Currency Swap Principal Amount**") equal to the amount available to be applied in repayment of principal on the relevant class of Notes on that Interest Payment Date; and (c) on each Interest Payment Date, an amount in GBP (each a "**Currency Swap Interest Amount**") intended to match the amount of interest which would have accrued upon the relevant class of Notes during the Interest Period ending on (but excluding) that Interest Payment Date if those Notes comprised GBP Notes and the relevant Note Interest Rate Margin had been equal to the spread specified in the relevant Currency Swap Agreement (as defined in Condition 4) and by reference to the GBP Equivalent Principal Liability Outstanding of that class of Notes as at the start of that Interest Period.

Under the terms of each Currency Swap Agreement, the relevant Currency Swap Provider will make the following payments: (a) on the Closing Date, an amount in GBP equal to the proceeds of the issue of the relevant class of Notes converted into GBP at the applicable Currency Swap Rate; (b) on each Interest Payment Date, an amount in the relevant Note Currency equal to the aggregate GBP amount to be applied in repayment of principal on the relevant class of Notes on such Interest Payment Date converted in that Note Currency at the applicable Currency Swap Rate; and (c) on each Interest Payment Date, an amount in the relevant Note Currency intended to match the amount of interest on the relevant class of Notes payable on such Interest Payment Date (subject to proportionate reduction by reference to any shortfall in the amount or interest paid by the Issuer under that Currency Swap Agreement on that Interest Payment Date). Under the terms of the relevant Currency Swap Agreement, the Issuer and Currency Swap Provider have agreed that each such payment to be made by the relevant Currency Swap Provider shall be made directly to the relevant Paying Agent (for payment to the relevant Noteholders) instead of being paid to the Issuer.

The relevant GBP/USD exchange rate has been set at £1.00 : $1.743 for the Currency Swap A1 Agreement (shown for the purposes of this Offering Circular after rounding downwards to two decimal places) and the relevant GBP/EUR exchange rate has been set at £1.00 : €1.48 for the Currency Swap A2b Agreement, the Currency Swap B1b Agreement and the Currency Swap C1b Agreement (in each case shown for the purposes of this Offering Circular after rounding downwards to two decimal places) (such exchange rates being the "**Currency Swap Rates**").

Ratings of Hedge Provider and transfer of Hedge Agreements

Under each of the Hedge Agreements, in the event that the relevant ratings of the relevant Hedge Provider, or its respective guarantor, as applicable, is or are, as applicable, downgraded by a Rating Agency below the relevant ratings specified (in accordance with the requirements of Fitch, Moody's and S&P) in the Hedge Agreements (the "**Hedge Trigger Ratings**") and (in some cases) as a result of such downgrade the then current ratings of the class of Notes relating to the relevant Hedge Agreement, would or may, as applicable, be adversely affected, then the relevant Hedge Provider will, in accordance with the relevant Hedge Agreement, be required to take certain remedial measures which may include: (i) providing collateral for its obligations under the relevant Hedge Agreement, (ii) arranging for its obligations under the relevant Hedge Agreement to be transferred to an entity with ratings required by the relevant Rating Agency as specified in the relevant Hedge Agreement (in accordance with the requirements of the relevant Rating Agency), (iii) procuring another entity, with ratings required by the relevant Rating Agency as specified in the relevant Hedge Agreement (in accordance with the requirements of the relevant Rating Agency), to become co-obligor in respect of its obligations under the Hedge Agreement, or (iv) taking such other action as it may agree with the relevant Rating Agency.

Where a Hedge Provider provides collateral in accordance with the terms of any Hedge Agreement, such collateral ("**Hedge Collateral**") will, upon receipt by the Issuer, be credited to the Hedge Collateral Ledger (created to record such amounts) and transferred (if in cash form) to the Transaction Account. Any Hedge Collateral provided by a Hedge Provider will not form part of the amounts to be applied under the Revenue Priority of Payments, Principal Priority of Payments or Enforcement Priority of Payments (as defined in Condition 2) except until it is applied in or towards satisfaction of amounts due by the relevant Hedge Provider to the Issuer in accordance with the terms under which the Hedge Collateral was provided.

Provided that it has obtained the prior written approval of the Issuer, any Hedge Provider may, at its own expense, transfer its obligations in respect of any Hedge Agreement to another entity provided that such entity is acceptable to the Trustee and that the Rating Agencies confirm that such transfer of obligations would not result in a downgrade of the then current ratings of the Notes.

Termination payments upon early termination of hedging arrangements

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 Basis Hedge Providers or any Permitted Basis Hedge Provider due to the early redemption, enforcement or sale of Fixed Rate Mortgages and/or Capped Rate Mortgages (to the extent that any Mortgages are converted to Capped Rate Mortgages) prior to the redemption of the Notes. Furthermore, total termination of any swap or other hedging arrangement (including any Currency Swap Agreement, the Basis Hedge Agreements or any Permitted Basis Hedge Agreement) may occur independently of an Event of Default.

The Basis Hedge Agreement and each Currency Swap Agreement may be terminated by the Basis Hedge Providers or the Currency Swap Provider (as appropriate) in circumstances including, broadly, where the Issuer is in default by reason of failure by the Issuer to make payments and where certain insolvency related or corporate reorganisation events affect the Issuer and in the event that proceedings are taken against the Issuer by the Trustee to enforce payment of the Notes. The Basis Hedge Agreement and each Currency Swap Agreement may be terminated by the Issuer in circumstances including, broadly, where the Basis Hedge Providers or the Currency Swap Provider (as appropriate) is in default by reason of failure by the Basis Hedge Providers or the Currency Swap Provider (as appropriate) to make payments, where the Basis Hedge Providers or the Currency Swap Provider (as appropriate) is/are otherwise in breach of the relevant Basis Hedge Agreement or the Currency Swap Agreement (as appropriate) or has/have made a misrepresentation and where certain insolvency related or corporate reorganisation events affect the Basis Hedge Providers or the Currency Swap Provider (as appropriate).

Any termination of a Hedge Agreement (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 relevant 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, and for the purposes of the relevant priority of payments "**Hedge Provider Subordinated Amounts**" means on any Interest Payment Date in relation to a Hedge Agreement the amount, if any, due to the relevant Hedge Provider on that Interest Payment Date (excluding the amount of any Hedge Collateral which is not to be applied

towards any termination payment from the relevant Hedge Provider) in connection with a termination of that Hedge Agreement where such termination has arisen as a result of an Event of Default where that Hedge Provider is the Defaulting Party or as a result of a Termination Event where that Hedge Provider is the Affected Party (and for these purposes Event of Default, Defaulting Party, Termination Event and Affected Party have the meanings indicated in that Hedge Agreement).

Where the Issuer enters into a further Hedge Agreement to replace all or part of any Hedge Agreement which terminates early, the Issuer shall upon receipt apply the amount, if any, received in consideration for entry into that replacement Hedge Agreement in or towards payment of any termination payment then payable by the Issuer to the relevant Hedge Provider in respect of that Hedge Agreement which has terminated early and the remainder of that amount, if any, shall be credited to the Revenue Ledger.

Any termination 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 (to the extent that any Mortgages are converted to Capped Rate Mortgages) 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.

Withholding Compensation Amounts

If the Issuer, the Currency Swap Provider or a Basis Hedge Provider is required to make any deduction or withholding for or on account of United Kingdom tax from any amounts payable by it under any Currency Swap Agreement or the Basis Hedge Agreement (as applicable) on any Interest Payment Date, then under the terms of the relevant Currency Swap Agreement and the Basis Hedge Agreement, (i) the Currency Swap Provider or the relevant Basis Hedge Provider (as applicable) 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 Currency Swap Provider or the relevant Basis Hedge Provider (as applicable), 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 Currency Swap Provider or the relevant Basis Hedge Provider (as applicable) in respect of such withholding or deduction.

However, under each Currency Swap Agreement and the Basis Hedge 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 Currency Swap Provider or a Basis Hedge Provider (as applicable) an amount or amounts ("**Withholding Compensation Amounts**") equal to (i) any Additional Amounts so paid by the Currency Swap Provider or such Basis Hedge Provider (as applicable) to the Issuer on such Interest Payment Date together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Additional Amounts paid by the Currency Swap Provider or such Basis Hedge Provider (as applicable) under the relevant Currency Swap Agreement or the Basis Hedge Agreement (as applicable) on any previous Interest Payment Date, and (ii) any Withheld Amount on such Interest Payment Date, together with, to the extent not paid on any previous Interest Payment Date, an amount equal to any Withheld Amount applicable to any previous Interest Payment Date.

Any hedging arrangement entered into with a Permitted Basis Hedge Provider 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 Basis Hedge Provider in similar circumstances to those so described.

Capitalisation and indebtedness

The capitalisation of the Issuer as at the date of this document is as follows:

Share capital	£
Authorised 50,000 ordinary shares of £1 each	50,000.00
Issued 50,000 ordinary shares of £1 each (two fully paid and 49,998 paid up as to 25 pence each)	12,501.50
Borrowings	0.00

Notes:

(1) The Issuer expects to issue the Notes on the Closing Date. 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 £18,606,558. The Notes and the Subordinated Loan Agreement will have the benefit of security.

(2) As at the date of this document 74 per cent. of the issued shares in the Issuer are held by PGC and 26 per cent. are held by Paragon Mortgages (No.16) Limited.

The current financial period of the Issuer will end on 30 September 2006. As at the date of 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.

There has been no material adverse change in the financial position or prospects of the Issuer since the date of its incorporation.

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. Revenue & Customs. 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. Revenue & Customs 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 £192,000 The Issuer will on the Closing Date become one of the beneficiaries of the trust (the other beneficiaries being, at the date of this Offering Circular, other special purpose companies holding mortgage assets administered by a member of the Paragon VAT Group) in relation to the VAT Account, such trust being constituted by a declaration of trust dated 19 March 1993, as subsequently supplemented, amended and restated (the "**VAT Declaration of Trust**").

THE BASIS HEDGE PROVIDERS AND THE CURRENCY SWAP PROVIDER

On the Closing Date, the Basis Hedge Providers will be JPMorgan Chase Bank, National Association and ABN AMRO Bank N.V., London Branch and the Currency Swap Provider will be HSBC Bank plc.

JPMorgan Chase Bank, National Association

JPMorgan Chase Bank, National Association ("**JPMCB**") is a wholly owned bank subsidiary of JPMorgan Chase & Co. ("**JPMorgan Chase**"), a Delaware corporation whose principal office is located in New York, New York. JPMCB is a commercial bank offering a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

Effective July 1, 2004, Bank One Corporation merged with and into JPMorgan Chase, the surviving corporation in the merger. Prior to November 13, 2004, JPMCB was a New York state-chartered bank and was named JPMorgan Chase Bank. On that date, it became a national banking association and its name was changed to JPMorgan Chase Bank, National Association (the "**Conversion**"). Immediately following the Conversion, Bank One, N.A. (Chicago) and Bank One, N.A. (Columbus) merged into JPMCB.

As of June 30, 2005, JPMorgan Chase Bank, National Association, had total assets of $973.1 billion, total net loans of $372.6 billion, total deposits of $529.2 billion, and total stockholder's equity of $83.2 billion. These figures are extracted from JPMCB's unaudited Consolidated Reports of Condition and Income as at June 30, 2005, which are filed with the Board of Governors of the Federal Reserve System.

Additional information, including the most recent Form 10-K for the year ended December 31, 2004, of JPMorgan Chase & Co., the 2004 Annual Report of JPMorgan Chase & Co. and additional annual, quarterly and current reports filed or furnished with the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Offering Circular is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

The information contained in the preceding four paragraphs relates to and has been obtained from JPMCB. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of JPMCB since the date hereof, or that the information contained or referred to in the preceding four paragraphs is correct as of any time subsequent to its date.

ABN AMRO Bank, N.V.

ABN AMRO Holding N.V. ("**ABN AMRO Holding**") is the holding company of ABN AMRO Bank N.V. and is incorporated as a limited liability company under Dutch law by deed of 30 May 1990. ABN AMRO Holding's main purpose is to own ABN AMRO Bank N.V. and its subsidiaries. ABN AMRO Holding owns 100 per cent. of the shares of ABN AMRO Bank N.V. and is jointly and severally liable for all liabilities of ABN AMRO Bank N.V. ABN AMRO Bank N.V. is registered in the Commercial Register of Amsterdam under number 33002587. The registered office of ABN AMRO Bank N.V. is at Gustav Mahlerlaan 10, 1082 PP Amsterdam, the Netherlands.

The ABN AMRO group ("**ABN AMRO**"), which consists of ABN AMRO Holding and its subsidiaries, is a global banking group offering a wide range of commercial and investment banking products and services on a global basis through its network of more than 3,000 offices and branches in more than 60 countries and territories. ABN AMRO is a prominent international bank, its history going back to 1824. ABN AMRO ranks 11th in Europe and 20th in the world based on tier 1 capital. ABN AMRO had total assets of EUR 855.7 billion (as at 30 June 2005) and employs a staff of more than 97,000 full-time equivalents.

The long-term, unsecured, unsubordinated and unguaranteed debt obligations of ABN AMRO are currently rated AA– by Standard & Poors, Aa3 by Moody's and AA– by Fitch IBCA. The short-term, unsecured, unsubordinated and unguaranteed debt obligations of ABN AMRO are currently rated A-1+ by Standard & Poors, P-1 by Moody's and F1+ by Fitch IBCA.

All press releases issued by ABN AMRO can be obtained from the ABN AMRO website at http://www.abnamro.com/pressroom.

The information in the preceding four paragraphs has been provided solely by ABN AMRO for use in this Offering Circular and ABN AMRO is solely responsible for the accuracy of the preceding five paragraphs. Except for the foregoing four paragraphs, ABN AMRO Bank N.V., in its capacity as Basis Hedge Provider and its affiliates have not been involved in the preparation of, and do not accept responsibility for, this Offering Circular.

The information contained above in this section headed "The Basis Hedge Providers and the Currency Swap Provider" relates to and has been obtained from each of the Basis Hedge Providers. The delivery of this Offering Circular shall not create any implication that there has been no change in the affairs either of the Basis Hedge Providers or the Currency Swap Provider since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.

THE CURRENCY SWAP PROVIDER

On the Closing Date, the Currency Swap Counterparty will be HSBC Bank plc acting through its office at 8 Canada Square, Level 3, London E14 5HQ.

HSBC Bank plc and its subsidiaries form a UK-based group providing a comprehensive range of banking and related financial services.

HSBC Bank plc (formerly Midland Bank plc) was formed in England in 1836 and subsequently incorporated as a limited company in 1880. In 1923, the company adopted the name of Midland Bank Limited which it held until 1982 when it re-registered and changed its name to Midland Bank plc.

During the year ended 31 December 1992, Midland Bank plc became a wholly owned subsidiary undertaking of HSBC Holdings plc, whose Group Head Office is at 8 Canada Square, London E14 5HQ. HSBC Bank plc adopted its current name, changing from Midland Bank plc, in the year ended 31 December 1999.

The HSBC Group is one of the largest banking and financial services organisations in the world, with over 9,700 offices in 77 countries and territories in five geographical regions: Europe; Hong Kong SAR; the rest of Asia-Pacific, including the Middle East and Africa; North America and South America. Its total assets at 30 June 2005 were £818 billion. HSBC Bank plc is the HSBC Group's principal operating subsidiary undertaking in Europe.

The short-term unsecured obligations of HSBC Bank plc are currently rated F1+ by Fitch, P-1 by Moody's and A-1+ by S&P and the long-term obligations of HSBC Bank plc are currently rated AA by Fitch, Aa2 by Moody's and AA– by S&P.

The information contained above in this section relates to and has been obtained from the Currency Swap Counterparty. The delivery of the Offering Circular shall not create any implication that there has been no change in the affairs of the Currency Swap Counterparty 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.

THE FLEXIBLE DRAWING FACILITY PROVIDER AND REMARKETING AGENT

On the Closing Date, the Flexible Drawing Facility Provider will be Barclays Bank PLC acting through its office at 1 Churchill Place, London E14 5HP and the Remarketing Agent will be Barclays Bank PLC acting through its office at 5 The North Colonnade, Canary Wharf, London E14 4BB.

Barclays Bank PLC is a public limited company registered in England and Wales under number 1026167. The liability of members of Barclays Bank PLC is limited. It has its registered and head office at 1 Churchill Place, London E14 5HP. Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank PLC".

Barclays Bank PLC and its subsidiary undertakings (taken together, the "**Barclays Group**") is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The Barclays Group also operates in many other countries around the world. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC, which is the ultimate holding company of the Barclays Group and one of the largest financial services companies in the world by market capitalisation.

The short term unsecured obligations of Barclays Bank PLC are rated A-1+ by S&P, P-1 by Moody's and F1+ by Fitch and the long term obligations of Barclays Bank PLC are rated AA by S&P, Aa1 by Moody's and AA+ by Fitch.

From 2005, the Barclays Groups will prepare financial statements on the basis of International Financial Reporting Standards ("IFRS"). Based on the unaudited interim financial information as at and for the

period ended 30 June 2005, prepared in accordance with IFRS, the Barclays Group had total assets of £850,362 million, total net loans and advances of £272,348 million, total deposits or £302,253 million, and shareholders' equity (excluding minority interests) or £21,824 million. The profit before taxation of the Barclays Group for the period ended 30 June 2005 was £2,690 million after charging an impairment loss on loans and advances and other credit risk provisions of £706 million.

The Barclays Group's audited financial statements for the year ended 31 December 2004 were prepared in accordance with UK Generally Accepted Accounting Principles ("**UK GAAP**"). On this basis, as at 31 December 2004, the Group had total assets of £522,253 million, total net loans and advances of £330,077 million, total deposits of £328,742 million and total shareholders' funds of £18,271 million (including £690 million of non-equity funds). The profit before taxation under UK GAAP for the year ended 31 December 2004 was £4,612 million after charging net provisions for bad and doubtful debts of £1,091 million.

THE MORTGAGES

Origination of the Mortgages

All of the Mortgages forming part of the initial security for the Notes have been originated by the Originators and will be sold to the Issuer by the relevant Seller.

PML (being one of the Originators and one of the Sellers) 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 originate mortgage loans secured on residential or other properties within the British Isles or elsewhere and to acquire mortgage loans from third parties.

MTL (being one of the Originators) is a private limited company incorporated under the laws of England, registered number 2048895, and since 30 June 2003 has been a wholly owned subsidiary of PGC. The registered address of MTL is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. MTL was incorporated on 21 August 1986 as Mortgage Trust Limited and on 4 September 1998 it was re-registered as a public limited company and changed its name to First Active Financial plc. On 16 February 2001 MTL changed its name to Britannic Money plc and then on 26 September 2003 was re-registered as a private limited company and renamed Mortgage Trust Limited. Since incorporation, MTL has become an established centralised lender operating in a variety of niche markets in the United Kingdom and its principal activities are the origination and servicing of residential mortgage loans on properties located across the United Kingdom.

MTS (being one of the Sellers) is a public limited company incorporated under the laws of England, registered number 3940202, and since 30 June 2003 has been a wholly owned subsidiary of PGC. The registered address of MTS is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. MTS was incorporated on 1 March 2000 as firstactive.com plc and on 16 February 2001 it changed its name to britannicmoney.com plc and on 26 September 2003 changed its name to Mortgage Trust Services plc. MTS's principal activity is the servicing of mortgage loans on properties across the United Kingdom.

Introduction of Mortgage Business

Each Originator 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 34 years. No Mortgage will fall to be repaid later than 8 May 2039.

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**"), by mortgages or charges over freehold or long leasehold properties located in Northern Ireland ("**Northern Irish Mortgages**") or by standard securities over heritable or long leasehold residential properties located in Scotland ("**Scottish Mortgages**"). The English Mortgages, the Northern Irish Mortgages and the Scottish Mortgages are governed by applicable English law, Northern Irish law and Scots law respectively. The Issuer will have the benefit of warranties by the relevant Seller in relation to the Mortgages sold by it to the Issuer, 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**"), in Northern Ireland (the "**Northern Irish Properties**") or in Scotland (the "**Scottish Properties**"). In the case of leasehold or (in Scotland) long leasehold Properties the lease has, except where permitted under the lending criteria, at least 30 years to run beyond the term of the relevant Mortgage.

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, Northern Ireland or Scotland (Mortgages where the borrowers are such limited liability companies being "**Corporate Mortgages**").

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 investment home mortgages (each an "**Investment Home Mortgage**"), which relate to property purchased by the borrower to be occupied by tenants or held as an investment.

Investment Home 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, Northern Ireland or Scotland. The properties in respect of Investment Home 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, or, in Northern Ireland, an agreement which confers similar rights as an assured shorthold tenancy on the landlord and tenant) 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 ''Risk Factors – Other matters – Risks associated with non-owner occupied Properties'' above).

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. The relevant Originator recommends (but may 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**"). The relevant Originator recommends (but may 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). Neither the Originators, the Sellers, MTS (in its capacity as Administrator), PFPLC nor the Warehouser has verified that the borrower has any such ability or other source of funds and has not obtained security over the borrower's right in respect of any such other source of funds. 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.

Mortgage Interest Rate Types

The Mortgages will comprise any one of the following:

(i) a Mortgage under which for a fixed 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 (being, during each such period, a ''**Fixed Rate Mortgage**'');

(ii) a Mortgage under which the borrower is required to pay interest at a fixed margin over three month LIBOR for GBP deposits ("**Mortgage LIBOR**") determined quarterly (being, during each period in which interest accrues in that manner, a "**LIBOR-Linked Mortgage**");

(iii) a Mortgage under which the borrower is required to pay interest at a fixed margin over the Bank of England base rate (being, during each period in which interest accrues in that manner, a "**Base Rate Tracker Mortgage**"); or

(iv) a Mortgage under which the borrower is required to pay interest at a rate equal to Mortgage LIBOR plus a fixed margin up to a specified rate for a specified period of the loan (being, during each such period, a ''**Capped Rate Mortgage**'').

(v) a Mortgage which is not at the relevant time a Fixed Rate Mortgage, LIBOR-Linked Mortgage, or Base Rate Tracker Mortgage or Capped Rate Mortgage and under which the rate of interest payable by the borrower is variable and is capable of being reset by the Issuer or the Administrator (being, during each period in which interest accrues in that manner, a "**Standard Variable Rate Mortgage**").

In this Offering Circular, a "**Non-Standard Mortgage**" is a Mortgage which is either a Fixed Rate Mortgage, LIBOR-Linked Mortgage, Base Rate Tracker Mortgage or Capped Rate Mortgage at the relevant time. In addition, some of the Non-Standard Mortgages and Standard Variable Rate Mortgages are subject to a discounted rate of interest for a specified period. The terms of a Mortgage may provide that a Non-Standard Mortgage shall change to being another type of Non-Standard Mortgage or to a Standard Variable Rate Mortgage after a specified period of time. A Standard Variable Rate Mortgage may be converted into a Non-Standard Mortgage.

Interest on the Mortgages is payable monthly at rates which are currently set by or on behalf of the relevant Originator (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 relevant Administrator on behalf of the Issuer and the Trustee after the sale and sub-charge of the Mortgages.

Flexible Mortgages

A proportion of the Mortgages (each a "**Flexible Mortgage**") provide borrowers with the right to make principal overpayments and to obtain Flexible Drawing Advances from time to time as described below. See "The Provisional Mortgage Pool" below.

In relation to a Flexible Mortgage the borrower has the right to obtain Flexible Drawing Advances up to the then "**Flexible Drawing Available Amount**", being the amount (if any) by which the then Flexible Mortgage Maximum Balance exceeds the actual balance outstanding in respect of the relevant Flexible Mortgage.

For these purposes, the "**Flexible Mortgage Maximum Balance**" at any time is the principal balance which would have been outstanding at such time in respect of the relevant Flexible Mortgage if the relevant borrower had only paid each minimum monthly payment as and when due. In the case of a Repayment Mortgage, the Flexible Mortgage Maximum Balance will reduce over the period of repayment of the advance secured by the Flexible Mortgage by the amount of each scheduled principal repayment comprised in the applicable minimum monthly payment. In the case of an Interest-only Mortgage, the Flexible Mortgage Maximum Balance will usually be the full principal amount initially advanced secured by the Mortgage until repayment by the borrower at the scheduled maturity date. Accordingly, there will be a Flexible Drawing Available Amount during each period when the total payments made by the relevant borrower into his Flexible Mortgage account exceed the aggregate of (a) the total minimum monthly payments that have fallen due and payable in respect of the relevant Flexible Mortgage, and (b) the total amount of Flexible Drawing Advances which the borrower has obtained.

A borrower can obtain Flexible Drawing Advances from time to time in the following two ways:

(i) the relevant borrower may withdraw an amount from his Flexible Mortgage account (each such amount so withdrawn being a "**Flexible Drawing Cash Advance**"); and/or

(ii) the relevant borrower may request, and the Administrator may consent, to one or more of such borrower's monthly payments being met (in whole or in part) by capitalising to his Flexible Mortgage account the amount of interest that was scheduled to be paid by the relevant monthly payment (each such amount of interest so capitalised being a "**Flexible Drawing Capitalised Advance**") and allowing the amount of principal (if any) that was scheduled to have been repaid by the relevant monthly payment to remain outstanding on his Flexible Mortgage account;

in each case to the extent that the amount of such Flexible Drawing Cash Advance or Flexible Drawing Capitalised Advance (each a "**Flexible Drawing Advance**") does not exceed the then Flexible Drawing Available Amount. Each time a Flexible Drawing Advance is made the balance outstanding in respect of the relevant Flexible Mortgage account will increase by the amount of such Flexible Drawing Advance. See "Mortgage Administration – Further Advances – Mandatory Further Advances" below for a description of how Flexible Drawing Cash Advances are to be made by the Issuer. The relevant Originator's and the Administrator's ability to consent to a borrower obtaining a Flexible Drawing Capitalised Advance will be limited by the terms of the Administration Agreement.

Notwithstanding the foregoing, if the balance of the borrower's Flexible Mortgage exceeds the Flexible Mortgage Maximum Balance, the borrower is required immediately to repay the excess. Any Flexible Mortgage which has an outstanding principal balance in excess of the Flexible Mortgage Maximum Balance is treated as in arrears and is administered in accordance with the enforcement procedures described below under ''Mortgage Administration – Arrears and Default Procedures''.

On each occasion that a Flexible Drawing Capitalised Advance is made, the Administrator shall credit the Principal Deficiency Ledger by the amount of such Flexible Drawing Capitalised Advance (given it represents interest which, if it had been paid by the borrower, would have been credited to the Revenue Ledger and if the amount so credited had then been transferred to the Principal Ledger, and then used to fund a Further Advance, an amount equal thereto would have been credited to the Principal Deficiency Ledger).

Under the terms of some Flexible Mortgages the borrower is obliged to pay a monthly commitment fee (the ''**Flexible Mortgage Commitment Fee**'') being calculated by multiplying a predetermined rate by the amount (if any) by which the Flexible Drawing Available Amount exceeds the Flexible Drawing Scheduled Available Amount. For these purposes the ''**Flexible Drawing Scheduled Available Amount**'' is, on the relevant date, a predetermined percentage (not exceeding 20 per cent. at the Closing Date) of the then Flexible Mortgage Maximum Balance. The Administrator may, but is not obliged to, vary that percentage provided that, if and when it is varied, it does not exceed 20 per cent..

The rate of the Flexible Mortgage Commitment Fee payable by the relevant borrower is a percentage per annum (being not less than 1 per cent.) set by the relevant Originator or the relevant Administrator and the relevant Administrator may, but is not obliged to, vary that percentage provided that, if and when it is varied, it is not less than 1 per cent. per annum. Any Flexible Mortgage Commitment Fee payable by a borrower will belong to the Issuer, will be credited to the Revenue Ledger in the Transaction Account and will be available for application in accordance with the relevant priority of payments. As at the Provisional Pool Date, £91,711,509.29 by value and 13.94 per cent. by number of the Mortgages in the Provisional Mortgage Pool are Flexible Mortgages and all of the borrowers in respect of the Flexible Mortgages in the Provisional Mortgage Pool were bound to pay a Flexible Mortgage Commitment Fee.

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.

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

Northern Irish Mortgages

A proportion of the Mortgages are Northern Irish Mortgages. These are secured over the relevant Properties by way of mortgage over unregistered properties or charge over registered properties.

Scottish Mortgages

A proportion of the Mortgages are Scottish Mortgages. Each Scottish Mortgage is secured over the relevant Property by way of a standard security, being the only means of creating a fixed charge or security over heritable property (i.e. land and buildings) 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 Standard Conditions may be varied by agreement between the parties. Most lenders in the residential mortgage market vary the Standard Conditions by way of a ''Deed of

Variations", the terms of which are in turn imported into each Scottish Mortgage. Each Originator has executed a Deed of Variations of Standard Conditions with a view to conforming as far as possible the terms of its Scottish 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 and redemption. Generally, where a breach by a borrower entitles the lender to require repayment an appropriate statutory notice must first be served. Firstly, the lender may serve a "calling up notice" with which the borrower has two months to comply, failing which 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 14 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, and the Administrator will in practice proceed with the remedy most likely to be effective in enforcing or protecting the security. In contrast to the position in England and Wales, a heritable creditor has no power to appoint a receiver under a standard security.

Until recently, on court application being made by the lender for the relevant enforcement remedies (once a default by the borrower had 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. However, this position has been altered by the Mortgage Rights (Scotland) Act 2001, which was brought into force on 3 December 2001. The principal effect of this Act has been 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 lenders' 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, any action taken by the lender to assist the borrower in fulfilling its obligations and the availability of alternative accommodation.

In relation to Scottish Properties the subject of an assured or short assured tenancy, the creditor under a standard security can in certain circumstances seek possession of that Property under Ground 2 of Schedule 5 to the Housing (Scotland) Act 1988. Ground 2 is that a property is subject to a standard security and the creditor is entitled to sell the property because of the debtor's failure to comply with the conditions of the loan secured by the standard security. This ground will apply only where the standard security existed before the creation of the tenancy and if the borrower gave the tenant notice in writing before the creation of the tenancy that possession of the Property may be recovered on this ground, unless the court holds it to be reasonable to waive this requirement. Provided that the prescribed notices have been served on the tenant and Ground 2 is established then the court must grant an order for possession.

The creditor under a standard security is not entitled to recover the rents payable in respect of a Scottish Property until either it has called-up the relevant standard security (and the 2 month period of notice has expired) or it has been granted a decree entitling the creditor to recover the rents.

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years, subject only to the payment of certain sums specified in Section 11 of that Act. The specified sums consist essentially of the principal monies advanced by the lender, interest thereon and expenses incurred by the lender in relation to that standard security.

Acquisition of Mortgages

At the date of this Offering Circular the PML Mortgages and the MTL Mortgages are beneficially owned by the Warehouser (having been previously purchased by the Warehouser from PML and MTS). On the Closing Date PML (being one of the Sellers) will purchase the PML Mortgages and MTS will purchase the MTL Mortgages from the Warehouser and then (also on the Closing Date) PML will sell the PML Mortgages to the Issuer and MTS will sell the MTL Mortgages to the Issuer pursuant to the Mortgage Sale Agreement. In addition, the Issuer may, subject to certain conditions to be specified in the Mortgage Sale Agreement and the Administration Agreement, purchase further Non-Verified Mortgages on any

date following the Closing Date up to and including the first Principal Determination Date. Any such Non-Verified Mortgages purchased by the Issuer must meet the lending criteria referred to below under "Lending Guidelines".

The purchase consideration in respect of the Mortgages purchased on the Closing Date will be paid on the Closing Date, and in respect of the Non-Verified Mortgages purchased on any date following the Closing Date up to and including the first Principal Determination Date, will be paid on such date of purchase. The purchase consideration payable by the Issuer to the relevant Seller in respect of the relevant Mortgages purchased from that Seller shall equal the Initial Purchase Consideration plus the relevant Deferred Purchase Consideration. The "**Initial Purchase Consideration**" shall comprise (i) the then principal balance in respect of the Mortgages sold by the relevant Seller on the relevant purchase date; plus (ii) the amount of unamortised cashbacks and discounts in relation to those Mortgages; plus (iii) the aggregate of all Purchased Pre-Closing Accruals and Arrears in respect of such Mortgages which are Arrears Mortgages; less (iv) in respect of each such Arrears Mortgage, the amount of any provision which has been made against the recovery of amounts due under that Arrears Mortgage (in each case as at the relevant date of purchase). The "**Deferred Purchase Consideration**" shall be payable on each Interest Payment Date subject to and as specified in the applicable priority of payments and shall comprise in relation to the MTL Mortgages to MTS and in relation to the PML Mortgages to PML an amount equal to the remaining balance (if any) of the moneys available on such Interest Payment Date for application in accordance with the section entitled "Summary – Priority of Payments – prior to enforcement" above less an amount equal to 0.01 per cent. of the principal outstanding in respect of the Notes on the Principal Determination Date immediately prior to that Interest Payment Date multiplied by the actual number of days in the relevant Collection Period divided by 365 as agreed between the Issuer, PML and MTS.

Legal title to each of the Mortgages has since origination remained with the relevant Originator and will remain with the relevant Originator until completion of the transfers of the English Mortgages (and, in the case of registered land, their registration at the Land Registry), of the transfers of the Northern Irish Mortgages (and in the case of registered land, their registration at the Land Registry of Northern Ireland and, in the case of unregistered land, their registration at the Registry of Deeds Belfast) and of the assignations of the Scottish Mortgages (and their registration or recording at Registers of Scotland) and notification to any borrower or guarantor. Until these steps are taken, the sale of the English Mortgages and the Northern Irish Mortgages will take effect in equity only and in relation to the Scottish Mortgages, the transfer of the beneficial interest therein will be effected by declarations of trust (each such declaration of trust, a "**Scottish Declaration of Trust**" and, together, the "**Scottish Declarations of Trust**") by the relevant Originator 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 the Land Registry, the Central Land Charges Registry, the Land Registry of Northern Ireland, the Registry of Deeds Belfast or to Registers of Scotland to register or record the Issuer as the new registered or heritable proprietor of any Mortgages or register or record any interest of the Issuer or the Trustee in respect of the 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 the Sellers 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 the relevant Originator retains legal title to a Mortgage, a third party dealing with the relevant Originator could obtain legal title free of the interests of the Issuer and the Trustee. For so long as the relevant Originator retains legal title to a Mortgage, it must be joined as a party to any legal proceedings against any borrower or in relation to the enforcement of that Mortgage. In this regard each Originator and each Seller 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 and direct rights of borrowers against the relevant Originator: 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 (or other analogous rights) as between the relevant borrowers

and the relevant Originator (which, in particular, may arise in relation to the borrower's right to make a Flexible Drawing Advance under a Flexible Mortgage) and the rights of borrowers to redeem their Mortgages by repaying the relevant loan directly to the relevant Originator. 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 the relevant Originator and/or the relevant Seller of its contractual obligations or fraud, negligence or mistake on the part of the relevant Originator, the relevant Seller, the Issuer or their respective personnel or agents.

Until the transfer of the legal title is perfected, the borrower may continue making payment to the relevant Originator. Perfecting legal title would mean that the borrower would no longer be entitled to obtain a good receipt from the relevant Originator as mortgagee. Under the Mortgage Sale Agreement, each Originator and each Seller 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 each Collection Account Declaration of Trust the relevant Collection Account Holder 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 relevant 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 the relevant Originator, the relevant Seller 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 both MTS's and PFPLC's roles as Administrators under the Administration Agreement, or (iii) the relevant Originator being required, by an order of a court of competent jurisdiction, or by a regulatory authority of which the relevant Originator is a member or with whose instructions it is customary for the relevant Originator 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) any date falling after 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, registered owner, beneficial owner or heritable creditor of the Mortgages pending registration or recording will be secured by irrevocable powers of attorney granted by the relevant Originators and Sellers in favour of the Issuer, the relevant Administrators and the Trustee.

Searches and Warranties in respect of the Mortgages

Neither the Administrators, nor any Seller, nor any Originator, 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 and on any date following the Closing Date up to and including the first Principal Determination Date upon which Non-Verified Mortgages are purchased by the Issuer against each relevant Seller, Originator and the Warehouser 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 Further Advance or at any time in relation to compliance by the relevant Originator, the relevant 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 the relevant Seller to the Issuer and the Trustee contained in the Mortgage Sale Agreement. These include warranties given in respect of Mortgages as at the relevant date of purchase pursuant to the Mortgage Sale Agreement 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, charges or standard securities over which no other mortgage, charge 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 each Seller 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 Investment Home Mortgage sold by that Seller to the Issuer (including the amount of any further advance requested by a borrower and actually advanced) together with any Mandatory Further Advances due to be made (excluding any fees or other amounts added to the advance) was not more than 85 per cent. of the lower of (a) the valuation of the relevant Property for security purposes in the opinion of a valuer approved by the relevant Originator, and (b) the purchase price of the relevant Property; 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 a Seller in respect of breach of warranty shall be to require that Seller to repurchase any relevant Mortgage provided that this shall not limit any other remedies available to the Issuer or the Trustee if that Seller fails to repurchase, or procure the repurchase of, a Mortgage when obliged to do so. Each Seller will also agree in the Mortgage Sale Agreement that, if a term of any Individual Mortgage sold by it to the Issuer is at any time on or after the Closing Date found by a competent court, whether on application of a borrower, the Office 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 Subscription Agreement referred to in "Subscription and Sale" below contains warranties by each Administrator, each Originator and each Seller 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, each Administrator and its business, each Originator and its business and the relevant Seller and its business is true and accurate in all material respects.

LENDING GUIDELINES

The guidelines provided by the Originators, to help introducers of mortgage loan business to the Originators 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 that any Mortgage 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). On occasions flexibility to the lending guidelines may have been applied for applications that may be outside of the guidelines detailed below. Such occasions are exceptional and when they occur approval of the case must be made by a senior underwriter and only made where there are other mitigating circumstances which ensure the application remains of the highest quality:

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 The identity of each applicant or guarantor (where applicable) must be established in compliance with the current Joint Money Laundering Steering Group Guidance Notes.

1.4 Each borrower must be resident in the U.K. for tax purposes (except expatriate investment property applicants).

2. Mortgage Requirements

2.1 Applications in respect of a single investment home property will usually be limited in accordance with the following table:

Loan Size	*Maximum LTV*
Up to £500,000	*85 per cent. Excluding fees*
Up to £1,000,000	*80 per cent. Excluding fees*
Up to £5,000,000	*75 per cent. Excluding Fees*

2.2 Multiple applications for investment home properties will be considered up to a total of £40,000,000 per borrower(s).

2.3 Applications in respect of a single owner occupied property will usually be limited as follows:

Loan Size	*Maximum LTV*
Up to £500,000	*100 per cent. Excluding fees* *105 per cent. Including fees*

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

2.5 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 relevant Originator's valuer or a valuer appointed to act on the relevant Originator's behalf, or in the case of a further advance application, an assessed valuation by reference to an applicable house price index, is considered to be suitable security.

3.2 The following are unacceptable to the Originators:

– Properties located other than in the U.K.

– Freehold flats and maisonettes.

– Properties designated under the Housing Act 1985 or the Housing (Scotland) Act 1987 or the Housing (Northern Ireland) Order 1983 (as amended).

– Properties having agricultural restrictions.

3.3 The following will be considered by the Originators 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 or other approved guarantee from an acceptable body. 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, a short assured tenancy or, in Northern Ireland, an agreement which confers similar rights as an assured shorthold tenancy) or in circumstances where the occupier (which may include a body corporate, a 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 public sector body, the maximum length of lease will normally be for a period 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 a comprehensive insurance policy. See "Insurance Coverage" below.

4. Credit History

4.1 A credit search will be carried out in respect of all applicants which, except in respect of MTL's expatriate products, must show no evidence of adverse credit which is material to the assessment of the case. MTL cases will usually be credit scored, using a generic scorecard provided by a credit reference agency, for the assessment of an applicant's historical credit performance.

4.2 Where the applicant(s) has an existing first charge or a first ranking standard security on a property(s)

4.2.1 occupied by them, the Originators require satisfactory evidence of proof of payment. This may take the form of either a lender's reference, mortgage or bank statements or credit bureau information. This requirement may be waived for existing MTL borrowers where the LTV is 75 per cent. or less.

4.2.2 not occupied by them, the Originator will (except for low risk non portfolio applications as detailed below) obtain either a lender's reference, mortgage or bank statements or credit bureau information on a sufficient number of properties to enable a satisfactory payment record to be established.

4.3 Where credit scoring has been used, a combination of the score and the LTV will determine the level of references required. For standard applications with an LTV of 75 per cent. or less, and a credit score deemed to indicate a low risk applicant, a valuation report only may be obtained.

5. Income and Employment Details

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

5.2 Salaried applicants must derive their income from permanent or contracted employment which, other than in exceptional circumstances, is non-probationary. The Originators 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 may be required. This may include, for example, the latest or most recent P60 where this is considered appropriate.

5.3 Where an applicant is defined as self-employed (see 5.4 below), the Originators may require proof of income over an extended period of time where this is considered appropriate. 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 two year period, but this may be reduced where the information submitted is deemed sufficient to establish a usable income figure.

5.4 Applicants are defined as self employed where any of the following circumstances occur unless the applicant can provide the Originator with proof that this is inappropriate:

– An applicant has a liability to tax under any schedule of H.M. Revenue & Customs criteria other than Schedule E (or anything that replaces Schedule E).

– An applicant owns 25 per cent. 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.

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

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

In calculating principal income, up to 50 per cent. 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 per cent. of the total earnings. Where appropriate, the Originator will also consider rental income from tenanted residential property as part of an applicant's principal income.

6. Corporate Mortgages

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

6.2 The Originator 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, the manual index of High Court petitions for administration orders at the Central Registry of Winding Up Petitions, etc.).

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 Administrators in relation to such contracts.

Buildings Insurance

All Properties in respect of PML Mortgages except those mentioned in the following two paragraphs will be insured under the comprehensive block policy (the "**Block Policy**"), with the interests of PGC, the Issuer and the Trustee noted thereon. The Block Policy is a policy with Berkshire Hathaway International Insurance Ltd. which carries on insurance business within the U.K. and whose address is Birchin Court, 20 Birchin Lane, London EC3V 9DU. The premiums will be collected monthly by the relevant Administrator with the interest payments due on the Mortgages. In carrying out its role as an insurance mediator PML is an appointed representative of MTS and complies with the provisions of the FSA's Handbook for the sale of general insurance.

In the case of MTL Mortgages, the borrower is obliged under the terms of the Mortgage to ensure that the relevant Property is insured under a policy with an insurance company against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by MTL's valuer and to procure that MTL is a named insured or its interest has been noted by the insurers.

Where the borrower specifically requested permission to make his own insurance arrangements in relation to any Mortgage, or where such arrangements are dictated by the existence of a lease, the relevant Administrator, will have taken all reasonable steps to ensure that the relevant Property is insured under a policy with an insurance company against all risks usually covered by a comprehensive insurance policy to an amount not less than the full reinstatement value determined by the Originator's valuer and that the Originator 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 Chubb Insurance Company of Europe S.A., an insurance company which carries on insurance business in the U.K. whose registered office is at 8th Floor, 82 King Street, Manchester M2 4WQ. The Mortgage Impairment Contingency Policy indemnifies the insured for damage to Property occurring as a direct result of the failure of the borrower to effect or renew adequate insurance cover, to make or pursue a legitimate insurance claim or to utilise the proceeds of any claim to repair such damage. It also indemnifies the insured in the event that it inadvertently omits to ensure that buildings insurance is in place on any property where it has an interest as mortgagee.

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 relevant 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

The Originators and the Administrators have 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 the relevant Originator in relation to the Mortgages should be covered by the professional indemnity insurance which solicitors are required to maintain by The Law Society, The Law Society of Northern Ireland or The Law Society of Scotland (as the case may be). This insurance should (if it has been taken out) provide compensation in the event that the relevant Originator 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 the relevant Originator 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 the relevant Originator 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.

Qualified conveyancers who acted on behalf of the relevant Originator in relation to the Scottish Mortgages should be covered by professional indemnity insurance which qualified conveyancers are required to maintain by the Law Society of Scotland. This insurance should (if it has been taken out) provide compensation in the event that the relevant Originator or the Issuer has a claim against such qualified conveyancer for negligence which is not satisfied by such qualified conveyancers out of their own resources.

HISTORICAL DATA RELATING TO ORIGINATORS' MORTGAGE BUSINESSES

The information given in the following tables relates to the mortgage business originated by PML and, since 30 June 2003 (being the date MTL became a wholly owned subsidiary of PGC), the mortgage business originated by MTL (as the sale of MTL to PGC occurred during the financial year to September 2003, the figures in the tables below in relation to MTL for that financial year have been included on an annualised basis); in each case, data for each year from the year ended September 2000 reflects the information for buy-to-let mortgages only. 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 March 2005	4,309,025	0	0	0
Quarter to December 2004	4,142,162	0	0	0
Year to September 2004	3,527,376	0	0	0
Year to September 2003	1,877,434	251	34	217
Year to September 2002	1,117,315	0	0	0
Year to September 2001	763,535	0	0	0
Year to September 2000	612,246	9	5	4
Year to September 1999	512,627	9	1	8
Year to September 1998	306,011	0	0	0
Year to September 1997	148,071	0	0	0
Year to September 1996	60,838	0	0	0
Year to September 1995	13,473	0	0	0
Year to September 1994	26	0	0	0

Note 1: Information contained herein for the year ended September 2000 and for subsequent years are for buy-to-let mortgages only. Prior to this date, all mortgages are included.

Note 2: Current balance write-offs, bad debts recovered and net balances written off for year to September 1999 and year to September 2000 are for owner-occupied mortgages only. For buy-to-let mortgages, there have been no current balance write-offs, bad debts recovered and net balances written off for year to September 1999 and year to September 2000.

The Originators' 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.

Date	Total outstanding current balance £'000	Performing £'000	per cent.	>1<=3 months in arrears £'000	per cent.	>3<=6 months in arrears £'000	per cent.	>6<=9 months in arrears £'000	per cent.	>9<=12 months in arrears £'000	per cent.	>12 months in arrears £'000	per cent.	Possession accounts £'000	per cent.
Quarter to March 2005*	4,378,507	4,325,594	98.8%	29,287	0.7%	7,412	0.2%	2,092	0.0%	63	0.0%	63	0.00%	13,996	0.32%
Quarter to December 2004* . .	4,239,603	4,189,893	98.8%	26,389	0.6%	2,775	0.1%	706	0.0%	145	0.0%	348	0.01%	19,347	0.46%
Year to September 2004*	4,044,818	3,999,334	98.9%	24,119	0.6%	3,317	0.1%	113	0.0%	339	0.0%	1,645	0.04%	15,951	0.39%
Year to September 2003*	3,010,023	2,990,304	99.3%	13,575	0.5%	4,257	0.1%	778	0.0%	29	0.0%	722	0.02%	358	0.01%
Year to September 2002	1,317,459	1,312,094	99.6%	2,398	0.2%	1,060	0.1%	684	0.1%	414	0.0%	809	0.06%	0	0.00%
Year to September 2001	917,171	912,024	99.4%	2,211	0.2%	2,111	0.2%	337	0.0%	325	0.0%	123	0.01%	40	0.00%
Year to September 2000	609,899	604,875	99.2%	3,480	0.6%	792	0.1%	109	0.0%	144	0.0%	351	0.06%	148	0.02%
Year 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%
Year to September 1998	410,661	405,528	98.8%	4,038	1.0%	746	0.2%	62	0.0%	28	0.0%	0	0.00%	259	0.06%
Year to September 1997	201,360	198,439	98.5%	2,361	1.2%	396	0.2%	58	0.0%	0	0.0%	0	0.00%	106	0.05%
Year to September 1996	94,781	93,987	99.2%	794	0.8%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%
Year to September 1995	26,894	26,894	100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%
Year to September 1994	51	51	100.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.00%	0	0.00%

Note 1: Information contained herein for the year ended September 2000 and for subsequent years are for buy-to-let mortgages only; prior to that date all mortgages are included.

Note 2: Information contained herein for the year ended September 2004 and for subsequent years indicate receiver of rent with possessions; prior to that date, such figures are not available.

* MTL is included from September 2003

THE PROVISIONAL MORTGAGE POOL

The provisional mortgage pool, evidenced by the mortgages described below (the "**Provisional Mortgage Pool**") as at 31 August 2005 (the "**Provisional Pool Date**") consisted of 5225 Mortgages having a Provisional Balance (as defined below) of £657,952,600.57.

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 1996 and 31 August 2005.

All of the Mortgages to be purchased by the Issuer will have had original maturities of no more than 34 years, with the latest scheduled maturity of any mortgage loan in the Provisional Mortgage Pool being not later than 8 May 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:

Overview of the Provisional Mortgage Pool

Product	*Provisional Pool*	*PML Originations pre 1 Jan 2004*	*PML Originations from 1 Jan 2004*	*MTL Originations*
Aggregate Provisional Balance	657,952,600.57	52,135,843.59	278,038,596.26	327,778,160.72
Number of Properties	5,225	650	2,027	2,548
Weighted Average LTV	78.56%	77.05%	78.48%	78.86%
Minimum LTV	0.75%	0.75%	5.85%	5.70%
Maximum LTV	87.13%	86.39%	87.13%	86.40%
Weighted Average Seasoning (years)	0.53	4.35	0.14	0.25
Minimum Seasoning	—	3.28	—	—
Maximum Seasoning	9.33	9.33	0.39	1.69
Average Loan Size	125,923.94	80,208.99	137,167.54	128,641.35
Minimum Loan Size	508.48	508.48	21,450.00	10,549.00
Maximum Loan Size	2,000,000.00	1,120,438.88	2,000,000.00	869,739.79
Weighted Average Remaining Term (years)	21.76	17.60	22.33	21.94
Minimum Remaining Term	0.83	0.83	4.75	4.83
Maximum Remaining Term	33.75	33.75	30.00	30.00
per cent. of Professional Landlords	64.90%	88.34%	87.67%	41.85%
per cent. Private Investor Landlords	35.10%	11.66%	12.33%	58.15%
per cent. of Owner Occupied	0.00%	0.00%	0.00%	0.00%
per cent. in London and South East	48.99%	39.70%	36.14%	61.36%
Weighted Average Rental Cover for Professional Borrowers	1.67	2.51	1.64	1.44
Aggregate Provisional Redraw Amount	1,113,494.90	—	—	1,113,494.90
Largest Drawn Balance	869,739.79	—	—	869,739.79
Average Drawn Balance	128,641.35	—	—	128,641.35
Largest Potential Redraw Amount	149,770.75	—	—	149,770.75
Average Potential Redraw Amount	9,517.01	—	—	9,517.01

Loan-to-Value Ratios

(£)	*Provisional Balance (£)*	*per cent. of Total*	*Number of mortgages*	*per cent. of Total*
> 0 < = 25	965,603.08	0.15%	35	0.67%
> 25 < = 50	12,551,522.04	1.91%	152	2.91%
> 50 < = 55	12,099.308.25	1.84%	113	2.16%
> 55 < = 60	12,906,565.19	1.96%	108	2.07%
> 60 < = 65	21,758,567.66	3.31%	184	3.52%
> 65 < = 70	37,378,116.69	5.68%	303	5.80%
> 70 < = 75	62,094,256.31	9.44%	425	8.13%
> 75 < = 80	95,681,210.89	14.54%	658	12.59%
> 80 < = 85	143,854,260.33	21.86%	1,077	20.61%
> 85 < = 86	247,752,603.16	37.66%	2,061	39.44%
> 86 < = 87	10,518,521.97	1.60%	107	2.05%
> 87 < = 88	392,065.00	0.06%	2	0.04%
> 88 < = 89	—	0.00%	—	0.00%
> 89	—	0.00%	—	0.00%
Total	657,952,600.57	100%	5,225	100%

The average loan-to-value (the "**LTV**") weighted by Provisional Balance is 78.56 per cent.. 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 the relevant Originator as at the date of the 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 the relevant Originator before the Provisional Pool Date, this more recent valuation.

Product Summary by Rate Fixing Method

Product	*Provisional Balance (£)*	*per cent. of Total*	*Number of mortgages*	*per cent. of Total*
Standard Variable	5,908,592.00	0.90%	140	2.68%
Fixed	472,594,666.40	71.83%	3,531	67.58%
LIBOR-Linked	179,301,255.17	27.25%	1,553	29.72%
Base Rate Tracker	148,087.00	0.02%	1	0.02%
Total	657,952,600.57	100%	5,225	100%

Product Summary by Repayment Method

Product	*Provisional Balance (£)*	*per cent. of Total*	*Number of mortgages*	*per cent. of Total*
Interest-only	605,590,191.59	92.04%	4,657	89.13%
Repayment	52,362,408.98	7.96%	568	10.87%
Total	657,952,600.57	100%	5,225	100%

Loan Size

(£)	*Provisional Balance (£)*	*per cent. of Total*	*Number of mortgages*	*per cent. of Total*
0 – 100,000	159,284,697.69	24.21%	2,343	44.84%
100,000.01 – 200,000	303,868,962.92	46.18%	2,236	42.79%
200,000.01 – 300,000	112,609,199.65	17.12%	470	9.00%
300,000.01 – 400,000	34,813,362.83	5.29%	104	1.99%
400,000.01 – 500,000	14,220,547.64	2.16%	32	0.61%
500,000.01 – 750,000	14,773,965.30	2.25%	25	0.48%
750,000.01 – 1,000,000	5,173,401.30	0.79%	6	0.11%
1,000,000.01 – 1,250,000	3,234,178.88	0.49%	3	0.06%
1,250,000.01 – 1,500,000	1,471,790.00	0.22%	1	0.02%
1,500,000.01 – 1,750,000	6,502,494.36	0.99%	4	0.08%
1,750,000.01 – 2,000,000	2,000,000.00	0.30%	1	0.02%
over 2,000,000	—	0.00%	—	0.00%
Total	657,952,600.57	100%	5,225	100%

Property Tenure

(£)	*Provisional Balance (£)*	*per cent. of Total*	*Number of mortgages*	*per cent. of Total*
Freehold	413,127,648.49	62.79%	3,127	59.85%
Leasehold	240,008,033.04	36.48%	2,046	39.16%
Heritable	4,816,919.04	0.73%	52	1.00%
Total	657,952,600.57	100%	5,225	100%

Seasoning of Mortgages by year

Year of Origination	*Provisional Balance (£)*	*per cent. of Total*	*Number of mortgages*	*per cent. of Total*
1996	568,007.18	0.09%	17	0.33%
1997	4,182,030.86	0.64%	101	1.93%
1998	81,401.31	0.01%	1	0.02%
1999	—	0.00%	—	0.00%
2000	—	0.00%	—	0.00%
2001	42,928,535.02	6.52%	483	9.24%
2002	4,375,869.22	0.67%	48	0.92%
2003	103,771.98	0.02%	1	0.02%
2004	43,421,830.18	6.60%	354	6.78%
2005	562,291,154.82	85.46%	4,220	80.77%
Total	657,952,600.57	100%	5,225	100%

Weighted average seasoning: 6.32 months

Maturity of Mortgages

Remaining term to maturity (years)	*Provisional Balance (£)*	*per cent. of Total*	*Number of mortgages*	*per cent. of Total*
> 0 < 5	1,977,979.05	0.30%	32	0.61%
> = 5 < 10	20,754,489.06	3.15%	203	3.89%
> = 10 < 15	58,969,919.55	8.96%	521	9.97%
> = 15 < 20	121,934,929.53	18.53%	968	18.53%
> = 20 < 25	339,498,467.18	51.60%	2,618	50.11%
> = 25 < 30	108,700,771.92	16.52%	827	15.83%
> = 30	6,116,044.28	0.93%	56	1.07%
Total	657,952,600.57	100%	5,225	100%

Weighted average remaining term to maturity 21.76

Loan Purpose

Loan Purpose	*Provisional Balance (£)*	*per cent. of Total*	*Number of mortgages*	*per cent. of Total*
House/Flat Purchase	311,037,923.95	47.27%	2,707	51.81%
Remortgage	346,914,676.62	52.73%	2,518	48.19%
Total	657,952,600.57	100%	5,225	100%

Geographical Dispersion

Defined Area	*Provisional Balance (£)*	*per cent. of Total*	*Number of mortgages*	*per cent. of Total*
North	20,998,009.94	3.19%	263	5.03%
North West	66,209,404.40	10.06%	607	11.62%
Yorkshire & Humberside	79,319,310.34	12.06%	731	13.99%
East Midlands	29,787,199.24	4.53%	295	5.65%
West Midlands	26,457,914.74	4.02%	270	5.17%
East Anglia	23,302,909.64	3.54%	218	4.17%
South East (excluding Greater London)	179,219,355.07	27.24%	1,364	26.11%
South West	60,323,652.18	9.17%	487	9.32%
Greater London	143,100,209.11	21.75%	679	13.00%
Wales	21,795,770.42	3.31%	227	4.34%
Scotland	5,786,370.11	0.88%	66	1.26%
Northern Ireland	1,652,495.38	0.25%	18	0.34%
Total	657,952,600.57	100%	5,225	100%

Number of Months in Arrears

No. of months	*Provisional Balance (£)*	*per cent. of Total*	*Number of mortgages*	*per cent. of Total*
Up to 1	654,298,117.93	99.44%	5,196	99.44%
> 1 < = 2	2,847,513.64	0.43%	22	0.42%
> 2 < = 3	622,185.37	0.09%	4	0.08%
> 3 < = 4	99,932.50	0.02%	2	0.04%
> 4 < = 5	—	0.00%	—	0.00%
> 5 < = 6	—	0.00%	—	0.00%
> 6	84,851.13	0.01%	1	0.02%
Total	657,952.600.57	100%	5,225	100%

Average number of months in arrears weighted by Provisional Balance: 0.970 months

Occupancy

Occupancy	*Current balance £*	*per cent. of total*	*Number of mortgages*	*per cent. of total*
Owner occupied	—	0.00%	—	0.00%
Letting – professional	427,006,900.85	64.90%	3,399	65.05%
Letting – private investors	230,945,699.72	35.10%	1,826	34.95%
	657,952,600.57	100%	5,225	100%

Letting Occupancy

Letting type	*Current balance £*	*per cent. of total*	*Number of mortgages*	*per cent. of total*
Corporate	33,831,190.01	5.14%	319	6.11%
Non Corporate	624,121,410.56	94.86%	4,906	93.89%
	657,952,600.57	100%	5,225	100%

MORTGAGE ADMINISTRATION

Introduction

PFPLC will be appointed by each of the Issuer and the Trustee in respect of the PML Mortgages under the Administration Agreement to be its agent to administer the PML Mortgages. MTS will be appointed by each of the Issuer and the Trustee in respect of the MTL Mortgages under the Administration Agreement to be its agent to administer the MTL Mortgages. MTS and PFPLC will together be the Administrators and together will be referred to as the "**Administrator**" or the "**Administrators**" in this Offering Circular.

PFPLC is a public limited company incorporated under the laws of England, registered number 1917566 and is a wholly owned subsidiary of PGC. The registered address of PFPLC is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. PFPLC was incorporated on 29 May 1985 as Jordans 274 Public Limited Company and on 25 June 1985 changed its name to The Home Loans Corporation plc and on 29 August 1985 changed its name to The National Home Loans Corporation plc and on 7 April 1997 changed its name to Paragon Finance PLC. PFPLC's principal activity is that of servicing residential mortgage loans on properties located across the United Kingdom.

MTS is a public limited company incorporated under the laws of England, registered number 3940202 and since 30 June 2003 has been a wholly owned subsidiary of PGC. The registered address of MTS is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE. MTS was incorporated on 1 March 2000 as firstactive.com plc and on 16 February 2001 changed its name to britannicmoney.com plc and on 26 September 2003 changed its name to Mortgage Trust Services plc. MTS's principal activity is that of servicing residential mortgage loans on properties located across the United Kingdom.

The Administrators 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. The Administrators will undertake that in their role as administrator they will comply with any proper directions, orders and instructions which the Issuer or the Trustee may from time to time give to the Administrators 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. Subject to certain conditions, the Administrators' appointment can be terminated by the Trustee in the event of a breach by the Administrators 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 and the Class C Noteholders, or in the event of that Administrator's insolvency. In addition, the Administrators' appointment will, unless the Administrators, the Trustee and the Issuer agree otherwise, be terminated with immediate effect if at any time the Administrators does not have any authorisation under the FSMA 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, each Administrator (on behalf of the Issuer and the Trustee) will set or calculate the rates of interest applicable to the Mortgages administered by it in accordance with the Mortgage Conditions except in the case of Fixed Rate Mortgages and Capped Rate Mortgages (to the extent that any Mortgages are converted to Capped Rate Mortgages) except in certain limited circumstances when the Trustee or the Issuer or a substitute administrator or the Substitute Administrator 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 administered by it (where applicable), each Administrator 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 the Subordinated Lenders, 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 Administrators for the Mortgages averaging less than a specified rate above GBP LIBOR (as defined in "Credit Structure – 3. Shortfall Fund" above) at that time.

If at any time an Administrator wishes to set (or does not wish to change) the rate of interest applicable to any Mortgage administered by it 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 and all early redemption amounts is less than 1.6 per cent. (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 December 2010 and 2 per cent. (or such higher percentage as the Issuer may from time to time select and notify to the Trustee) thereafter, in each case, above GBP LIBOR (as defined in "Credit Structure – 3. Shortfall Fund" above) 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 a Collection Account and then will be transferred on not later than the next following Business Day, or as soon as practicable thereafter, to the Transaction Account. Under each Collection Account Declaration of Trust, the relevant Collection Account Holder 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 relevant Collection Account are held on trust for the Issuer until they are applied in the manner described above. Each Collection Account Declaration of Trust is and will be supplemental to, additional to and subject to each other declaration of trust made or to be made from time to time by the relevant Collection Account Holder in respect of amounts credited from time to time to the relevant Collection Account which are not held on trust for the Issuer pursuant to the relevant Collection Account Declaration of Trust.

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 F1+ by Fitch, 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 or, if no Class A Notes or Class B Notes are outstanding, the Class C Notes, would be adversely affected, the relevant Collection Account Holder and the relevant 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) such Collection Account Holder executes a declaration of trust in the same terms, mutatis mutandis, as the relevant Collection Account Declaration of Trust in respect of such new Collection Account.

Arrears and Default Procedures

Each 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 being followed by each Administrator in connection therewith.

Each Administrator will endeavour to collect all payments due under or in connection with the Mortgages administered by it 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.

In order to realise its security in respect of a property located in England, Wales or Northern Ireland, the relevant mortgagee (be it the relevant Originator (as legal title owner), the Issuer, the Trustee or any receiver appointed by the Trustee (if the Trustee has taken enforcement action against the Issuer)) will need to obtain possession. 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 Northern Ireland, a tenant having similar rights as an assured shorthold 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.

Once possession of the property has been obtained, the relevant mortgagee has a duty to the borrower to take reasonable care to obtain the best price reasonably obtainable at the time for the property. Any failure to do so will put the relevant mortgagee at risk of an action for breach of such duty by the borrower, although it is for the borrower to prove breach of such duty. There is also a risk that a borrower may also take court action to force the relevant mortgagee to sell the property within a reasonable time. 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.

In relation to Northern Irish Mortgages, in cases of default by a borrower requiring the issue of legal proceedings, those proceedings are virtually identical to English proceedings. After a possession order is obtained the judgment is enforced through the Enforcement of Judgments Office (rather than by bailiffs) and it has its own procedures for enforcement. By virtue of Article 51 of The Judgments Enforcement (Northern Ireland) Order 1981 an order charging land, i.e. a judgment mortgage, if founded on a judgment in respect of rates payable in respect of that land, shall have priority over all other charges and encumbrances whatsoever affecting that land except other debts owing to the Crown.

In relation to the enforcement of Scottish Mortgages see "The Mortgages – Scottish Mortgages" above.

Whether the lender adopts one or more of the actions described above 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.

Cross-collateral Mortgages and Cross-collateral Rights

The conditions of mortgages originated by MTL (each a "**Cross-collateral Mortgage**") provide, among other things, some "**Cross-collateral Rights**" which allow the relevant mortgagee of any such Cross-collateral Mortgage:

(i) to declare immediately due and repayable each liability secured by that Cross-collateral Mortgage and to exercise the statutory power of sale under that Cross-collateral Mortgage if and when the mortgagee of any other Cross-collateral Mortgage in the name of the same mortgagor is entitled to declare immediately due and repayable any liability secured by that other Cross-collateral Mortgage, and

(ii) to apply the proceeds of enforcement under the Cross-collateralised Mortgages of the relevant mortgagor against all liabilities secured by the Cross-collateralised Mortgages.

At or about the Closing Date the Issuer will enter into a "**Cross-collateral Mortgage Rights Accession Deed**" pursuant to which the Issuer shall become a party to a deed (being, together with the Cross-collateral Mortgage Rights Accession Deed and each previous accession deed thereto, the "**Cross-collateral Mortgage Rights Deed**") entered into by the Trustee, MTL, MTS and, among others, persons who at the date of this Offering Circular have a beneficial interest in any Cross-collateral Mortgage which includes Cross-collateral Rights which may apply to one or more of the MTL Mortgages or which may be subject to Cross-collateral Rights contained in one or more of the MTL Mortgages.

The Cross-collateral Mortgage Rights Deed seeks to provide that each party thereto who is a beneficial owner of a Cross-collateral Mortgage (which, upon it becoming a party, will include the Issuer in respect of MTL Mortgages): (i) shall only have Cross-collateral Rights in respect of Cross-collateral Mortgages that it beneficially owns; (ii) waives all rights to exercise Cross-collateral Rights in respect of other Cross-collateral Mortgages which are not beneficially owned by it; (iii) waives all rights to take any action or proceedings against any other beneficial owner of Cross-collateral Mortgages to exercise the Cross-collateral Rights of that other beneficial owner; (iv) waives any rights to the proceeds of enforcement of Cross-collateral Mortgages not beneficially owned by it; and (v) agrees that if it enforces a Cross-collateral Mortgage in respect of which Cross-collateral Rights attach, the proceeds of such enforcement after deduction of all related costs and expenses shall be applied by or on behalf of it in respect of the Cross-collateral Mortgages beneficially owned by it firstly to repay all amounts owing by the mortgagee under the enforced Cross-collateral Mortgage beneficially owned by it in accordance with the applicable Mortgage Conditions and, secondly, to the extent there are additional proceeds of enforcement, apply such proceeds in accordance with such Mortgage Conditions.

Further Advances

Each Further Advance made by or on behalf of the Issuer in relation to the Mortgages will be either a Mandatory Further Advance or a Discretionary Further Advance.

Mandatory Further Advances

Mandatory Further Advances are only required to be made to borrowers (a) for the purpose of advancing any part of the original advance which was retained pending completion of construction or refurbishment, and (b) where a Flexible Drawing Cash Advance is required to be made to the borrower under a Flexible Mortgage (see "The Mortgages – Information on the Mortgages – Flexible Mortgages" above).

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 (or exercise analogous rights in Scotland) 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 the Subordinated Lenders under the Subordinated Loan Agreement and the Subordinated Lenders will be under an obligation to make any such amounts available to the Issuer. In addition, but without prejudice thereto, the Subordinated Lenders may, at its discretion, make available to the Issuer further amounts under the Subordinated Loan Agreement to enable the Issuer to make any Mandatory Further Advances if and to the extent that the Issuer so opts instead of using Available Redemption Funds which would otherwise be applied in making such Mandatory Further Advances.

To the extent that there are no Available Redemption Funds or amounts drawn by the Issuer (the Issuer being obliged to apply for such a drawing) under the Subordinated Loan Agreement to fund a Mandatory

Further Advance in respect of a Flexible Drawing Cash Advance required to be made under a Flexible Mortgage beneficially owned by the Issuer, the Issuer will fund such Mandatory Further Advance by making a drawing under the Flexible Drawing Facility Agreement (up to the then Flexible Drawing Facility Available Amount). For further details of the Flexible Drawing Facility Agreement see "Credit Structure" above.

Discretionary Further Advances

Each Further Advance in respect of a Mortgage which is not a Mandatory Further Advance will be a Discretionary Further Advance. At its discretion the Issuer may decide to make a Discretionary Further Advance on the security of the Property subject to the Mortgage on the request of a borrower provided that certain conditions in the Administration Agreement are satisfied 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 further that (a) there is a balance of zero or greater 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). 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 the Subordinated Lenders 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 the Subordinated Lenders 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).

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 other than in respect of a Flexible Drawing Cash Advance 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 other than in respect of a Flexible Drawing Cash Advance 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 £160,056,411. Discretionary Further Advances may only be made on a Mortgage by the Issuer if the relevant Originator'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.

Further Advances – general provisions

The Mortgage Sale Agreement provides that on each occasion that a Further Advance is made by or on behalf of and in the name of the relevant Originator to a borrower under and on the security of a Mortgage using funds provided for that purpose by or on behalf of the Issuer and/or Trustee, then the relevant Originator agrees to sell and will immediately upon making such Further Advance be deemed to have sold to the Issuer all its rights and interest to that Further Advance in consideration for the provision of those funds.

If the Issuer does not wish, or is unable, to make a Further Advance, the relevant Originator 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).

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

Conversion of Mortgages

Each Administrator may agree or elect to convert a Mortgage administered by it 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, neither Administrator is 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, 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 the relevant Seller to purchase or procure the purchase of any Mortgage which it is required to repurchase under the terms of the Mortgage Sale Agreement in the event of there being a breach of warranty in respect of that Mortgage;

(e) no conversion must extend the final maturity date of the relevant Mortgage beyond 31 May 2039; and

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

Notwithstanding the above, conversion of a mortgage, or part thereof, may also occur as part of an arrears management programme.

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

Insurance

Each Administrator will, on behalf of the Issuer, administer the arrangements for insurance in respect of, or in connection with, the Mortgages administered by it 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. See ''Insurance Coverage'' above.

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 Fitch, Aaa by Moody's and AAA by Standard & Poor's or whose short term debt is rated at least F1 by Fitch, 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 or, if no Class A Notes or Class B Notes are outstanding, the Class C 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 Fitch, Aaa by Moody's and AAA by Standard & Poor's or whose short term unsecured and unguaranteed debt is rated at least F1+ by Fitch, 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 or, if no Class A Notes or Class B Notes are outstanding, the Class C 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 per cent. of the then aggregate GBP Equivalent Principal Amount Outstanding of the Notes and provided further that any moneys invested in entities rated F1 by Fitch may not be invested for a period of more than 30 days**.** Such investments and deposits must always be immediately repayable on demand or mature on or before the next Interest Payment Date or, if the Issuer will have insufficient available cash funds in the Revenue Ledger to make payments which are due and payable on the next Interest Payment Date, on that next Interest Payment Date and will be charged to the Trustee and form part of the security for the payment of principal and interest on the Notes.

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 Fitch and Standard & Poor's of the entity in which the investment or investments is or are made must, in such case, be at least F1+ by Fitch and at least A-1+ by Standard & Poor's.

Delegation by the Administrators

Each Administrator may, in certain circumstances, with the consent of the Issuer and the Trustee, subcontract or delegate its obligations under the Administration Agreement. Neither Administrator may subcontract 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 Administrators

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

(a) certain payment defaults by an Administrator;

(b) default by any 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 or, if the Class A Notes and the Class B Notes have been redeemed in full, the Class C Noteholders and (except where in the reasonable opinion of the Trustee, such default is incapable of remedy, when no such continuation and/or notice as is hereinafter mentioned will be required) such default continues unremedied for a period of 14 days after the earlier of any Administrator becoming aware of such default and receipt by any Administrator of written notice from the Trustee requiring the same to be remedied. If the relevant default occurs as a result of a default by any person to whom any Administrator has sub-contracted or delegated part of its

obligations under the Administration Agreement such default shall not result in the termination of the appointment of any Administrator if within such 14-day period any Administrator terminates the relevant sub-contracting or delegation arrangements and takes such steps as the Trustee may reasonably specify to remedy such default or to indemnify the Issuer against the consequences of such default;

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

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

provided that if the relevant event has occurred in relation to only one of the Administrators, the event shall be deemed to be remedied and shall not entitle the appointment of the other Administrator to be terminated if that other Administrator (in its absolute discretion), by giving notice to the Trustee and the Issuer under and in accordance with the applicable terms of the Administration Agreement, takes over all the rights and obligations under the Relevant Documents of the relevant Administrator in relation to which the relevant event occurred.

In addition an Administrator's appointment will, unless that Administrator, the Trustee and the Issuer agree otherwise (or the other Administrator replaces that Administrator in the manner described above), be terminated with immediate effect if at any time that Administrator does not have any authorisation under the FSMA 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 appointment of each Administrator under the Administration Agreement may also be terminated upon the expiry of not less than 12 months' notice of termination given by each 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, Northern Ireland and Scotland and (if other than the Substitute Administrator) is approved by the Trustee; and

(d) the then current ratings of the Class A Notes, the Class B Notes and the Class C Notes by the Rating Agencies are not affected as a result of such termination unless otherwise agreed by an extraordinary resolution of the Class A Noteholders, the Class B Noteholders or the Class C 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 each Administrator. The Issuer will pay to each Administrator fees for its services as an Administrator as follows: (i) an "**Administration Senior Fee**" comprising: (a) a fee to PFPLC as an Administrator at the rate of not more than 0.15 per cent. per annum, and (b) a fee to MTS as an Administrator at the rate of not more than 0.15 per cent. per annum, and (ii) an "**Administration Subordinated Fee**" comprising: (a) a fee to PFPLC as an Administrator at the rate of not more than 0.15 per cent. per annum, and (b) a fee to MTS as an Administrator at the rate of not more than 0.15 per cent. per annum, in each case such rates being inclusive of VAT and each such fee being calculated by applying such rate to the aggregate Interest Charging Balances of the outstanding Mortgages administered by the relevant Administrator at the beginning of each Collection Period and each such fee will be due quarterly in arrear on each Interest Payment Date and paid as specified in accordance with the applicable priority of payments. 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 following termination of the Administrators' appointment. If no substitute administrator can be found, the Substitute Administrator will act as Administrator and be entitled (in place of PFPLC and MTS) to the Administration Senior Fee at the rate of 0.15 per cent. per annum and the Administration Subordinated Fee at the rate of 0.15 per cent. per annum, in each case such rates being exclusive of VAT and each such fee being calculated by applying such rate to the aggregate Interest Charging Balances of the outstanding Mortgages at the beginning of each Collection Period and each such fee will be due quarterly in arrear on each Interest Payment Date and paid as specified in accordance with the applicable priority of payments. If the Substitute Administrator is required to act as Administrator, it will exercise such discretion as would be exercised by it if it were the mortgagee and beneficial owner of the Mortgages.

The Originators, the Administrators and the Sellers will be entitled to receive from the Issuer for their own account any commissions due to them from insurers out of premiums paid by borrowers as a result of their having placed buildings insurance in relation to the Mortgages with such insurers.

The administration fee (excluding the Administration Subordinated Fee) and all costs and expenses of each 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 each Administrator of its duties in relation to the Issuer, the Mortgages and the Notes.

Redemption

Under the Administration Agreement, each Administrator will be responsible for handling the procedures connected with the redemption of Mortgages. In order to enable each Administrator to do this, the Trustee and the Issuer will be required to execute powers of attorney in favour of each 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 current United Kingdom tax law and H.M. Revenue & Customs' generally published practice as at the date of this Offering Circular. They are not exhaustive. They relate only to the position of persons who are the absolute beneficial owners of their Notes and may not apply to certain classes of person such as dealers or certain professional advisers. 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. Prospective Noteholders should also refer to the section of this Offering Circular entitled "Risk Factors" for example, "Matters relating to the European Union, Risks relating to the Introduction of International Financial Reporting Standards, EU Savings Tax Directive, Change of Law and Withholding under the Notes" for further tax related information.

1. For so long as the Notes are and continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (the London Stock Exchange is such a "recognised stock exchange" for this purpose) interest payments on each of the Notes will be treated as a "payment of interest on a quoted Eurobond" within the meaning of section 349 of the Income and Corporation Taxes Act 1988. In these circumstances, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax irrespective of whether the Notes are in global form or in definitive form.

   Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax where the Issuer reasonably believes that the person beneficially entitled to the interest is (i) a company resident in the United Kingdom, (ii) a company not resident in the United Kingdom which carries on a trade in the United Kingdom thorough a permanent establishment and which is required to bring the interest into account in computing its profits chargeable to United Kingdom corporation tax or (iii) a partnership each member of which is a company described in (i) or (ii). This is subject to the proviso that H.M. Revenue & Customs does not give a direction that it has reasonable grounds for believing that it is likely that none of (i), (ii) or (iii) above will be satisfied at the time the payment is made.

   In cases falling outside the exemptions described above, interest on the Notes will, subject to some exceptions, be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty.

2. 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 a permanent establishment (in the case of a Noteholder which is a company) in the United Kingdom in connection with which the interest is received or to which the Notes are attributable. There are certain exceptions for interest received by specified categories of agent (such as some brokers and investment managers).

3. 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.

4. A Noteholder within the charge to United Kingdom corporation tax in respect of a Note (including a Noteholder so chargeable in relation to a permanent establishment in the United Kingdom) will, generally, be charged to tax on their returns from the Notes as income, which is generally calculated on the basis of the relevant Noteholder's accounts (drawn up in accordance with generally accepted accounting practice or, in periods of account of the Noteholders beginning before 1 January 2005, an authorised accounting method) except when otherwise required by tax legislation. Relief may be available for related expenses on a similar basis. For such Noteholders, the provisions described in paragraphs 5, 6 and 7 below will not apply to such a Note.

5. 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.

On a disposal of Notes a Noteholder who is not within the charge to United Kingdom corporation tax 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 accrued interest.

In the case of a disposal of Notes the amount treated as accrued interest will be determined by H.M. Revenue & Customs on a just and reasonable basis. A purchaser of such Notes 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 those 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.

6. The GBP Notes should 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 GBP Notes for the purposes of United Kingdom taxation of chargeable gains.

7. The EUR Notes and USD Notes will not constitute ‘‘qualifying corporate bonds’’ within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal (including a redemption) of the EUR Notes and the USD Notes by an individual Noteholder who is resident or ordinarily resident in the United Kingdom or who carries on a trade, profession or vocation in the United Kingdom through a branch or agency to which the EUR Notes or the USD Notes are attributable but in either case who is not within the charge to corporation tax, may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of chargeable gains, depending on the individual circumstances of the Noteholder.

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.

9. Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State. However, Austria, Belgium and Luxembourg are required instead to apply a withholding system for a transitional period in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period commences on 1 July 2005 and terminates at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

   Until the details of any similar systems in the relevant non-EU countries have been finalised, it is not certain what effect, if any, the adoption of such systems would have on the payment of principal or interest in respect of the Notes. However, payments of interest on the Notes which are made or collected through Belgium, Luxembourg, Austria or any other relevant country may be subject to withholding tax which would prevent holders of the Notes from receiving interest on their Notes in full. The terms and conditions of the Notes provide that, to the extent that it is possible to do so, a paying agent will be maintained by the Issuer in a Member State that is not required to withhold tax pursuant to the directive.

10. Noteholders 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 (called 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, (called a ‘‘collecting agent’’), then the Issuer, the paying agent or the collecting agent, as the case may be, may in certain circumstances be required to supply to H.M. Revenue & Customs 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 H.M. Revenue & Customs, in certain cases, may be passed by H.M. Revenue & Customs to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

MATERIAL UNITED STATES FEDERAL INCOME TAX MATTERS

General

The discussion of the United States federal income tax matters in this Offering Circular is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding United States federal tax penalties, and was written to support the promotion or marketing of the Notes. Each investor should seek advice based on such person's particular circumstances from an independent tax advisor.

The following section summarises material United States federal income tax consequences of the purchase, ownership and disposition of the USD Notes that may be relevant to a beneficial owner of a USD Note that is a "United States person" (as defined later in this section) or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of a USD Note (any such United States person or holder, a "**U.S. holder**"). In general, the summary assumes that a U.S. holder acquires a USD Note at original issuance at its issue price (generally, the first price at which a substantial amount of substantially similar USD Notes are sold for money, excluding sales to bond houses, brokers, or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers) and holds such Note as a capital asset. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the USD Notes. In particular, it does not discuss special tax considerations that may apply to certain types of taxpayers, including dealers in stocks, securities or notional principal contracts; traders in securities electing to mark to market; insurance companies; tax-exempt organisations; banks, savings and loan associations and similar financial institutions; taxpayers whose functional currency is other than the U.S. dollar; taxpayers that hold a USD Note as part of a hedge or straddle or a conversion transaction, within the meaning of section 1258 of the U.S. Internal Revenue Code of 1986, as amended (the "**U.S. Revenue Code**"); and subsequent purchasers of USD Notes. In addition, this summary does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the U.S. federal government.

This summary is based on the U.S. federal income tax laws, regulations, rulings and decisions in effect or available as of the date of this Offering Circular. All of the foregoing are subject to change, and any change may apply retroactively and could affect the continued validity of this summary.

The following summary assumes that the Issuer, the Administrators and the Trustee, in its capacity as trustee for the Noteholders, will conduct their affairs as described in this Offering Circular and in accordance with assumptions made by, and representations made to, counsel.

Clifford Chance LLP, U.S. tax advisers to the Issuer ("**U.S. tax counsel**"), has prepared and reviewed this summary of material U.S. federal income tax consequences. U.S. tax counsel is of the opinion that the Issuer will not be subject to U.S. federal income tax as a result of its contemplated activities. U.S. tax counsel is also of the opinion that, although there is no authority on the treatment of instruments substantially similar to the USD Notes, and while not free from doubt, the USD Notes will be treated as debt for U.S. federal income tax purposes. Except as described in the two preceding sentences (and set forth in the corresponding opinions), U.S. tax counsel will render no opinions relating to the parties to the transaction and the Notes.

An opinion of U.S. tax counsel is not binding on the United States Internal Revenue Service (the "**IRS**") or the courts, and no rulings will be sought from the IRS on any of the issues discussed in this section. **Accordingly, the Issuer suggests that persons considering the purchase of USD Notes consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of the USD Notes, including the possible application of federal, state, local, non-U.S. or other tax laws, and other U.S. tax issues affecting the transaction.**

As used in this section the term "**United States person**" means (a) an individual who is a citizen or resident of the United States for U.S. federal income tax purposes, (b) an entity treated as a corporation for U.S. federal income tax purposes that is organised or created under the law of the United States, a State thereof, or the District of Columbia, (c) any estate the income of which is subject to taxation in the United States regardless of source, and (d) any trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust, or the trust was in existence on 20 August 1996 and is eligible to elect, and has made a valid election, to be treated as a United States person despite not meeting those requirements.

The U.S. federal income tax treatment of a partner in a partnership that holds the USD Notes will generally depend on the status of the partner and the activities of the partnership. Prospective

purchasers that are partnerships should consult their tax advisers concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of USD Notes by the partnership.

Tax status of the Issuer and the Trustee, in its capacity as trustee for the Noteholders

Under the transaction documents, each of the Issuer and the Trustee, in its capacity as trustee for the Noteholders, has covenanted (a) not to engage in any activities in the United States (directly or through agents), (b) not to derive any income from sources within the United States as determined under U.S. federal income tax principles, and (c) not to hold any mortgaged property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States as determined under U.S. federal income tax principles. U.S. tax counsel is of the opinion that, assuming compliance with the transaction documents, none of the Issuer and the Trustee, in its capacity as trustee for the Noteholders, will be subject to U.S. federal income tax.

No elections will be made to treat the Issuer and the Trustee, in its capacity as trustee for the Noteholders, or any of their assets as a REMIC or a FASIT (two types of securitisation vehicles having special tax status under the U.S. Revenue Code).

Characterisation of the USD Notes

The Issuer intends to treat the USD Notes as indebtedness of the Issuer for all purposes, including U.S. federal income tax purposes. Although there is no authority regarding the treatment of instruments that are substantially similar to the USD Notes, and while not free from doubt, it is the opinion of U.S. tax counsel that the USD Notes will be treated as debt for U.S. federal income tax purposes. The discussion in the next section assumes this result. By their purchase of the USD Notes, the respective Noteholders will agree to treat such USD Notes as debt for U.S. federal income tax purposes, including for any U.S. tax reporting requirements. In general, the characterisation of an instrument for U.S. federal income tax purposes as debt or equity by its issuer as of the time of issuance is binding on a holder (but not the IRS), unless the holder takes an inconsistent position and discloses such position in its U.S. tax return.

The USD Notes will not be qualifying real property mortgage loans in the hands of domestic savings and loan associations, real estate investment trusts, or REMICs under sections 7701(a)(19)(C), 856(c) or 860G(a)(3) of the U.S. Revenue Code, respectively.

Taxation of U.S. holders of the USD Notes

*Original Issue Discount ("**OID**")*

The Issuer intends to treat stated interest on the USD Notes as "qualified stated interest" under United States Treasury regulations relating to original issue discount (hereafter the "**OID regulations**"). As a consequence, discount on the USD Notes arising from an issuance at less than par will only be required to be accrued under the OID regulations if such discount exceeds a statutorily defined *de minimis* amount. Qualified stated interest, which generally must be unconditionally payable at least annually, is taxed under a holder's normal method of accounting. *De minimis* OID is included in income on a *pro rata* basis as principal payments are made on such USD Notes. It is expected that the USD Notes will not be issued with more than the statutory *de minimis* amount of OID.

A U.S. holder of a USD Note issued with OID must include OID in income over the term of such USD Note under a constant yield method that takes into account the compounding of interest. In addition, Section 1272(a)(6) of the U.S. Revenue Code provides special rules applicable to certain debt instruments with OID if prepayments under such debt instruments may be accelerated by reason of prepayments of other obligations securing such debt instruments. Regulations have not been issued under that section. Generally, under Section 1272(a)(6) and the applicable legislative history, OID is calculated and accrued using prepayment assumptions where payments on a debt instrument may be accelerated by reason of prepayments of other obligations securing such debt instrument. Moreover, the legislative history to the provisions provides that the same prepayment assumptions used to price a debt instrument be used to calculate OID, as well as to accrue market discount and amortise premium. Here, the schedule of distributions should be determined in accordance with a sequential redemption of the USD Notes (as more fully described in "Terms and Conditions of the Notes – 5. Redemption and Purchase" above) using a standard prepayment assumption with respect to the mortgage loans and

assuming that the USD Notes are retired on or before the Interest Payment Date falling in December 2010. No representation is made that the mortgage loans will pay on the basis of such prepayment assumptions or in accordance with any other prepayment scenario. The Issuer suggests that persons considering the purchase of USD Notes consult their own tax advisers as to the computation of OID on the USD Notes.

As an alternative to the above treatments, U.S. holders may elect to include in gross income all interest with respect to the USD Notes, including stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortisable bond premium or acquisition premium, using the constant yield method described above (with certain modification).

Sales and Retirement

In general, a U.S. holder of a USD Note will have a basis in such note equal to the cost of the note to such holder, and reduced by any payments thereon other than payments of stated interest. Upon a sale or exchange of the note, a U.S. holder will generally recognise gain or loss equal to the difference between the amount realised (less any accrued but unpaid interest, which would be taxable as such) and the holder's tax basis in the note. Such gain or loss will be long-term capital gain or loss if the U.S. holder has held the note for more than one year at the time of disposition. In certain circumstances, U.S. holders that are individuals may be entitled to preferential treatment for net long-term capital gains. The ability of U.S. holders to offset capital losses against ordinary income is limited.

Backup withholding

Backup withholding of U.S. federal income tax may apply to payments made in respect of the Notes to registered owners who fail to establish they are "exempt recipients" and who (i) fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner or (ii) fail to report certain payments. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the USD Notes to a United States person will be reported to the IRS, unless such person is an exempt recipient or establishes an exemption.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner will be allowed as a credit against such beneficial owner's U.S. federal income tax and may entitle the beneficial owner to a refund provided the required information is furnished to the IRS.

Prospective investors should consult their own tax advisers with respect to the foregoing withholding tax requirements.

The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a Noteholder's particular situation. Holders of USD Notes should consult their own tax advisers with respect to the tax consequences to them of the ownership and disposition of USD Notes, including the tax consequences under federal, state, local, foreign and other tax laws and the possible effects of changes in U.S. federal and other tax laws.

SUBSCRIPTION AND SALE

Barclays Bank PLC and Deutsche Bank AG, London Branch (together the "**Lead Managers**"), JP Morgan Securities Limited, The Royal Bank of Scotland plc, ABN AMRO Bank N.V., London branch, Barclays Bank PLC, HSBC plc, ING Belgium S.A./N.V. (together with the Lead Managers, the "**Managers**") have, pursuant to a subscription agreement dated on or about November 2005 (to which PFPLC, MTS, MTL and each Seller are also party) (the "**Subscription Agreement**") jointly and severally agreed, subject to certain conditions, to subscribe for each class of the Notes in each case at the issue price indicated in the following table (in each case being a percentage of the Initial Principal Amount of the relevant class of Notes):

Class of Notes	*Issue price*	*Commission rate*
Class A1	100 per cent.	0.085 per cent.
Class A2a	100 per cent.	0.085 per cent.
Class A2b	100 per cent.	0.085 per cent.
Class B1a	100 per cent.	0.085 per cent.
Class B1b	100 per cent.	0.085 per cent.
Class C1a	100 per cent.	0.085 per cent.
Class C1b	100 per cent.	0.085 per cent.

The Issuer has agreed to reimburse the Managers for certain of their expenses in connection with the issue of the Notes. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes. The Issuer has agreed to pay the Managers a combined selling, management and underwriting commission in respect of each class of Notes at the rate indicated in the above table (in each case being a percentage of the Initial Principal Amount of the relevant class of Notes). The Issuer gives certain representations and warranties and undertakings to the Managers in the Subscription Agreement. The Subscription Agreement is subject to a number of conditions and may be terminated by the Managers in certain circumstances prior to payment for the Notes to the Issuer.

United States of America

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, a U.S. person, except, with respect to the USD Notes only, to a person that is a Qualified Institutional Buyer in reliance on Rule 144A or another applicable exemption from registration under the Securities Act and the Issuer has not been and will not be registered under the Investment Company Act. The USD Notes may only be offered, sold, resold, delivered or transferred outside the United States to non-U.S. persons in reliance on Rule 903 or 904 of Regulation S. The GBP Notes and EUR Notes may only be offered, sold, resold, delivered or transferred outside the United States to non-U.S. persons in reliance on Rule 903 or 904 of Regulation S.

(f) In connection with sales outside the United States, each Manager has agreed under the Subscription Agreement in relation to the Notes that, except for sales in accordance with the preceding paragraph, it will not offer, sell or deliver the Notes to, or for the account or benefit of U.S. persons (1) as part of such Manager's distribution of the Notes at any time or (2) otherwise during the Distribution Compliance Period, and, accordingly, that neither it, its affiliates nor any person acting on their behalf has engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to the Notes and it and its affiliates and any person acting on its or their behalf has complied with and will comply with the offering restriction requirements of Regulation S under the Securities Act to the extent applicable.

(g) Each Manager has agreed under the Subscription Agreement in relation to the Notes that, at or prior to confirmation of sales of the Notes, it will have sent to each distributor, dealer or other person to which it sells any of the Notes during the Distribution Compliance 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 the end of the Distribution Compliance Period, the offer or sale of any Notes within the United States by a distributor, dealer or other person that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act.

(h) The Subscription Agreement will provide that the relevant Manager, through its U.S. registered broker-dealer affiliates, may arrange for the offer and resale of the Notes which are USD Notes in

the United States (but not of the GBP Notes and the EUR Notes) to persons that are Qualified Institutional Buyers in transactions made in compliance with Rule 144A under the Securities Act. Each Manager under the Subscription Agreement has agreed in relation to the Notes which are USD Notes that neither it, nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) in connection with the offer and sale of those USD Notes in the United States.

(i) Each Manager will represent in the Subscription Agreement in relation to the Notes that within the United States it (1) has only sold and will only sell the Notes which are USD Notes to persons (including other dealers) that are Qualified Institutional Buyers in the form of an interest in the Global Rule 144A Note that is set out in the Trust Deed, and (2) has not sold Notes, if any, which are GBP Notes or EUR Notes.

(j) Each Manager has agreed under the Subscription Agreement that, in connection with each sale of the Notes which are USD Notes to a Qualified Institutional Buyer, it has taken or will take reasonable steps to ensure that the purchaser is aware that those USD Notes have not been and will not be registered under the Securities Act and that transfers of the USD Notes are restricted as set forth in the Trust Deed. Any offer or sale of the USD Notes will be made by broker-dealers, including affiliates of the Managers, who are registered as broker-dealers under the Exchange Act. The Managers may allow a concession, not in excess of the selling concession, to certain brokers or dealers.

The Issuer and each Manager will extend to each prospective investor the opportunity, prior to the consummation of the sale of the Notes, to ask questions of, and receive answers from, the Issuer concerning the Notes and the terms and conditions of the offering and to obtain additional information it may consider necessary in making an informed investment decision and any information in order to verify the accuracy of the information set forth in this Offering Circular, to the extent the Issuer and/or that Manager, as applicable, possesses the same. Requests for such additional information may be directed to the directors.

United Kingdom

Under the Subscription Agreement, each Manager has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Netherlands

Each Manager has represented and agreed that it has not offered, sold, delivered or transferred, and will not offer, sell, deliver or transfer, any of the Notes (including rights representing an interest in any Global Note), as part of their initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who or which are established, domiciled or have their residence in the Netherlands (Dutch Residents) other than to Professional Market Parties (as defined below) that trade or invest in securities in the conduct of their profession or business.

Professional Market Parties are any of the following persons but no other person:

(i) banks, insurance companies, securities firms, collective investment institutions or pension funds that are supervised or licensed under Dutch law;

(ii) banks or securities firms licensed or supervised in a European Economic Area member state (other than The Netherlands) and registered with the Dutch Central Bank (*De Nederlandsche Bank N.V.* (DNB)) or the Dutch Authority for the Financial Markets (*Stichting Autoritelt Financiele Markten* (AFM)) acting through a branch office in The Netherlands;

(iii) Netherlands collective investment institutions which offer their shares or participations exclusively to professional investors or are otherwise not required to be supervised or licensed under or pursuant to Dutch law or the supervision of collective investment schemes;

(iv) The Dutch government (*de Staat der Nederlanden*), the DNB, Dutch regional, local or other decentralized governmental institutions, or any international treaty organizations and supranational organizations;

(v) Netherlands enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) as per the balance sheet as of the year end preceding the date they purchase or acquire the Notes;

(vi) Netherlands enterprises, entities or individuals with net equity (*elgen vermogen*) of at least €10,000,000 (or the equivalent thereof in another currency) as per the balance sheet as of the financial year end preceding the date they purchase or acquire the Notes and who or which have been active in the financial markets on average twice a month over a period of a least two consecutive years preceding such date;

(vii) Netherlands subsidiaries of the entities referred to under (i) above provided such subsidiaries are subject to prudential supervision;

(viii) Netherlands persons or entities (other than the above) who or which are subject to supervision by a regulatory authority in order to lawfully operate in the financial markets;

(ix) Netherlands persons or entities (other than the above) who or which engage in a regulated activity on the financial markets but who or which are not subject to supervision by a regulatory authority;

(x) Netherlands enterprises or entities which meet at least two of the following three criteria according to their most recent consolidated or non consolidated annual account: (i) an average number of employees during the financial year of a least 250, (ii) total assets of at least EUR 43,000,000, or (iii) an annual net turnover of at least EUR 50,000,000;

(xi) Netherlands enterprises or entities having their registered office in The Netherlands which do not meet at least two of the three criteria mentioned in (x) above and which have (a) expressly requested the AFM to be considered as qualified investor (*professionele marktpartij*) and (b) been entered on the register of qualified investors maintained by the AFM;

(xii) Netherlands individuals who are resident in The Netherlands if these persons meet at least two of the following criteria: (a) the person has carried out transactions of a significant size on the financial markets at an average frequency of, at least, 10 per quarter over the previous four quarters, (b) the size of the person's securities portfolio exceeds EUR 500,000, and (c) the person works or has worked for at least one year in the financial sector in a professional position which requires knowledge of investment in securities, provided further that this individual has (i) expressly requested the AFM to be considered as qualified investor (*professionele marktpartij*) and (ii) been entered on the register of qualified investors maintained by the AFM;

(xiii) Netherlands enterprises or entities whose corporate purpose is solely to invest in securities; and

(xiv) Such other Netherlands companies or entities designated by the competent Netherlands authorities after the date hereof by any amendment of the applicable regulations.

The Notes (whether or not offered to Dutch Residents) shall bear the following legend:

THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED AS PART OF ITS INITIAL DISTRIBUTION OR AT ANY TIME THEREAFTER, DIRECTLY OR INDIRECTLY, TO INDIVIDIUALS OR LEGAL ENTITIES WHO ARE ESTABLISHED, DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS (DUTCH RESIDENTS) OTHER THAN TO PROFESSIONAL MARKET PARTIES WITHIN THE MEANING OF THE EXEMPTION REGULATION PURSUANT TO THE DUTCH ACT ON THE SUPERVISION OF THE CREDIT SYSTEM 1992 (PMPs).

EACH DUTCH RESIDENT, BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT IT IS SUCH A PMP AND IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PMP.

EACH HOLDER OF THIS NOTE (OR ANY INTEREST HEREIN), BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT (1) THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIEVERED TO DUTCH RESIDENTS OTHER THAT TO A PMP ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PMP AND THAT (2) THE

HOLDER WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE.

General

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.

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. Each Manager has agreed under the Subscription Agreement in relation to the Notes not to offer or sell, directly or indirectly, the Notes, or to distribute or publish this Offering Circular, any 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.

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

JPMorgan Chase Bank, National Association which is acting as a Basis Hedge Provider, is an affiliate of J.P. Morgan Securities Ltd., a Manager; ABN AMRO, Bank N.V., a Basis Hedge Provider is part of the same entity as a Manager; and HSBC Bank plc, the Currency Swap Provider is part of the same entity as a Manager. Finally, Barclays Bank PLC, which is acting as the Flexible Drawing Facility Provider, is also one of the Managers.

GENERAL INFORMATION

It is expected that listing of the Notes to the Official List of the U.K. Listing Authority will occur, and that the Notes will be admitted to trading on the London Stock Exchange on or around 17 November 2005, subject only to the issue of the 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 Global Notes are not issued.

The Notes sold in offshore transactions in reliance on Regulation S and represented by the Global Reg S Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg and the Notes sold in reliance on Rule 144A (or in a transaction exempt from the registration requirements of the Securities Act) and represented by the Global Rule 144A Notes have been accepted for clearance by DTC. The table below lists the CUSIP Numbers, Common Codes and the International Securities Identification Numbers ("**ISIN**") for the Notes.

	Common Code	*ISIN*	*CUSIP Number*
Global A1 144A Note	23542552	US69912UAA34	69912UAA3
Global A1 Reg S Note	23541904	XS0235419040	—
Global A2a Reg S Note	23541939	XS0235419396	—
Global A2b Reg S Note	23541980	XS0235419800	—
Global B1a Reg S Note	23542013	XS0235420139	—
Global B1b Reg S Note	23542030	XS0235420303	—
Global C1a Reg S Note	23542048	XS0235420485	—
Global C1b Reg S Note	23542072	XS0235420725	—

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

Since the date of its incorporation the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business other than the Subscription Agreement.

The Issuer does not intend to provide post-issuance transaction information regarding the Notes and the Mortgages.

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's Gilt Edged and Fixed Interest Market by 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.

The Issuer is not, nor has it been, involved in any governmental, 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 or profitability of the Issuer or the group of companies of which the Issuer is a member.

The registered office address of each Seller and MTL is St. Catherine's Court, Herbert Road, Solihull, West Midlands B91 3QE.

Copies of the following documents may be inspected during normal business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the offices of Clifford Chance LLP at 10 Upper

Bank Street, Canary Wharf, London E14 5JJ during the period of twelve months from the date of this Offering Circular:

(a) the Memorandum and Articles of Association of the Issuer;

(b) a copy of the Subscription Agreement and the Cross-collateral Mortgage Rights Deed;

(c) drafts (subject to modification) of the Trust Deed to constitute the Notes (including the forms of the Global Notes and Definitive Notes), the Mortgage Sale Agreement, the Administration Agreement, the Substitute Administrator Agreement, the Deed of Charge, each Scottish Declaration of Trust, the Agency Agreement, each Collection Account Declaration of Trust, each Currency Swap Agreement, the Basis Hedge Agreement, the Flexible Drawing Facility Agreement, the Subordinated Loan Agreement, the Fee Letter, the Services Letter, the VAT Declaration of Trust, the Cross-collateral Mortgage Rights Accession Deed, the Post Enforcement Call Option Deed, the A1 Note Conditional Purchase Agreement and the Remarketing Agreement; and

(d) a copy of the summary set out in "Material United States Federal Income Tax Matters" above.

INDEX TERMS

REGISTERED AND HEAD OFFICE OF THE ISSUER

Paragon Mortgages (No.10) PLC
St. Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE

ADMINISTRATORS

Paragon Finance PLC
St. Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE

Mortgage Trust Services plc
St. Catherine's Court
Herbert Road
Solihull
West Midlands B91 3QE

TRUSTEE

Citicorp Trustee Company Limited
Citigroup Centre, 14th Floor
Canada Square
Canary Wharf
London E14 5LB

REGISTRAR, REFERENCE AGENT AND PRINCIPAL PAYING AGENT

Citibank, N.A.
5 Carmelite Street
London EC4Y 0PA

U.S. PAYING AGENT

Citibank, N.A.
388 Greenwich Street, 14th Floor
New York N.Y. 10043, U.S.A.

LEGAL ADVISERS TO THE ISSUER AND THE ADMINISTRATORS

as to English and U.S. law
Clifford Chance LLP
10 Upper Bank Street
Canary Wharf
London E14 5JJ

as to Northern Irish law
L'Estrange & Brett
Arnott House, 12-16 Bridge Street
Belfast BT1 1LS

as to Scots law
Tods Murray LLP
Edinburgh Quay
133 Fountainbridge
Edinburgh EH3 9AG

LEGAL ADVISERS TO THE MANAGERS AND THE TRUSTEE

as to English and U.S. law
Herbert Smith LLP
Exchange House
Primrose Street
London EC2A 2HS

AUDITORS TO THE ISSUER

Deloitte & Touche LLP
Four Brindleyplace
Birmingham B1 2HZ

AUTHORISED ADVISER

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

CAPITAL PRINTING (UK), 3rd Floor, 16 Eastcheap London EC3M 1BD ● Tel: (0207) 280-3700 ● Fax: (0207) 280-3701
Sess: **11 nobody** Date and Time: **Mon Nov 14 11:25:54 2005** Group: **london** JOB: **30450_CLN** DIV: **imprint pg 1 of 1**