

# BRUNTWOOD ALPHA PLC

(incorporated with limited liability in England and Wales with registration number 6040736)

## £440,000,000 Commercial Mortgage Backed Floating Rate Notes due 2017

Bruntwood Alpha Plc (the **Issuer**) will issue the £350,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2017 (the **Class A Notes**), and the £37,000,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2017 (the **Class B Notes**) and the £53,000,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2017 (the **Class C Notes** and, together with the Class A Notes and the Class B Notes, the **Notes**) on 6 February 2007 (or such later date as the Issuer may agree with The Royal Bank of Scotland plc, the **Lead Manager** and the Co-Manager (as defined below) (the **Closing Date**)).

Application has been made to the Irish Financial Services Regulatory Authority (the **Financial Regulator**), in its capacity as competent authority under Directive 2003/71/EC (the **Prospectus Directive**), for this prospectus to be approved. This document constitutes a prospectus (the **Prospectus**) for the purposes of the Prospectus (Directive 2003/71/EC) Regulations 2005 (the **Prospectus Regulations**) (which implement the Prospectus Directive in Ireland). Application has been made to the Irish Stock Exchange Limited (the **Irish Stock Exchange**) for the Notes to be admitted to the official list of the Irish Stock Exchange (the **Official List**) and trading on its regulated market. Such application relates only to the Notes which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 93/22/EEC or which are to be offered to the public in any Member State of the European Economic Area.

The Notes are expected, on issue, to be assigned the relevant ratings set out opposite the relevant class in the table below by Fitch Ratings Ltd. (**Fitch**) and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (**S&P** and, together with Fitch, the **Rating Agencies** and each, a **Rating Agency**). 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 one or more of the assigning rating organisations. The ratings from the Rating Agencies only address the likelihood of timely receipt by any Noteholder of interest on the Notes and the likelihood of receipt by any Noteholder of principal of the Notes by the Final Maturity Date (as defined below).

Interest on the Notes will be payable quarterly in arrears in pounds sterling on 15 January, 15 April, 15 July and 15 October in each year (subject to adjustment for non-Business Days) (each, an **Interest Payment Date**). The first Interest Payment Date will be the Interest Payment Date falling in April 2007. The interest rate applicable to each Class of Notes from time to time will be determined by reference to the London interbank offered rate for three-month sterling deposits (or, in respect of the first interest period, the linear interpolation of the interest rate for two and three month sterling deposits) (**LIBOR**), as determined in accordance with **Condition 5 (Interest)**, plus the relevant Margin. Each Margin will be as set out in the table below.

Class	Initial Principal Amount	Margin (% p.a.)	Fitch	S&P
Class A	£350,000,000	0.20	AAA	AAA
Class B	£37,000,000	0.27	AA	AA
Class C	£53,000,000	0.49	A	A

If any withholding or deduction for or on account of tax is applicable to the Notes, payment of interest on, and principal in respect of, the Notes will be made subject to such withholding or deduction. In such circumstances, neither the Issuer nor any other party will be obliged to pay any additional amounts as a consequence.

All Notes will be secured by the same security, subject to the priorities described in this Prospectus. Notes of each class will rank *pari passu* with other Notes of the same class. Unless previously redeemed in full, the Notes of each class will mature on the Interest Payment Date falling in January 2017 (the **Final Maturity Date**). The Notes will be subject to mandatory redemption before such date in the specific circumstances and subject to the conditions more fully set out under *Transaction Summary – Principal features of the Notes*.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the **Securities Act**), and are subject to U.S. tax law requirements. The Notes are being offered by the Issuer only to persons who are not U.S. Persons (as defined in Regulation S under the Securities Act (**Regulation S**)) in offshore transactions in reliance on Regulation S (or otherwise pursuant to transactions exempt from the registration requirements of the Securities Act) and in accordance with applicable laws.

The Notes of each class will each initially be represented on issue by a temporary global note in bearer form (each, a **Temporary Global Note**), without interest coupons attached, which will be deposited on or about the Closing Date with a common depository for Euroclear Bank S.A./N.V. (**Euroclear**), and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Each Temporary Global Note will be exchangeable for interests in a permanent global note in bearer form (each, a **Permanent Global Note**), without interest coupons attached, not earlier than 40 days after the Closing Date (provided that certification of non-U.S. beneficial ownership has been received). Ownership interests in the Temporary Global Notes and the Permanent Global Notes (together, the **Global Notes**) will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Interests in the Permanent Global Notes will be exchangeable for definitive Notes in bearer form only in certain limited circumstances as described in this Prospectus.

See *Risk Factors* for a discussion of certain factors which should be considered by prospective investors in connection with an investment in any of the Notes.

## THE ROYAL BANK OF SCOTLAND

*Arranger, Lead Manager and Sole Bookrunner*

### Danske Bank

*Co-Manager*

The date of this Prospectus is 29 January 2007

THE NOTES AND INTEREST THEREON WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OR RESPONSIBILITIES OF, NOR WILL THEY BE GUARANTEED BY THE LEAD MANAGER, THE CO-MANAGER, THE SERVICER, THE SPECIAL SERVICER, THE CASH ADMINISTRATOR, THE TRUSTEE, THE BORROWER SECURITY TRUSTEE, THE PAYING AGENTS, THE AGENT BANK, THE LIQUIDITY BANK, THE SWAP COUNTERPARTY, THE ISSUER ACCOUNT BANK, THE BORROWERS, THE GUARANTORS, THE SUBORDINATED CREDITORS, THE PROPERTY MANAGER, THE BORROWER ACCOUNT BANK OR ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ANY OF THEM (OTHER THAN THE ISSUER).

Except as described below, the Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Each Borrower accepts responsibility for the information contained in this Prospectus under the sections entitled *Transaction Summary – Key characteristics of the Properties*, *The BE Borrower*, *The B2000 Borrower* and *Description of the Bruntwood Business and the Properties*. To the best of the knowledge and belief of the Borrowers (which have taken all reasonable care to ensure that such is the case) such information, as described above, is in accordance with the facts and does not omit anything likely to affect the import of such information.

The description of The Royal Bank of Scotland plc is accurately reproduced from information made available by The Royal Bank of Scotland plc. As far as the Issuer is aware and is able to ascertain from information published by The Royal Bank of Scotland plc, no facts have been omitted which would render the produced information misleading.

No person is or has been authorised to give any information or to make any representation in connection with the issue and sale of the Notes other than those contained in this Prospectus 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 Lead Manager, the Co-Manager, the Servicer, the Special Servicer, the Trustee, the Borrower Security Trustee, the Paying Agents, the Agent Bank, the Liquidity Bank, the Swap Counterparty, the Issuer Account Bank, the Borrowers, the Guarantors, the Subordinated Creditors, the Property Manager, the Borrower Account Bank or any of their respective affiliates or advisers. Neither the delivery of this Prospectus nor any sale, allotment or solicitation made in connection with the offering of the Notes shall, under any circumstances, create any implication or constitute a representation that there has been any change in the affairs of the Issuer or in any of the information contained herein since the date of this Prospectus or that the information contained in this Prospectus is correct as of any time subsequent to its date. The Royal Bank of Scotland plc expressly does not undertake to review the Loans or the Properties during the life of the Notes, nor to advise any investor in the Notes of any information coming to its attention.

Neither this Prospectus nor any other information supplied in connection with the Notes should be considered as a recommendation by the Lead Manager or the Co-Manager that any recipient of this Prospectus should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation and appraisal of the creditworthiness of the Issuer.

Other than the approval by the Financial Regulator in Ireland of this Prospectus as a prospectus in accordance with the requirements of the Prospectus Directive and relevant implementing measures in Ireland, application having been made for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on the regulated market of the Irish Stock Exchange, no action has been, nor will be taken to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus (or any part hereof) comes are required by the Issuer, the Lead Manager and the Co-Manager to inform themselves about and to observe any such restrictions. For a

further description of certain restrictions on offers and sales of the Notes and distribution of this Prospectus, see *Subscription and Sale* below.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Lead Manager, the Co-Manager or any of them to subscribe for or purchase any of the Notes.

All references in this Prospectus to **euros** or **€** are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the treaty establishing the European Community (signed in Rome on 25 March 1957), as amended, and to **Pounds Sterling, pounds sterling, Sterling, sterling** or **£** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland (the **United Kingdom** or the **UK**).

Any website referred to in this Prospectus does not form part of this Prospectus.

Unless the context otherwise indicates or requires, a reference to a particular numbered **Condition** in this Prospectus shall be a reference to a Condition of the Notes as set out under *Terms and Conditions of the Notes*.

**In connection with this issue The Royal Bank of Scotland plc (in this capacity, the *Stabilising Manager*) or any person acting for it may over-allot Notes (provided that, the aggregate principal amount of the Notes of each class allotted does not exceed 105% of the aggregate Principal Amount Outstanding of the relevant Class of 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 no assurance that the Stabilising Manager or any person acting for it will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the 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 issue date of the Notes and 60 days after the date of the allotment of the Notes.**

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## PRINCIPAL CHARACTERISTICS OF THE NOTES

	<i>Class A Notes</i>	<i>Class B Notes</i>	<i>Class C Notes</i>
Denomination	£50,000 and higher integral multiples of £1,000 up to and including £99,000.		
Principal Amount	£350,000,000	£37,000,000	£53,000,000
Reference Interest Rate	Three month LIBOR, as determined in accordance with <b>Condition 5 (Interest)</b> (subject to adjustment in respect of the first Interest Period)		
Margin	0.20% per annum	0.27% per annum	0.49% per annum
Estimated Weighted Average Lives of the Notes	6.94 years	6.94 years	6.94 years
Expected Maturity Date	January 2014	January 2014	January 2014
Final Maturity Date	January 2017	January 2017	January 2017
Interest Payment Dates	15 January, 15 April, 15 July and 15 October in each year (subject to adjustment for non-Business Days)		
Interest Accrual Method	Actual/365	Actual/365	Actual/365
Frequency of Redemption	No scheduled amortisation		
Form of Notes	Bearer		
Clearing Systems	Clearstream, Luxembourg; Euroclear		
Credit Enhancement (provided by other Classes of Notes subordinated to the relevant Class)	Subordination of the Class B Notes and the Class C Notes	Subordination of the Class C Notes	N/A
Listing	Official List and regulated market of the Irish Stock Exchange		
Common Code	028319479	028319649	028319959
ISIN	XS0283194792	XS0283196490	XS0283199593
Expected Ratings:			
S&P	AAA	AA	A
Fitch	AAA	AA	A

## TRANSACTION SUMMARY

*The information in this section does not purport to be complete and is qualified in its entirety by reference to the detailed information appearing elsewhere in this Prospectus. Prospective Noteholders are advised to read carefully, and to rely solely on, the detailed information appearing elsewhere in this Prospectus in making any decision whether or not to invest in any Notes.*

*Capitalised terms used, but not defined, in this section can be found elsewhere in this Prospectus, unless otherwise stated. An index of defined terms is set out at the end of this Prospectus.*

### Issue of the Notes and Use of Proceeds

The Issuer has been incorporated as a special purpose entity for the purpose of issuing the Notes and entering into the Issuer Transaction Documents. The Issuer will issue the Notes on 6 February 2007 (the **Closing Date**) and will apply an amount equal to the gross proceeds of the issue of the Notes:

- (a) to advance a term loan in the principal amount of £204,000,000 (the **BE Loan**) to Bruntwood Estates Alpha Portfolio Limited (the **BE Borrower**); and
- (b) to advance a term loan in the principal amount of £236,000,000 (the **B2000 Loan**) to Bruntwood 2000 Alpha Portfolio Limited (the **B2000 Borrower** and, together with the BE Borrower the **Borrowers** and each, a **Borrower**).

The BE Loan and the B2000 Loan are together referred to as the **Loans** and, each a **Loan**.

The fees and expenses in connection with the issue of the Notes will be ultimately met by the Borrowers. See *Use of Proceeds*.

### The Loans

The BE Loan will be advanced pursuant to the terms of a loan agreement to be entered into on or about the Closing Date between, amongst others, the Issuer, the BE Borrower and the Borrower Security Trustee (the **BE Loan Agreement**). The B2000 Loan will be advanced pursuant to the terms of a separate loan agreement to be entered into on or about the Closing Date between, amongst others, the Issuer, the B2000 Borrower and the Borrower Security Trustee (the **B2000 Loan Agreement**). The BE Loan Agreement and the B2000 Loan Agreement are together referred to as the **Loan Agreements** (and each, a **Loan Agreement**).

Neither Loan Agreement will contain cross-collateralisation, cross-default or cross-acceleration provisions. Accordingly, the occurrence of a Loan Event of Default under one Loan Agreement will not be a Loan Event of Default under the other Loan Agreement, nor will the Loan Security granted in respect of one Loan Agreement stand as security for the obligations of the Obligors under the other Loan Agreement.

All amounts payable by the tenants in the Properties (the **Occupational Tenants**) pursuant to the leases (the **Occupational Leases**) (other than amounts representing certain tenant contributions, service charges, insurance premiums and VAT) will provide the primary source of funds for the Borrowers to make payments of interest and certain other payments due under the relevant Loan Agreement.

Interest will be payable under each Loan at a fixed rate calculated with reference to the Issuer's weighted average cost of funds (taking into account its obligations under the Swap Agreement). The Issuer's obligation to pay interest on the Notes will be met primarily from the payments of interest received from the Borrowers under the Loan Agreements.

Each Borrower (or, if relevant, Guarantor) will be required, under the applicable Loan Agreement, to direct its Occupational Tenants to pay all Net Rental Income into its Receipts Account. On each Cash Sweep Date each Borrower will be required to transfer the balance of its Receipts Account (up to the relevant Required Quarterly Debt Service Amount) to its Debt Service Account.

The activities of each Borrower, the relevant Guarantors and the relevant Nominees (together, the **Obligors** and, each, an **Obligor**) will, pursuant to the terms of the relevant Loan Agreement, be limited to ownership and management of their respective assets and related activities, as more fully set out in *Borrower Transaction Documents – Loan Agreements – Covenants* below.

Each Borrower will, on the Closing Date, use the proceeds advanced by the Issuer under the relevant Loan Agreement to acquire various properties (the **BE Properties** and the **B2000 Properties**, as appropriate and, together the **Properties**) from certain of its respective affiliates and for general corporate purposes. The Properties to be acquired by the BE Borrower are together referred to as the **BE Portfolio** and the Properties to be acquired by the B2000 Borrower are together referred to as the **B2000 Portfolio**. The BE Portfolio and the B2000 Portfolio are together referred to as the **Portfolios**. The obligations of the BE Borrower to the Issuer will be jointly and severally guaranteed by the relevant BE Guarantors (as defined below). The obligations of the B2000 Borrower to the Issuer will be jointly and severally guaranteed by the relevant B2000 Guarantors (as defined below).

### **Corporate Reorganisation**

The Borrowers and their Affiliates will also implement certain restructuring steps on or before the Closing Date that will result in the Guarantors of each Borrower becoming subsidiaries of the relevant Borrower.

In connection with the transactions described in this Prospectus, each Borrower group (each, in this section, a **Group**) will, immediately prior to the issue of the Notes and the advance of the Loans, undertake a corporate reorganisation (the **Corporate Reorganisation**) the intention of which is to transfer the Properties in each relevant Portfolio to the relevant Borrower (each of which has been incorporated for the purposes of those transactions) for the purposes of simplifying the property-holding structure of the Groups. The Properties in each Portfolio are, as at the date of this Prospectus, held by the relevant Guarantors in each Group.

Certain of the Properties are leasehold and may, to the extent that the relevant consent to transfer has not been obtained from the relevant landlord by the Closing Date, remain with the relevant Guarantor until the appropriate consents have been obtained. Under the terms of each Loan Agreement, each Borrower will be required to obtain the relevant consents and to effect the transfers to it within 90 days of the Closing Date. Each relevant Guarantor will remain as part of the relevant Group and will grant security, under the relevant Borrower Security Agreement, over all interests in any Property retained by it (if any) pending such transfer. As at the date of this Prospectus, 10 out of the required 13 consents have been obtained.

In this Prospectus, references to Properties currently held by a Borrower should be read as references to the holding of the relevant Properties with effect from the completion of the Corporate Reorganisation. In addition, the corporate structure diagrams under *Transaction and Borrower Structure Diagrams* therefore reflect the organisational structure of each Group as of the Closing Date, as do references to intra-Group shareholdings and ownership.

### **Security for the Loans**

The obligations of each Borrower and relevant Guarantors will be secured by them in favour of The Royal Bank of Scotland plc (in this capacity, and in respect of each Loan, the **Borrower Security Trustee**) under:

- (a) a security agreement (each, a **Borrower Security Agreement**) to be entered into on or about the Closing Date by, among others, the relevant Borrower, the relevant Guarantors (other than the relevant Share Mortgagor) and the Borrower Security Trustee; and
- (b) a mortgage of shares over the shares in the relevant Borrower (each, a **Mortgage of Shares**) to be entered into on or about the Closing Date by Bruntwood Estates Holdings Limited and Bruntwood 2000 Holdings Limited (as appropriate) as Share Mortgagors and the Borrower Security Trustee.

The Borrower Security Agreements and the Mortgages of Shares are referred to, in respect of each Loan, as the relevant **Borrower Security Documents**. The security granted by each Borrower under the relevant Borrower Security Agreements will include first priority legal mortgages over its interests in the relevant Portfolio (or in respect of the lease of Paragon House, a legal mortgage will be granted by the Nominees over the legal title of the property and a charge will be granted by the B2000 Borrower over its beneficial interest in the property), assignments of Occupational Leases and rental payments, security over bank accounts and a first floating charge over all the assets of that Borrower not otherwise secured by way of fixed security (each such security package, the relevant **Loan Security**). The Borrower Security Trustee will hold the benefit of the relevant Loan Security on trust for the Issuer and the other Borrower Secured Creditors.

### **The Portfolios**

The BE Portfolio consists of 25 properties with a value of £310,112,000 as valued by Knight Frank as of 30 November 2006 (the **Cut-Off Date**). The Properties are located in Manchester City Centre (12), Greater Manchester (11) and Liverpool (2) with the main source of rent being office (79%), leisure (4%), industrial (3%) and retail (9%). Rental income as at the Cut-Off Date stands at £18,242,607.

*References to rental income in this Prospectus are to gross passing rent as at the Cut-Off Date.*

The B2000 Portfolio consists of 23 properties with a value of £358,930,000 as valued by Knight Frank as of the Cut-Off Date. The Properties are located in Manchester City Centre (9), Greater Manchester (9) and Warrington, Leeds and Liverpool (5) with the main source of rent being office (92%), and retail (4%). Rental income as at the Cut-Off Date stands at £21,097,009.

A fuller description of the Properties is set out under *Description of the Bruntwood Business and the Properties* below.

Property management services will be provided to the Borrowers by the Property Manager under the relevant Property Management Agreement. See *Borrower Transaction Documents – Property Management Agreements* below.

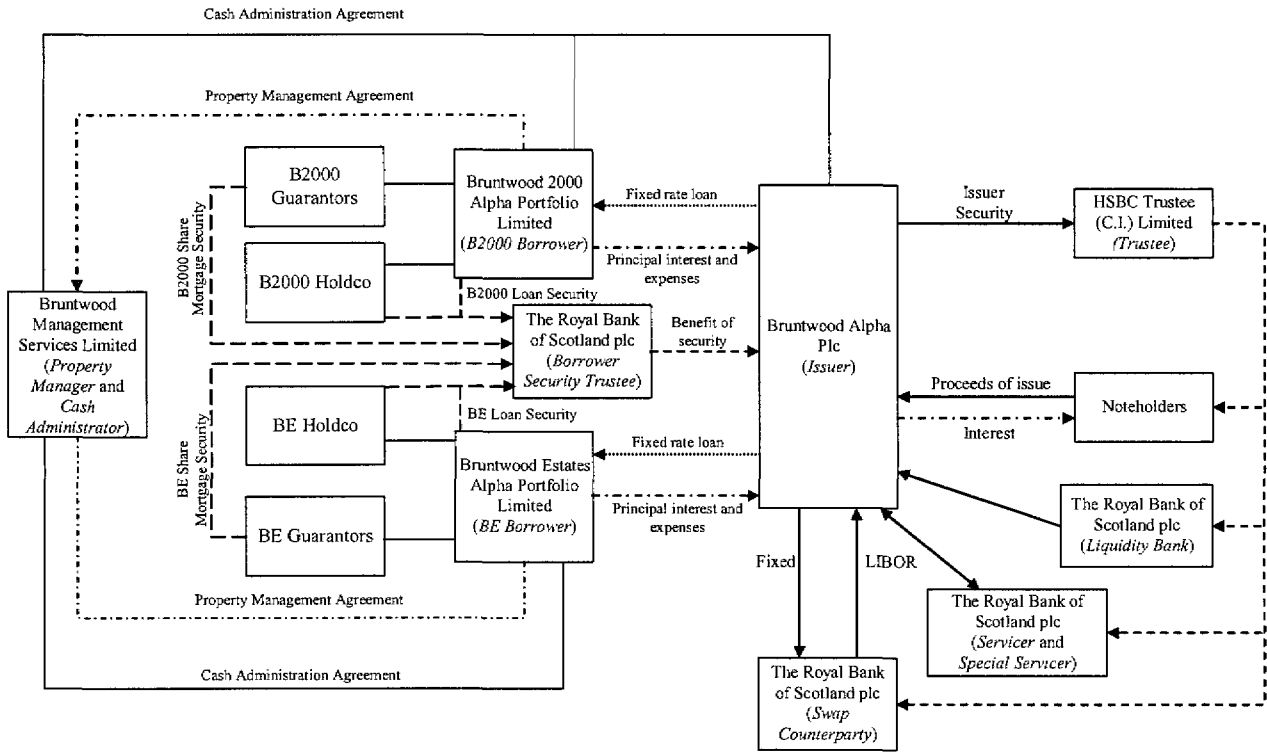
### **Security for the Issuer's Obligations**

As security for its obligations under (amongst other things) the Notes, the Issuer will grant fixed and floating security interests over all its assets and undertaking (which comprise, primarily, its rights in respect of the Loans, the related Loan Security and the cashflows generated thereby) (the **Issuer Security**) in favour of the Trustee under the Issuer Deed of Charge. The Trustee will hold the benefit of this security on trust for itself, the Noteholders and the other Issuer Secured Creditors. The Issuer Deed of Charge will determine the priority of the claims of the Issuer Secured Creditors. See further *Issuer Transaction Documents and Cashflows* below.

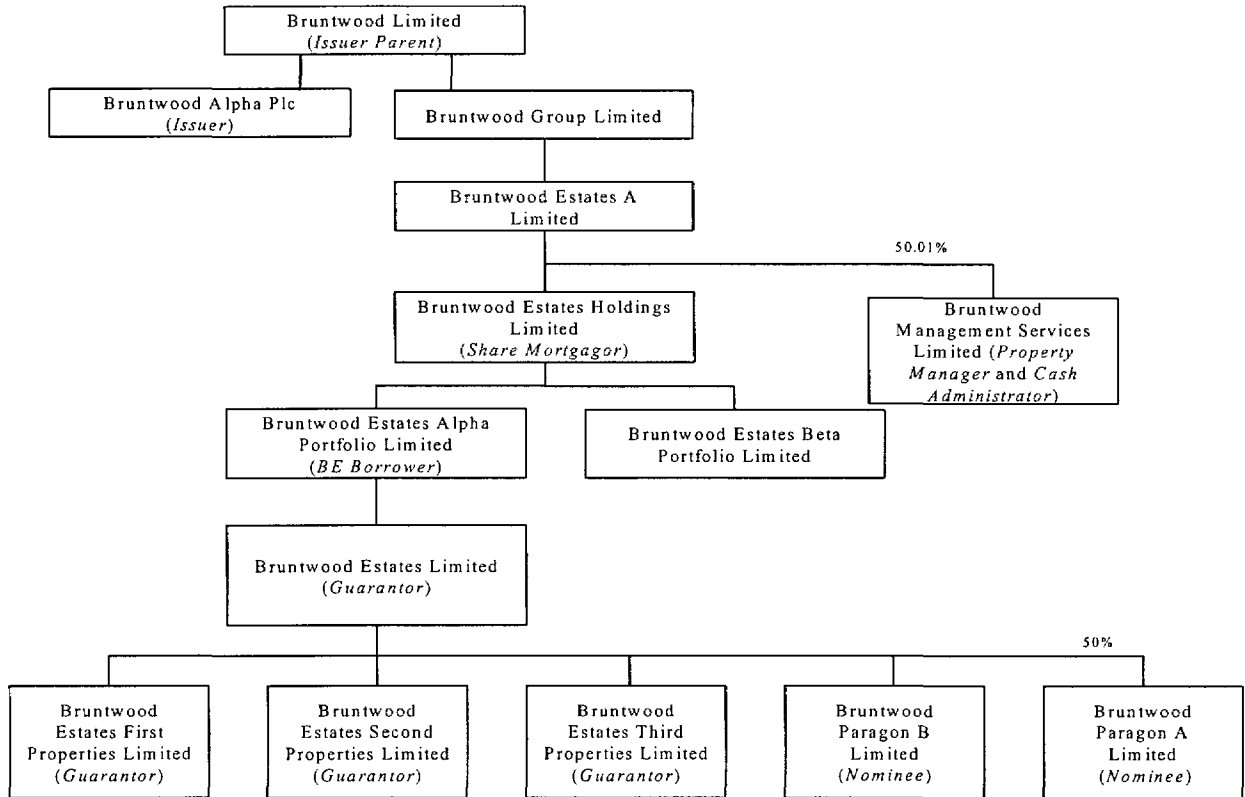


## TRANSACTION AND BORROWER STRUCTURE DIAGRAMS

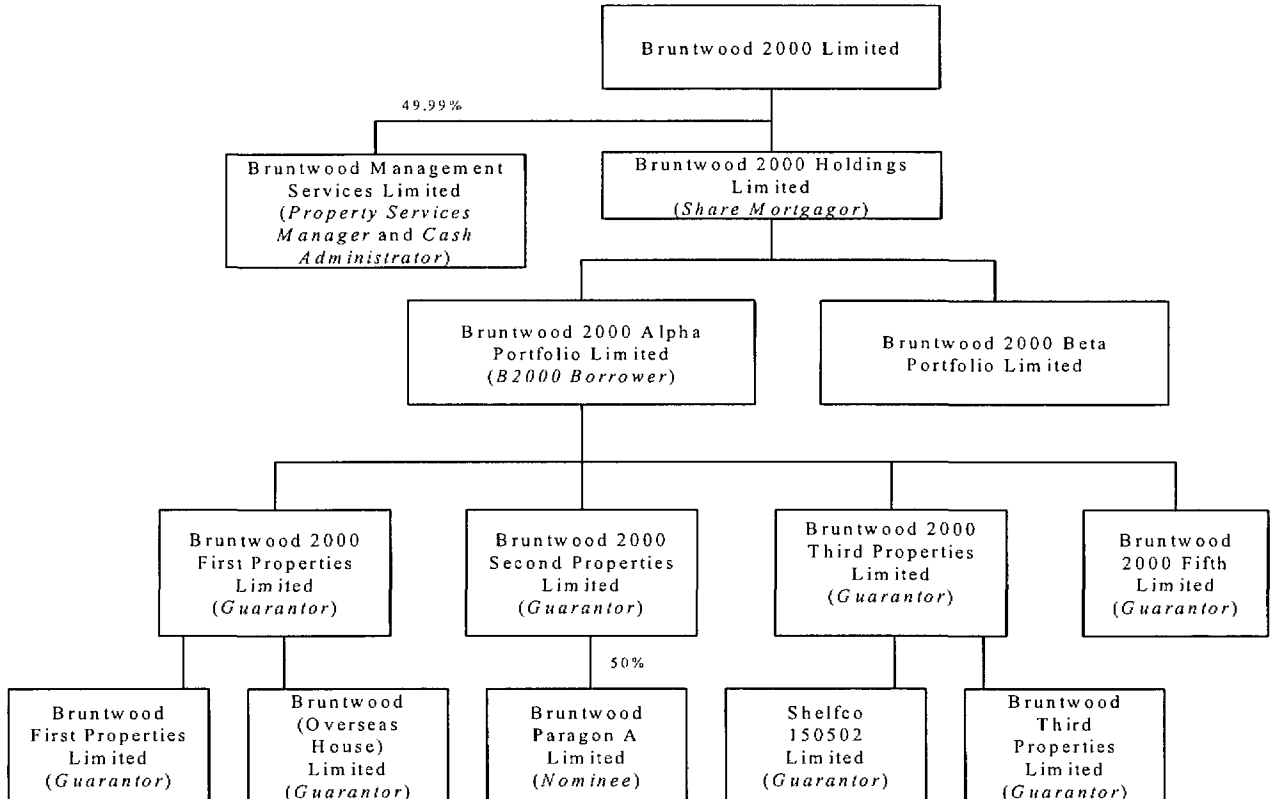
The three diagrams set out below show in diagrammatical form the principal features of the transactions described in this Prospectus and the organisational structure of each Borrower's group of companies following the Corporate Reorganisation. Potential Noteholders should read this in conjunction with the other sections of this Prospectus.



## BRUNTWOOD ESTATES GROUP



## BRUNTWOOD 2000 GROUP



## KEY TRANSACTION PARTIES

- Issuer** Bruntwood Alpha Plc (the **Issuer**) is a public company incorporated in England and Wales with limited liability. The Issuer's company registration number is 6040736. The entire issued share capital of the Issuer is held by or on behalf of Bruntwood Limited.
- Issuer Parent** Bruntwood Limited (the **Issuer Parent**) is a private company incorporated in England and Wales with limited liability. The Issuer Parent's company registration number is 2825044.
- BE Borrower** Bruntwood Estates Alpha Portfolio Limited (the **BE Borrower**) is a private company incorporated in England and Wales with limited liability and company registration number 6023466. The entire issued share capital of the BE Borrower will be held by Bruntwood Estates Holdings Limited.
- The BE Borrower will borrow the BE Loan from the Issuer.
- B2000 Borrower** Bruntwood 2000 Alpha Portfolio Limited (**B2000 Borrower**) is a private company incorporated in England and Wales with limited liability and company registration number 6023880. The entire issued share capital of the B2000 Borrower will be held by Bruntwood 2000 Holdings Limited.
- The B2000 Borrower will borrow the B2000 Loan from the Issuer.
- Guarantors** The Guarantors include the following companies incorporated in England and Wales:
- (a) Bruntwood Estates First Properties Limited (registered number 5017831), Bruntwood Estates Second Properties Limited (registered number 5018015), Bruntwood Estates Third Properties Limited ((registered number 5017902) and Bruntwood Estates Limited (registered number 848708) (the **BE Guarantors**); and
  - (b) Bruntwood 2000 First Properties Limited (registered number 3873731), Bruntwood 2000 Second Properties Limited (registered number 3873865), Bruntwood 2000 Third Properties Limited (registered number 3873868), Bruntwood 2000 Fifth Limited (registered number 3603672), Bruntwood First Properties Limited (registered number 3156768), Bruntwood (Overseas House) Limited (registered number 3214421), Shelfco 150502 Limited (registered number 3871224) and Bruntwood Third Properties Limited (registered number 3290520) (the **B2000 Guarantors** and, together with the BE Guarantors, the **Guarantors**).
- Nominees** Bruntwood Paragon A Limited (registered number 4452281) and Bruntwood Paragon B Limited (registered number 4452285) as nominees under a lease agreement dated 8 July 2002 (each a **Nominee**, and together the **Nominees**).

<b>Property Manager</b>	<p>Bruntwood Management Services Limited (in this capacity, the <b>Property Manager</b>) will act as manager of each Portfolio on behalf of the relevant Borrower under the relevant Property Management Agreement.</p> <p>The Property Manager is a jointly-owned subsidiary of Bruntwood Estates A Limited (as to 50.01%), and Bruntwood 2000 Limited (as to 49.99%).</p>
<b>Trustee</b>	<p>HSBC Trustee (C.I.) Limited, whose principal office is at 1 Grenville Street, St. Helier, Jersey, JE4 9PF (the <b>Trustee</b>), will act as trustee for the Noteholders under the Trust Deed and as security trustee for the Issuer Secured Creditors (including the Noteholders) under the Issuer Deed of Charge.</p>
<b>Liquidity Bank</b>	<p>The Royal Bank of Scotland plc, acting through its office at 6<sup>th</sup> Floor, Spinningfields Square, Manchester M3 3AP (in this capacity, the <b>Liquidity Bank</b>) will provide the Liquidity Facility to the Issuer under the Liquidity Facility Agreement.</p>
<b>Swap Counterparty</b>	<p>The Royal Bank of Scotland plc, acting through its office at 135 Bishopsgate, London EC2M 3UR (in this capacity, the <b>Swap Counterparty</b>) will enter into the Swap Transaction with the Issuer under the Swap Agreement.</p>
<b>Servicer and Special Servicer</b>	<p>The Royal Bank of Scotland plc, acting through its office at 280 Bishopsgate, London EC2M 4RB (in these capacities, the <b>Servicer</b> and the <b>Special Servicer</b>) will undertake to provide loan servicing and administration services under the Servicing Agreement.</p>
<b>Borrower Security Trustee</b>	<p>The Royal Bank of Scotland plc, acting through its office at 6<sup>th</sup> Floor, Spinningfields Square, Manchester M3 3AP, will, in respect of each Loan Agreement and related Loan Security, act as security trustee on behalf of the relevant Borrower Secured Creditors (in such capacity, the <b>Borrower Security Trustee</b>).</p>
<b>Share Mortgagors</b>	<p>Bruntwood Estates Holdings Limited and Bruntwood 2000 Holdings Limited are both private companies incorporated in England and Wales with limited liability (and each a <b>Share Mortgagor</b>). Each Share Mortgagor will grant Share Security over the Borrower shares held by it.</p>
<b>Principal Paying Agent and Agent Bank</b>	<p>HSBC Bank plc, acting through its office at Level 24, 8 Canada Square, London, E14 5HQ, will be principal paying agent and agent bank under the Agency Agreement (in these capacities, the <b>Principal Paying Agent</b> and the <b>Agent Bank</b>).</p>
<b>Irish Paying Agent</b>	<p>HSBC Institutional Trust Services (Ireland) Limited, acting through its office at HSBC House, Harcourt Centre, Harcourt Street, Dublin 2, will act as paying agent in Ireland under the Agency Agreement (the <b>Irish Paying Agent</b>). The Irish Paying Agent, the Principal Paying Agent and any other paying agent(s) which may be appointed pursuant to the Agency Agreement are together referred to as the <b>Paying Agents</b>.</p>
<b>Issuer Account Bank</b>	<p>The Royal Bank of Scotland plc, acting through its office at 6<sup>th</sup> Floor, Spinningfields Square, Manchester M3 3AP (in this capacity, the <b>Issuer Account Bank</b>), will act as account bank for the Issuer under the Issuer</p>

Account Bank Agreement.

<b>Borrower Account Bank</b>	The Royal Bank of Scotland plc, acting through its office at 6 <sup>th</sup> Floor, Spinningfields Square, Manchester M3 3AP (in such capacity, the <b>Borrower Account Bank</b> ) will act as account bank for the relevant Borrower and, as appropriate, other Obligors under the relevant Borrower Account Bank Agreement.
<b>Cash Administrator</b>	Bruntwood Management Services Limited, acting through its office at City Tower, Piccadilly Plaza, Manchester M1 4BD (in this capacity, the <b>Cash Administrator</b> ) will provide certain cash administration services to the Issuer, the Borrowers and the Guarantors under the Cash Administration Agreement.
<b>Independent Director Provider</b>	Structured Finance Management Limited, acting through its offices at 35 Great St. Helen's, London EC3A 6AP (in this capacity, the <b>Independent Director Provider</b> ) will enter into an Independent Directors Agreement with the Trustee, the Issuer Parent and the Issuer to provide an independent director to the Issuer.
<b>Rating Agencies</b>	Standard & Poors Rating Services, a division of The McGraw-Hill Companies, Inc. ( <b>S&amp;P</b> ), Fitch Ratings Ltd ( <b>Fitch</b> and, together with S&P, the <b>Rating Agencies</b> and each, a <b>Rating Agency</b> ). The ratings assigned to each Class of Notes by the Rating Agencies address the likelihood of full and timely payment to the holders of each Class of Notes of all payments of interest on the Notes on each Interest Payment Date and the ultimate repayment of principal on the Notes on the Final Maturity Date.

## KEY CHARACTERISTICS OF THE LOANS

<b>General</b>	<p>Each Loan will constitute a full recourse obligation of the relevant Borrower and will be secured by the relevant Loan Security, as further described below. In addition, each Loan will benefit from guarantees granted by the relevant Guarantors.</p> <p>In respect of each Loan, the relevant Loan Agreement, the relevant Borrower Security Documents and the Tax Deed of Covenant are together referred to as the <b>Finance Documents</b> (and each, a <b>Finance Document</b>).</p>
<b>Interest rates</b>	<p>Each Loan will bear interest at a fixed rate being the relevant Borrower's pro-rata share by value of the Issuer's actual funding costs calculated at each Interest Payment Date with reference to the weighted average margin payable by the Issuer in respect of the Notes and the fixed payments payable by the Issuer under the Swap Transaction.</p>
<b>Interest payments</b>	<p>Interest under the Loan Agreements will be paid quarterly in arrears on 15 January, 15 April, 15 July and 15 October in each year (each, an <b>Interest Payment Date</b>) (subject to adjustment for non-Business Days) in respect of successive interest periods (each, an <b>Interest Period</b>). The Interest Periods for the Loans and the Notes will match exactly.</p> <p>Interest due on each Loan will be paid from amounts standing to the credit of the relevant Debt Service Account on the relevant Cash Sweep Date. Each Borrower will be required to transfer the Required Quarterly Debt Service Amount (as defined below) from its Receipts Account to its Debt Service Account on that date.</p>
<b>Issuer Expenses</b>	<p>Under each Loan Agreement, the relevant Borrower will be liable to pay to the Issuer on each Interest Payment Date an amount equal to the expenses of the Issuer (the <b>Issuer Expenses</b>) payable on that Interest Payment Date and during the following Interest Period, plus an amount constituting the Issuer's retained profit. By way of a letter agreement between, among others, the relevant Borrower and the Issuer, each Borrower will be liable to pay to the Issuer on each Interest Payment Date an amount equal to its <i>pro rata</i> share, calculated on the amount of the principal then outstanding in respect of the relevant Borrower's Loan, of the Issuer Expenses payable on that Interest Payment Date and during the following Interest Period so long as no Borrower is in Default of its Loan. In the event of the failure of one Borrower to pay its share of the Issuer's Expenses the remaining Borrower will be liable for all Issuer Expenses.</p>
<b>Repayment of the Loans</b>	<p>Unless each Borrower has previously repaid its Loan, it will be required to repay its Loan in full on the Interest Payment Date falling in January 2014 (the <b>Loan Maturity Date</b>).</p>
<b>Optional prepayment</b>	<p>Each Borrower will be entitled to prepay its respective Loan in whole (but not in part) upon giving not less than 20 days' prior written notice to the Borrower Security Trustee and the Issuer.</p>

If either Borrower becomes aware that a tax payment or an increased cost is or will be required to be paid to the Issuer, that Borrower may prepay its Loan on the earlier of (a) the next Interest Payment Date for that Loan or (b) the date specified in the Borrower's notification for such prepayment.

Prepayment of one Loan does not of itself trigger prepayment of the other Loan.

### **Mandatory prepayment**

Prepayment of all or part of either Loan must be made, among other things:

- (a) if it becomes unlawful for the Issuer to perform its obligations under a Finance Document, or to fund the relevant Loan;
- (b) if there occurs an event pursuant to which there is a change in the power to direct the management and policies, whether through the ownership of voting capital, by contract or otherwise (a **Change of Control**) of Bruntwood Limited in respect of the BE Borrower's Loan and of Bruntwood 2000 Limited in respect of the B2000 Borrower's Loan (other than, in either case, any change in control the effect of which does not take control outside of the family of the current shareholders);
- (c) on disposal or Compulsory Purchase of a Property, if the relevant Borrower elects not to use or has not used the proceeds within twelve months of deposit into the Disposal Proceeds Account to acquire an eligible substitute property to place into the relevant Portfolio; and/or
- (d) if the Borrower Security Trustee requires that proceeds of an insurance policy be applied to the relevant Borrower's Loan.

Each such prepayment will be applied by the Issuer in redemption of the Notes in accordance with **Condition 6.3 (Mandatory Redemption in Whole or in Part)**.

### **Representations and warranties**

The representations and warranties to be given by each Obligor pursuant to the relevant Loan Agreement will include, among other things, warranties as follows:

- (a) due incorporation and authorisation;
- (b)
  - (i) that there is no event of default under the relevant Loan Agreement (a **Loan Event of Default**) or any event which would (with the expiry of any grace period, the giving of notice or the making of any determination) constitute a Loan Event of Default, outstanding or will result from the entry into or the performance of the transactions contemplated by the Borrower Transaction Documents; and
  - (ii) that there is no default however defined under any other document binding on an Obligor or its assets or any event which has or is reasonably likely to have a Material Adverse Effect;

- (c) legality, validity and enforceability of, among other things, the relevant Loan Agreement and the related Borrower Security Documents;
- (d) ownership and title to the relevant Properties, in each case free from any security interests (other than those created under the Borrower Security Documents);
- (e) ownership of the share capital in each Obligor;
- (f) first priority of the relevant Loan Security;
- (g) the absence of litigation, arbitration or administrative proceedings;
- (h) the truthfulness, accuracy and completeness in all material respects of all written information supplied by each Borrower to the Borrower Secured Creditors in connection with the Borrower Transaction Documents and of all written information supplied by each Borrower to the Valuer for the purposes of the Valuation of its Portfolio; and
- (i) the absence of any business activities other than in connection with ownership and management of the relevant Portfolio.

## **Guarantees**

The obligations of each Borrower under the relevant Loan Agreement will be jointly and severally guaranteed by the relevant Guarantors under a guarantee set out in the relevant Loan Agreement (in each case, the **Guarantee**). Recourse under each Guarantee is limited to the proceeds of realisation of the security granted by each Guarantor pursuant to the relevant Borrower Security Documents.

## **Loan Security**

As security for its obligations under the Finance Documents, each Borrower, the relevant Guarantors (and the Nominees in the case of the B2000 Loans) will enter into the relevant Borrower Security Agreement with, among others, the Borrower Security Trustee. In addition, the relevant Share Mortgagor will enter into a Mortgage of Shares with the Borrower Security Trustee as security for those obligations.

The Loan Security will include:

- (a) in respect of each Borrower, pursuant to its Borrower Security Agreement:
  - (i) a first fixed legal mortgage over the relevant Borrower's freehold and/or leasehold interest in the relevant Properties (or, in the case of the lease of Paragon House, a charge over the beneficial interest);
  - (ii) a first fixed security assignment over the relevant Borrower's interest in any Occupational Leases;
  - (iii) first fixed security assignments over the relevant Borrower's rental income, interest in any insurance policies, bank accounts, the relevant Property Management Agreement and



- other documents to which the Borrower is a party;
- (iv) first ranking mortgages over the entire issued share capital of the relevant Borrower's subsidiaries; and
  - (v) a first ranking floating charge over all its assets not subject to fixed security;
- (b) in respect of each Guarantor, pursuant to the relevant Borrower Security Agreement:
- (i) a first fixed legal mortgage over the relevant Guarantor's freehold and/or leasehold interest in the relevant Properties;
  - (ii) a first ranking mortgage over the entire issued share capital of each Guarantor or Nominee held by it;
  - (iii) a first fixed security assignment over the relevant Guarantor's interest in any Occupational Leases;
  - (iv) first fixed security assignments over the relevant Guarantor's rental income, interest in any insurance policies, bank accounts, the relevant Property Management Agreement and other documents to which the Guarantor is a party; and
  - (v) a first ranking floating charge over all its assets not subject to fixed security;
- (c) in respect of each Nominee, pursuant to the Borrower Security Agreement for the B2000 Loan:
- (i) a first fixed legal mortgage over the relevant Nominee's leasehold interest in the relevant Property;
  - (ii) a first fixed security assignment over the relevant Nominee's interest in any Occupational Leases and rental income; and
  - (iii) a first ranking floating charge over all its assets not subject to fixed security;
- (d) in respect of each Share Mortgagor, pursuant to its Mortgage of Shares:
- (i) a first ranking mortgage over the entire issued share capital of the relevant Borrower; and
  - (ii) a floating charge (which is capable of being subordinated to the interests of other lenders) over all its assets not subject to fixed security.

The Borrower Security Trustee will hold the benefit of the Loan Security on trust for itself, any receiver appointed by it, the Issuer, the Property Manager and the Borrower Account Bank (together, the relevant **Borrower Secured Creditors**).

**Insurance:**

Each Obligor will undertake, pursuant to the relevant Loan Agreement, to maintain insurance on its Properties on a full reinstatement value basis, with not less than three years' loss of rent on all Occupational Leases together with property owners and public liability insurance and insurance against acts of terrorism. Each Obligor will also undertake to procure that the Borrower Security Trustee is named as co-insured and first loss payee on all relevant insurance policies.

All insurances required under each Loan Agreement must be with an insurance company, underwriter (or a group of insurance companies or underwriters) or any institution that issues a performance bond that has a financial strength rating, if rated by S&P, of at least A by S&P and, if rated by Fitch, at least A by Fitch.

**Property management:**

Each Borrower will be required, under the terms of its Loan Agreement, to manage its Portfolio to the standard of a prudent landlord and manager of property in accordance with the principles of good estate management.

Each Borrower will engage the Property Manager to manage its Portfolio. The Property Manager will owe a duty of care to the Borrower Security Trustee under each Property Management Agreement and will be under the obligation to manage both Borrowers' Portfolios without bias pursuant to those agreements. Each Borrower is obliged to replace the Property Manager following a Loan Event of Default if required by the Issuer.

## KEY CHARACTERISTICS OF THE PROPERTIES

### Properties

Each of the Properties in the BE Portfolio and the B2000 Portfolio are located in the North of England, specifically across the following cities/regions: Manchester city centre and Greater Manchester (the **Manchester City Region**), Warrington, Leeds and Liverpool.

#### BE Portfolio

The BE Portfolio consists of 25 properties.

Knight Frank LLP (**Knight Frank**) has valued BE Portfolio as at 30 November 2006 (**Valuation Date**) at £310.1 million with an estimated rental value (**ERV**) of £24.4 million per annum. See further *Valuations* below.

The weighted average term to lease expiry of BE Portfolio is 8.3 years from 30 November 2006 (the **Cut-Off Date**). The weighted average remaining lease term to the earlier of first break or expiry is 5.0 years from the Cut-Off Date. Approximately 39% of space is let on leases with an unexpired term of seven years or longer and these leases generate approximately 42% of the BE Portfolio's total rental income.

Investment grade tenants generate 28% of the rental income.

There are 320 leases in place. 11.4% of the BE Portfolio (by lettable area) is currently vacant (5.7% excluding City Tower).

#### B2000 Portfolio

The B2000 Portfolio consists of 23 properties.

Knight Frank has valued B2000 Portfolio as at the Valuation Date at £358.9 million, with an ERV of £26.5 million per annum. See further *Valuations* below.

The weighted average term to lease expiry of B2000 Portfolio is 6.9 years from the Cut-Off Date. The weighted average remaining lease term to the earlier of first break or expiry is 3.6 years from the Cut-Off Date. Approximately 43% of space is let on leases with an unexpired term of seven years or longer and these leases generate approximately 44% of the B2000 Portfolio's total rental income.

Investment grade tenants generate 19% of the rental income.

There are 537 leases in place. 6.1% of the B2000 Portfolio (by lettable area) is currently vacant.

### Valuation

Knight Frank has valued the BE Portfolio as at the Valuation Date as having a market value of £310,112,000.

Since the Valuation Date, there has been no diminution in the value of the BE

Portfolio. On the basis of this Valuation, the loan to value ratio (the LTV) of the BE Loan on the Closing Date (expressed as a percentage) will be 65.8%.

Knight Frank has valued the B2000 Portfolio as at the Valuation Date as having a market value of £358,930,000.

Since the Valuation Date, there has been no diminution in the value of the B2000 Portfolio. On the basis of this Valuation, the LTV of the B2000 Loan on the Closing Date (expressed as a percentage) will be 65.8%.

Under the terms of the Loan Agreements, the Issuer will receive, within 45 days of the relevant Borrower's accounting year end, a valuation report on each Portfolio and will have the right to call for a valuation of the relevant Portfolio at any time when a Loan Event of Default under the relevant Loan Agreement is outstanding, at the cost of the relevant Borrower.

## PRINCIPAL FEATURES OF THE NOTES

### Notes

The Notes will comprise:

£350,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2017;

£37,000,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2017; and

£53,000,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2017.

The Notes will be constituted by a trust deed made between the Issuer and the Trustee dated on or before the Closing Date (the **Trust Deed**). The Notes of each Class will rank *pari passu* and rateably and without any preference among themselves.

### Status and priority

Pursuant to the provisions of **Condition 3 (Status, Security and Priority of Payments)**, the Trust Deed and the Issuer Deed of Charge, the Class A Notes will rank in priority to all other Classes of Notes in point of security and as to the payment of principal and interest, the Class B Notes will be subordinated in point of security and as to right of payment of principal and interest in respect of the Class A Notes but will rank in priority to the Class C Notes in point of security and as to the payment of principal and interest, and the Class C Notes will be subordinated in point of security and as to right of payment of principal and interest in respect of the Class A Notes and the Class B Notes.

See further *Issuer Transaction Documents and Cashflows* below.

### Form and Denomination of the Notes

Each Class of Notes will be in bearer form. The Temporary Global Notes and the Permanent Global Notes of each class will be held by a common depository for Euroclear and Clearstream, Luxembourg. The Notes will be in minimum denominations of £50,000 and higher integral multiples of £1,000 up to and including £99,000.

### Ratings

It is expected that the Notes will, on issue, be assigned the following ratings:

<i>Notes</i>	<i>Fitch</i>	<i>S&amp;P</i>
Class A Notes	AAA	AAA
Class B Notes	AA	AA
Class C Notes	A	A

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

### Listing

Application has been made to the Financial Regulator in Ireland, as competent authority under the Prospectus Directive, for this Prospectus to be approved as

a Prospectus for the purposes of the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on its regulated market.

**Final redemption**

Unless previously redeemed in full, the Notes will mature on the Final Maturity Date.

**Redemption for taxation or other reasons**

In accordance with **Condition 6.2 (Redemption for Taxation or Other Reasons)**, but only after reasonable endeavours have been made to mitigate in accordance with such Condition, if the Issuer satisfies the Trustee that either:

- (a) by reason of a change of tax law, which change becomes effective on or after the Closing Date, the Issuer would become subject to tax on its income in more than one jurisdiction or on the occasion of the next Interest Payment Date the Issuer would be required to make any withholding or deduction from any payment of principal or interest in respect of any of the Notes, for or on account of any present or future tax, duty or charge of whatsoever nature incurred or levied by or on behalf of the United Kingdom or any authority thereof or therein; or
- (b) by reason of a change of law, which change becomes effective on or after the Closing Date, it has or will become unlawful for the Issuer to make, lend or allow to remain outstanding all or any advances made or to be made by it under the relevant Loan Agreement,

then the Issuer shall use its reasonable endeavours to avoid the event described and, if unable to do so, the Issuer shall (in accordance with **Condition 6.2 (Redemption for Taxation or Other Reasons)**), upon giving not more than 60 and not less than 15 clear days' notice to the Noteholders and provided that it has satisfied the Trustee that it has sufficient funds available to it, redeem all, but not some only, of the Notes at their then Principal Amount Outstanding (as defined in **Condition 6.1 (Redemption on the Final Maturity Date)**) together with accrued interest on the next Interest Payment Date.

**Mandatory redemption in whole or in part**

There is no scheduled partial redemption of the Notes of any class. However, the Issuer will be required in certain circumstances (more fully described in **Condition 6.3 (Mandatory Redemption in Whole or in Part)**) to redeem some or all of the Notes prior to the Final Maturity Date. These circumstances will include:

- (a) receipt by the Issuer of a notice of a voluntary prepayment of a Loan, in whole but not in part, from either of the Borrowers;
- (b) the mandatory prepayment by a Borrower in full, not in part, due to the illegality of a Loan or a change in control of the relevant Borrower;
- (c) a Borrower being obliged to prepay part of its Loan in respect of major damage or with insurance proceeds;
- (d) a Borrower prepaying its Loan in the event that it is required to make a payment to the Issuer in any way relating to a deduction or a

withholding for or on account of tax; and

- (e) a Borrower electing or being obliged to prepay part of its Loan with Net Disposal Proceeds or Compulsory Purchase Proceeds as defined below.

In these circumstances, the Issuer will be required, upon giving not more than 60 and not less than 15 clear days' notice to the Noteholders, to redeem the Notes in the same principal amount as the principal amount of the relevant prepayment in the manner more fully described in **Condition 6.3 (Mandatory Redemption in Whole or in Part)**.

If the Issuer is required to make a redemption for the reasons described in paragraph (a), (b) above then it will apply the relevant funds *pro rata* across all classes of Notes according to the then Principal Amount Outstanding.

If the Issuer is required to make a redemption for the reasons described in paragraph (c) above then it will apply the relevant funds sequentially to the Most Senior Class of Notes first according to the then Principal Amount Outstanding.

If the Issuer is required to make a redemption for the reasons described in paragraph (e) above then it will be required to apply:

- (i) in the case of voluntary disposal the **Minimum Prepayment Amount** being an amount equal to 115% of the portion of the relevant Loan allocated to the relevant Property on the Closing Date or, where the relevant Property is an Additional Property or Additional Properties, the portion of the relevant Loan allocated to the Property or Properties that it is in substitution of, pursuant to the relevant Loan Agreement (the **Allocated Loan Amount**) as follows:
  - (A) an amount equal to 100% of the relevant Allocated Loan Amount on a *pro rata* basis to each Class of Notes according to the then Principal Amount Outstanding together with accrued interest; and
  - (B) the remaining Minimum Prepayment Amount then applied sequentially in redemption of the Most Senior Class of Notes then outstanding.
- (ii) in the case of a Compulsory Purchase:
  - (A) the Compulsory Purchase Proceeds, up to an amount equal to 100% of the relevant Allocated Loan Amount, on a *pro rata* basis to each Class of Notes according to the then Principal Amount Outstanding; and
  - (B) any remaining Compulsory Purchase Proceeds then sequentially to the Most Senior Class of Notes then outstanding.

In addition, all enforcement proceeds representing principal received by the Issuer in respect of the enforcement of any Loan Security as determined by

the Servicer or the Special Servicer, as appropriate, (**Loan Enforcement Principal Proceeds**) will be applied by the Issuer in redemption of the Notes. In these circumstances, the Issuer will be obliged to apply all Loan Enforcement Principal Proceeds in redemption of the Notes sequentially (starting with the Most Senior Class of Notes then outstanding) on the Interest Payment Date following determination and receipt thereof, in accordance with **Condition 6.3(f) (Redemption from Loan Enforcement Principal Proceeds)**.

If the Issuer is obliged to redeem any Notes the Issuer must redeem the relevant principal amount of each relevant Note at a redemption price equal to par along with any accrued but unpaid interest up to the date of redemption.

In connection with each mandatory early redemption of Notes, the Issuer will also be required to effect a partial termination of the Swap Transaction under the Swap Agreement to reduce the notional amount thereunder to match the aggregate Principal Amount Outstanding of the Notes following the relevant redemption.

**No purchase of Notes by the Issuer**

The Issuer will not be permitted to purchase Notes.

**Further Notes, New Notes and Replacement Notes**

The Issuer will be entitled, without the consent of the Noteholders of any class, to issue further debt securities, as follows:

- (a) notes which are consolidated and form a single series with an existing Class of Notes (including any New Notes or Replacement Notes then in issue) (**Further Notes**);
- (b) notes which rank *pari passu* with the Class A Notes or behind the Class A Notes and ahead of the Class B Notes, or *pari passu* with the Class B Notes, or behind the Class B Notes but ahead of the Class C Notes, or *pari passu* with the Class C Notes, or behind the Class C Notes (the **New Notes**); and
- (c) notes of any class to replace an existing Class of Notes, but with an interest rate equal to or lower than the existing Class of Notes being replaced (or, if fixed rate Notes are to be issued in replacement for floating rate Notes or vice versa, a swap rate which (taking into account the relevant margin) is equal to or lower than the existing Class of Notes being replaced) (the **Replacement Notes**).

Any issue of Further Notes, New Notes or Replacement Notes will be subject to the satisfaction of certain conditions precedent. These will include a condition that the Rating Agencies confirm that the then current ratings of each Class of Notes already in issue will not be adversely affected. See further **Condition 16.1 (Further Issues)** under *Terms and Conditions of the Notes* below.



## Interest rates

Each Class of Notes will bear interest calculated as the sum of LIBOR (as determined in accordance with **Condition 5.3(b) (Rates of Interest)**) plus the relevant Margin. The interest rate margin applicable to each Class of Notes will be as follows (each, a **Margin**):

<b>Class</b>	<b>Margin</b>
Class A Notes	0.20%
Class B Notes	0.27%
Class C Notes	0.49%

## Interest payments

Interest will be payable on the Notes quarterly in arrears on 15 January, 15 April, 15 July and 15 October in each year, unless the same is not a Business Day, in which case the next succeeding Business Day, or, if there are no Business Days remaining in that calendar month, the previous Business Day (each, an **Interest Payment Date**). **Business Day** means a day (other than Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for business and settle payments in London and Dublin.

## Interest Periods

The first Interest Period will run from (and including) the Closing Date to (but excluding) the first Interest Payment Date (which shall be 15 April 2007) and subsequent Interest Periods will run from (and including) an Interest Payment Date to (but excluding) the next Interest Payment Date. The Noteholders will be entitled to receive a payment of interest only in so far as payment is in accordance with the Priorities of Payments (as described in *Issuer Transaction Documents and Cashflows* below).

If, following enforcement of any Loan Security, there occurs a principal loss in respect of the relevant Loan (as determined by the Servicer or the Special Servicer, as appropriate), the interest-bearing balance of the Notes may be reduced in accordance with **Condition 5.9 (Reduction of Interest-Bearing Balance)**.

Any interest not paid on the Notes (other than interest due on the Most Senior Class of Notes then outstanding) when due (prior to the Final Maturity Date or on such earlier date as the Notes become immediately due and repayable under **Condition 6 (Redemption)**) will accrue interest and will be paid only to the extent that there are funds available on a subsequent Interest Payment Date in accordance with the Priorities of Payments (as described in *Issuer Transaction Documents and Cashflows* below).

Any deferral of interest in accordance with **Condition 5.8 (Deferral of Payment)** will not constitute a Note Event of Default.

## Issue prices

The Class A Notes will be issued at 100% of their aggregate initial Principal Amount Outstanding.

The Class B Notes will be issued at 100% of their aggregate initial Principal Amount Outstanding.

The Class C Notes will be issued at 100% of their aggregate initial Principal Amount Outstanding.

## **Withholding tax**

If any withholding or deduction for or on account of any tax is imposed in respect of payments under the Notes, the Issuer will make payments subject to such withholding or deduction and neither the Issuer nor any other entity will be required to gross-up or otherwise pay additional amounts in respect thereof. See *United Kingdom Taxation* below.

## **Security for the Notes**

The Notes will be secured pursuant to a deed of charge made between the Issuer, the Trustee and other Issuer Secured Creditors and dated on or before the Closing Date (the **Issuer Deed of Charge**).

The Trustee will hold the security granted under the Issuer Deed of Charge on trust for itself, any receiver and any other appointee of the Trustee, the Liquidity Bank, the Agent Bank, the Cash Administrator, the Paying Agents, the Issuer Account Bank, the Independent Director Provider, the Servicer, the Special Servicer and the Swap Counterparty (together with the Noteholders and any appointee of the Trustee, the **Issuer Secured Creditors**) pursuant to which the Issuer will grant security in respect of its obligations to the Issuer Secured Creditors, including the Notes (the **Issuer Secured Obligations**).

The Issuer will grant the following security interests under or pursuant to the Issuer Deed of Charge (the **Issuer Security**):

- (a) an assignment by way of first fixed security of its right, title, interest and benefit, present and future, in, to and under the Issuer Transaction Documents to which it is a party including:
  - (i) the Servicing Agreement;
  - (ii) the Subscription Agreement;
  - (iii) the Liquidity Facility Agreement;
  - (iv) the Swap Agreement;
  - (v) the Trust Deed;
  - (vi) the Agency Agreement;
  - (vii) the Independent Director Agreement;
  - (viii) the Issuer Account Bank Agreement; and
  - (ix) the Cash Administration Agreement;
- (b) an assignment by way of first fixed security over all of its right, title, interest and benefit, present and future, under the Finance Documents;
- (c) excluding amounts standing to the credit of the Liquidity Standby Account, which are secured in favour of the Liquidity Bank only, a charge by way of first fixed security over all of its right, title, interest and benefit, present and future, in and to the amounts from time to time standing to the credit of each Issuer Account;

- (d) a first fixed charge of its rights to all monies standing to the credit of the Issuer Accounts;
- (e) an assignment by way of first fixed security over all of its right, title, interest and benefit, present and future, in and to all investments (including Eligible Investments) made by or on behalf of the Issuer; and
- (f) a first floating charge over all of the property, assets and undertaking of the Issuer not already subject to fixed security including the Issuer's uncalled capital,

The security interests referred to in paragraphs (a) to (e) above may take effect as floating security interests.

**Transaction Documents**

The Loan Agreements, the Borrower Security Documents, the Property Management Agreements, the Borrower Account Bank Agreements, the Tax Deed of Covenant and Subordination Deeds are together referred to as the **Borrower Transaction Documents** (and each, a **Borrower Transaction Document**).

The Agency Agreement, the Cash Administration Agreement, the Independent Director Agreement, the Issuer Account Bank Agreement, the Issuer Deed of Charge, the Liquidity Facility Agreement, the Trust Deed, the Servicing Agreement, the 1992 ISDA Master Agreement (Multicurrency – Cross Border) and schedules thereto, English Law 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) Confirmation, the Servicing Agreement and the Master Definitions Schedule are together referred to as the **Issuer Transaction Documents** (and each, a **Issuer Transaction Document**).

**Limited recourse**

On enforcement of the Issuer Security, the Trustee and the Noteholders will have recourse only to the Issuer Security. To the extent that the proceeds of such enforcement are insufficient (after payment of all other claims ranking in priority to or *pari passu* with amounts due in respect of the Notes) to pay all principal and interest due on the Notes then the Issuer's obligations to pay such amounts will be extinguished and the Noteholders will have no further claim against the Issuer in respect of such amounts.

**Transfer restrictions**

There will be no transfer restrictions in respect of the Notes, subject to applicable laws and regulations.

**Governing law**

The Notes and the Issuer Transaction Documents will be governed by English law.

## RISK FACTORS

*Set out in this section is a summary of certain issues of which prospective Noteholders should be aware before making a decision whether or not to invest in Notes of any class. This summary is not intended to be exhaustive. Therefore, prospective Noteholders should read also the detailed information set out elsewhere in this Prospectus and form their own views before making any investment decision.*

### **(A) Considerations relating to the Notes**

#### ***Liability under the Notes***

The Notes and interest thereon will be obligations of the Issuer only. The Notes will not be obligations or responsibilities of, nor will they be guaranteed by the Lead Manager, the Co-Manager, the Servicer, the Special Servicer, the Cash Administrator, the Trustee, the Borrower Security Trustee, the Paying Agents, the Agent Bank, the Liquidity Bank, the Swap Counterparty, the Issuer Account Bank, the Borrowers, the Guarantors, the Nominees, the Subordinated Creditors, the Property Manager, the Borrower Account Bank or any company in the same group of companies as any of them

#### ***Limited recourse***

The Notes will be limited recourse obligations of the Issuer. The ability of the Issuer to meet its obligations under the Notes will be dependent primarily upon the receipt by it of principal and interest from the Borrowers under the BE Loan and the B2000 Loan (see further *Considerations relating to the Loans and the Properties* below) and the receipt of funds (if available to be drawn) under the Liquidity Facility Agreement. Other than the foregoing, any interest earned by the Issuer in respect of its bank accounts and any amounts payable to the Issuer under the Swap Agreement, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes.

Upon enforcement of the security for the Notes, the Trustee or any receiver and the Noteholders will have recourse only to the BE Loan and the B2000 Loan, the Issuer's interest in the Loan Security and the Security granted to the Borrower Security Trustee pursuant to the Borrower Security Agreements, the Mortgage of Shares, the Nominees Mortgages and to any remaining Issuer Security. In the event that the proceeds of enforcement against the Issuer Security are insufficient (after payment of all other claims ranking higher in priority to or *pari passu* with amounts due under the Notes), the Issuer's obligation to pay such amounts will cease and the Noteholders will have no further claim against the Issuer in respect of such unpaid amounts, in which event the Issuer's liability to discharge the then unpaid amounts will be extinguished. Enforcement of the security created pursuant to the Issuer Deed of Charge is, therefore, the only remedy available for the purpose of recovering amounts owned in respect of the Notes. It should be noted that in certain limited circumstances (including acceleration of the Notes), the Issuer will not be able to make any further drawings under the Liquidity Facility Agreement.

#### ***Ratings of the Notes***

The ratings assigned to each class of the Notes by the Rating Agencies are based on the Loans, the Loan Security, the Properties and other relevant structural features of the transaction, including, among other things, the short-term and long-term unsecured, unguaranteed and unsubordinated debt ratings of the Liquidity Bank and the Swap Counterparty. These ratings reflect only the views of the Rating Agencies.

The ratings address the likelihood of full and timely receipt by any of the Noteholders of interest on the Notes and the likelihood of receipt by any Noteholder of principal of the Notes by the Final Maturity Date. The ratings do not address the effect or likelihood of Loan prepayment. There can be no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by any Rating Agency as a result of changes in or unavailability of information or if, in

the judgment of the Rating Agencies, circumstances so warrant. A qualification, downgrade or withdrawal of any of the ratings mentioned above may impact upon the market value and/or liquidity of the Notes of any class.

Credit rating agencies other than Fitch and S&P could seek to rate the Notes (or any class of them) without having been requested to do so by the Issuer, and if such unsolicited ratings are lower than the comparable ratings assigned to the Notes by Fitch or S&P, those unsolicited ratings could have an adverse effect on the market value and/or liquidity of the Notes of any class. In this Prospectus all references to ratings are to ratings assigned by the Rating Agencies (namely Fitch and S&P).

### ***Ratings confirmations***

Under the Issuer Transaction Documents, the Trustee may determine whether any event, matter or thing is, in its opinion, materially prejudicial to the interests of any class of Noteholders, or, as the case may be, all the Noteholders, and if the Trustee certifies that any such event, matter or thing is, in its opinion, materially prejudicial, such certificate shall be conclusive and binding upon the Issuer and the Noteholders. In making such a determination the Trustee shall be entitled to take into account, among other things, any confirmation by the Rating Agencies (if available) that the then current rating of the Notes of the relevant class would or, as the case may be, would not be adversely affected by such event, matter or thing.

However, it should be noted that the decision as to whether or not to confirm any particular rating may be made on the basis of a variety of factors and no assurance can be given that any such confirmation will not be given in circumstances where the relevant proposed matter would materially adversely affect the interests of Noteholders of a particular class. The Rating Agencies, in assigning credit ratings, do not comment upon the interests of holders of securities (such as the Notes). In addition, no assurance can be given that the Rating Agencies will provide any such confirmation.

### ***Absence of secondary market; limited liquidity***

Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on its regulated market. There is not, at present, a secondary market for the Notes. There can be no assurance that a secondary market for the Notes will develop or, if it does develop, that it will provide Noteholders with liquidity of investment or that it will continue for the life of the Notes. In addition, the market value of certain of the Notes may fluctuate with changes in prevailing rates of interest and/or credit spreads. Consequently, any sale of Notes by Noteholders in any secondary market which may develop may be at a discount to the original purchase price of those Notes.

### ***Availability of Liquidity Facility***

The Liquidity Bank will, under and in accordance with the terms of the Liquidity Facility Agreement, make the Liquidity Facility available to enable the Issuer to (among other things) make payments of interest in respect of the Notes. In certain circumstances after the enforcement of the BE Loan and/or the B2000 Loan, the Liquidity Facility may cease to be available to make note interest payments in respect of certain classes of Notes. The Liquidity Facility will not be available to the Issuer to enable it to make any payment of principal payable in respect of the Notes of any class. See *Issuer Transaction Documents and Cashflows – Liquidity Facility Agreement*.

As described under *Issuer Transaction Documents and Cashflows – Liquidity Facility Agreement – (b) Appraisal Reductions*, if an Appraisal Reduction occurs, then the amount of the Liquidity Facility will be reduced.

The initial Liquidity Facility Agreement will expire 364 days after the Closing Date, although it is extendable. The Liquidity Bank is not obliged to extend or renew the Liquidity Facility at its expiry but if it does not renew or extend the Liquidity Facility on request then the Issuer may, subject to certain terms, be

required to make a Liquidity Standby Drawing and place the proceeds of that drawing on deposit in the Liquidity Standby Account. See further *Issuer Transaction Documents and Cashflows – Liquidity Facility Agreement – Liquidity Standby Drawings*, below.

### ***Subordination of Class B Notes and Class C Notes***

If on any Interest Payment Date when there are Class A Notes outstanding the Issuer has insufficient funds to make payment in full of interest due on the Class B Notes and/or the Class C Notes, then the Issuer will be entitled (under **Condition 5.8 (Deferral of Payment)**) to defer payment of that amount until the following Interest Payment Date. In these circumstances there will be no Note Event of Default. If there are no Class A Notes then outstanding (but there are Class B Notes outstanding), the Issuer will be entitled to defer payments of interest in respect of the Class C Notes. In these circumstances there will be no Note Event of Default.

The terms on which the Issuer Security will be held will provide that, upon enforcement, certain payments (including all amounts payable to any receiver and the Trustee, all amounts due to the Servicer, the Special Servicer (other than payments due in respect of the Liquidation Fee), the Swap Counterparty, the Independent Director Provider, the Issuer Account Bank, the Paying Agents, the Agent Bank and all payments due to the Liquidity Bank under the Liquidity Facility (other than in respect of amounts specified in paragraph (ix) of *Issuer Transaction Documents and Cashflows – Issuer Cashflows – (b) Payments Paid out of the Transaction Accounts Pre-Enforcement of the Issuer Security*, as described in *Issuer Transaction Documents and Cashflows – Issuer Cashflows – (d) Payments Paid out of the Transaction Account Post-Enforcement of the Issuer Security but Pre-Acceleration of the Notes* and paragraph (xi) of *Issuer Transaction Documents and Cashflows – Issuer Cashflows – (e) Payments Paid out of the Issuer Accounts Post-Acceleration of the Notes* below)) will be made in priority to payments in respect of interest and principal (where appropriate) on the Class A Notes. Upon acceleration of the Notes, all amounts owing to the Class A Noteholders will rank higher in priority to all amounts owing to the Class B Noteholders, all amounts owing to the Class B Noteholders will rank higher in priority to all amounts owing to the Class C Noteholders.

### ***Conflict of interests between classes of Noteholders***

The Trustee will be required, in performing its duties as trustee under the Trust Deed and the Issuer Deed of Charge, to have regard to the interests of all the Noteholders together. However, if (in the sole opinion of the Trustee) there is conflict between the interests of the holders of one or more classes of Notes and the interests of the holders of one or more other classes of Notes, then the Trustee will be required in certain circumstances to have regard only to the interests of the holders of the Most Senior Class of Notes then outstanding. For these purposes, the interests of individual Noteholders will be disregarded and the Trustee will determine interests viewing the holders of any particular Class of Notes as a whole.

### ***Withholding or deduction under the Notes***

In the event that any withholding or deduction for or on account of tax is required to be made from payments due under the Notes (as to which, in relation to United Kingdom tax, see *United Kingdom Taxation* below), neither the Issuer nor any Paying Agent nor any other person will be obliged to pay any additional amounts to Noteholders for the reduction in the amounts they will receive as a result of such withholding or deduction. For the avoidance of doubt, neither the Trustee nor Noteholders will have the right to require the Issuer to redeem the Notes in these circumstances.

### ***European Union Directive on the Taxation of Savings Income***

Under the EC Council Directive 2003/48/EC on the taxation of savings income Member States of the EC (**Member States**) are required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual

resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

### ***Yield and prepayment considerations***

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of receipt by the Issuer of amounts of principal in respect of the Loans (and payment thereof to Noteholders) and the purchase price paid by the holders of the Notes. Such yield may be adversely affected by one or more prepayments in respect of either Loan (and payment thereof to Noteholders).

Each Borrower will have the option to prepay all of its relevant Loan at any time. In addition, in certain circumstances a Borrower may be required to prepay its Loan in whole or in part. Subject as stated below, if either Borrower prepays its Loan in whole or in part, the Issuer will effect a redemption of the Notes (under **Condition 6.3 (Mandatory Redemption in Whole or in Part)**) in a corresponding principal amount to that amount of the relevant Loan prepaid.

### ***Considerations relating to the Loans and the Properties – concentration of risk generally***

The entire amount of the Note issue proceeds will be lent to the Borrowers. Each Borrower's only material assets will be its interests in the relevant Properties. Each Borrower relies on funds generated through the letting of the Properties to Occupational Tenants to make payment in full of the amounts due in respect of its Loan. Non-payment of rent by the Borrower's tenant could adversely affect the ability of such Borrower to make payments due in respect of the Loan, and as a consequence would adversely affect the ability of the Issuer to make payments due in respect of the Notes in full.

Real property investments are subject to varying degrees of risk. Rental revenues and property values are affected by changes in the general economic climate and local conditions such as an oversupply of space, a reduction in demand for office and retail real estate in an area, competition from other available space or increased operating costs. Rental revenues and property values are also affected by such factors as political developments, government regulations and changes in planning laws or policies and changes in tax laws, interest rate levels, inflation, the availability of financing and yields of alternative investments. Office and retail rentals and values are sensitive to such factors, which can sometimes result in rapid substantial increases and decreases in rental and valuation levels.

### ***United Kingdom taxation position of the Borrowers***

Under current UK taxation law and published practice, the Issuer has been advised that rental income received by the Borrowers will constitute taxable income for United Kingdom corporation tax purposes. However, repayments of principal amounts advanced to the Borrowers under the Loans are not deductible for UK tax purposes, and therefore (save where a Borrower disposes of capital assets without a material tax charge and applies the proceeds to make repayment of the principal amount borrowed, or repays principal by raising new finance) part of the rental income received by the Borrowers will generally be required to be applied to discharge its corporation tax liability and so will not be available to it to make payments under the Loan. To the extent that the Borrower's rental income is used to fund the repayment of all or part of the principal under the Loans, that part of the repayment of principal will be funded out of the post-tax income of the Borrowers. To the extent that a Borrower's post-tax income is not sufficient to fund such repayments of principal, the shortfall will have to be met from a refinancing of the Loan. There can be no assurance that taxation law and practice will not change in a manner (including, for example, a rise in the rate of corporation tax), which would adversely affect the amount of post-tax income of the Borrowers and

therefore affect each Borrower's ability to make repayments under the Loan. If the Issuer does not receive all amounts due from a Borrower under the Loan, the Issuer may, in prescribed circumstances, make a drawing under the Liquidity Facility, but may not ultimately have sufficient funds to enable it to meet its payment obligations under the Notes and/or any other payment obligations ranking in priority to, or *pari passu* with, the Notes.

### ***United Kingdom taxation position of the Issuer***

Pursuant to the Finance Act 2005 regulations have been made to establish a permanent regime for the taxation of "securitisation companies" such as the Issuer. For accounting periods beginning on or after 1 January 2007, companies to which the regulations apply will be taxed broadly by reference to their "retained profit" rather than by reference to their accounts. It is expected (and the Issuer has been so advised) that the Issuer will fall within the permanent regime for securitisation companies, but if it does not (or subsequently does not), then profits or losses could arise in the Issuer which could have tax effects not contemplated in the cashflows for the transaction and as such adversely affect the tax treatment of the Issuer and consequently payment on the Notes.

### ***Contingent taxation liabilities of the Borrowers***

Each Borrower acquired the Properties from one or more Guarantors in the same group of companies as that of the relevant Borrower for the purposes of United Kingdom corporation tax on chargeable gains (CGT) and/or stamp duty land tax (SDLT). This formed part of the Corporate Reorganisation.

As a consequence, the Borrowers have contingent liabilities to pay CGT or SDLT which could become actual liabilities to pay tax if (broadly) the relevant Borrower ceases to be a member of the relevant tax group without the relevant Guarantor within a period specified by statute.

As each of the relevant Guarantors is either directly or indirectly owned by the Borrower, it is not expected that either Borrower could leave the relevant tax group without the relevant Guarantor, with the consequence that the contingent tax liabilities should not become crystallised. If such a contingent liability to pay tax were to become an actual liability to pay tax, the discharge of that tax liability could reduce the amount of post-tax income available to the relevant Borrower to make payments of interest, principal and fees under the relevant Loan Agreement. Consequently, the Issuer's ability to meet its payment obligations under the Notes could be adversely affected.

However, each relevant Guarantor is owned, directly or indirectly, as to 100% by the Borrower to which its Properties were transferred. Each Borrower will undertake in the Tax Deed of Covenant not to dispose of any relevant Guarantor or otherwise take any action which would cause the Borrower to leave the relevant tax group without each relevant Guarantor. In addition, the shares of each relevant Guarantor will be charged in favour of the Borrower Security Trustee under the relevant Borrower Security Agreements and therefore the Borrower Security Trustee would be able to prevent a transfer of the shares of each relevant Guarantor, and therefore prevent the Borrower from leaving the relevant tax group without the relevant Guarantor.

### ***Secondary taxation liabilities of the Borrowers and Issuer***

Where a company fails to discharge certain taxes due and payable by it within a specified period of time, UK tax law imposes in certain circumstances a secondary liability for those overdue taxes on other companies which are or have been members of the same group of companies for tax purposes or are or have been under common control with the company that has not discharged its primary liability to pay that tax.

Further, membership of a group for value added tax (VAT) purposes imposes on each group member joint and several liability for any VAT liabilities of the group due during its period of membership.



Each Share Mortgagor will covenant in the Tax Deed of Covenant not to do anything which would result in such a secondary liability for tax arising in relation to the relevant Borrower or Issuer and each Borrower and the Issuer will covenant not to become a member of a VAT group (such that it could not be liable for any other company's VAT). The aim of such covenants is to minimise the likelihood of such secondary liabilities to tax affecting the relevant Borrower, but the possibility of such liabilities arising cannot be entirely eliminated. In addition, each Share Mortgagor has undertaken in the Tax Deed of Covenant to indemnify the relevant Borrower and Issuer against certain specified secondary liabilities for corporation tax on chargeable gains and stamp duty land tax. There is a possibility that each Share Mortgagor may not have sufficient funds to meet its obligations under such indemnities.

### ***Dependence on Occupational Tenants***

Each Borrower's ability to meet its obligations in respect of its relevant Loan Agreement will depend upon each Borrower continuing to receive rent from Occupational Tenants under its Occupational Leases. Each Borrower's ability to make payments in respect of the Loan could be adversely affected if occupancy levels at its Properties were to fall or if a significant number of Occupational Tenants were unable to meet their obligations under their Occupational Leases. See also *Risk Factors – Active Management of the Properties* below.

During the term of the Loan Agreements some of the existing Occupational Leases which are in place as at the Closing Date will come to the end of their respective contractual terms. This is also likely to be the case for some of the new Occupational Leases granted by the Borrowers after the Closing Date. There can be no assurance that Occupational Tenants will renew their respective Occupational Leases or, if they do not, that new Occupational Tenants will be found to take up replacement Occupational Leases. Furthermore, even if such renewals are effected or replacement Occupational Leases are granted, there can be no assurance that such renewals or replacement Occupational Leases will be on terms (including rental levels) as favourable to the Borrowers as those which exist now or before such termination, nor that the covenant strength of either Occupational Tenants who renew their Occupational Leases or new Occupational Tenants who replace them will be the same as, or equivalent to, those now existing or existing before such termination.

### ***Geographic concentration; the economies of Manchester/Liverpool/Leeds***

All of the properties are located in the North of England, with the majority in the Manchester City Region and the remainder in or around Leeds and Liverpool. Rental payments under the Occupational Leases and the market value of the Properties could be adversely affected by conditions in the property markets where the Properties are located, and other local factors which are beyond the control of the Borrower and/or the Occupational Tenants. In addition, the performance of the Properties will be dependent upon the strength of the UK and Global economy. Geographic risks may be offset to an extent by the number of Occupational Tenants and sector diversity of the Occupational Tenant base. See further *Description of the Bruntwood Business and its Properties*.

### ***Risks relating to office properties***

86% of rental income in relation to the Portfolios (as of the Cut-Off Date) relates to office space. The income from and market value of an office property, and the Borrower's ability to meet its obligations under the relevant Loan Agreement are subject to a number of risks. In particular, a given property's age, condition, design and ability to offer certain amenities to Occupational Tenants all affect the ability of such a property to compete against other office properties in the area in attracting and retaining Occupational Tenants. Other important factors that affect the ability of an office property to attract or retain Occupational Tenants include the quality of a building's existing occupiers, the quality of the building's property manager, the attractiveness of the building and the surrounding area, access to public transportation and major roads and the public perception of safety in the surrounding neighbourhood. Attracting and retaining Occupational Tenants often involves refitting, repairing or making improvements to office space to accommodate the type

of business conducted by prospective Occupational Tenants or a change in the type of business conducted by existing major Occupational Tenants. Such refitting, repairing or improvements are often more costly for office properties than for other property types.

### ***Risks Relating to Retail Properties***

There are no retail properties in the Portfolios; however, 7% of the rental income in relation to the Portfolios (as of the Cut-Off Date) relates to retail space. All retail space within the Portfolios is situated within office property. If, for whatever reason, several of the current retail tenants were to cease paying rent or to cease occupying their respective parts of a Property, the ability of the relevant Borrower to make payments under its Loan Agreement could be impaired. There can be no assurance that a Borrower will, on termination of the Occupational Leases currently in place, be able to attract the types of retail tenants needed in the future to maintain the current range and quality of retail outlets at each Property.

The ability to attract the appropriate types and number of tenants paying rents sufficient to allow a Borrower to make payments due under the relevant Loan and the Guarantee and therefore the Borrower to make payments due under the relevant Loan Agreement will depend on, among other things, the performance generally of the retail property market and could be linked to the quality and performance of the office space.

Rental levels, the quality of the building, the amenities and facilities offered, the convenience and location of a Property, the amount of space available, the transport infrastructure and the age of the building in comparison to the alternatives are all factors which influence retail tenant demand. There is no guarantee that changes to the infrastructure, demographics, planning regulations and economic circumstances relating to the surrounding areas on which a Property depends for its consumer base will not adversely affect the ability of a Borrower to attract tenants to the Properties.

### ***Risks relating to Serviced Offices***

Some of the Borrowers' buildings offer serviced office space (the **Serviced Offices**). Serviced Offices currently represent less than 1.5% of the total net lettable area for both Portfolios combined. A Borrower's ability to meet its obligations under a Loan secured by property which provides a serviced offering are subject to a number of risks that differ from those applicable to office space. The most significant risk relates to the shorter term of the licences and a higher turnover of the Serviced Office space licencees and the costs associated with provision of the services contracted to be provided (which may in some cases exceed the income received for such services). An economic down-turn or increased competition in this market could result in a shortfall in the number of serviced space licencees utilising the Serviced Offices and thereby reduce licence income and ultimately impair the Borrower's ability to make payments under the relevant Loan.

If demand for Serviced Offices is reduced significantly, then it must be noted that some expenditure may need to be incurred to re-organise the space in order that it is suitable for conventional letting. In addition, the Borrower may have to spend some money maintaining the quality of the internal fabric of the space in order to continue to attract serviced occupiers.

Serviced Offices sit within established office buildings and therefore the list of factors affecting the ability to attract and retain Occupational Tenants in *Risks relating to offices properties*, above, also apply to the retention of serviced space licencees for the Serviced Offices. Additional factors relating to the Serviced Offices, include the quality of the fit-out of the offices, the furniture, the IT provision, other "soft amenities" and the management of the Serviced Offices.

Each Borrower will covenant to limit exposure to Serviced Offices to no more than 10% of lettable area within their respective Portfolios, thereby limiting the transaction's exposure to the risk associated with serviced office accommodation.

### ***Active management of the Properties***

All of the Properties have been, and will remain, under active property management from within the Bruntwood Group. The ethos of the Bruntwood Group is to attract and retain Occupational Tenants on a long term basis. This is achieved by working in partnership with the Occupational Tenants, placing a high degree of emphasis on customer service and actively working to meet their ever-changing space requirements. This may result in the release of Occupational Tenants from their obligations under Occupational Leases at a time when no replacement occupant has yet signed up to a lease, for instance in the circumstance where an Occupational Tenant has outgrown their current space and wishes to expand. Every effort will be made to meet the Occupational Tenant's requirements whether this is through the provision of additional space within the same building or through relocation to another building. It should be noted that although this policy will often benefit the Borrower by the increasing of rent and unexpired term certain, there may be circumstances in which it may be necessary to relocate an Occupational Tenant to a building within the Bruntwood Limited Group, but outside of the Borrower's Portfolio.

To mitigate against this risk the Property Manager will agree to operate the various portfolios without bias between them and Surrender Premiums are required to be set aside, subject to certain conditions, to compensate the structure for the loss of future Net Rental Income.

### ***Privity of contract***

Pursuant to the Landlord and Tenant (Covenants) Act 1995 (the **Covenants Act**), in respect of a property lease granted after 1 January 1996 (other than one granted after such date pursuant to an agreement for lease entered into before such date or a court order granted before that date), where a tenant under the lease assigns such lease (having obtained all necessary consents (including that of the landlord if such is specified in the relevant lease)), that tenant's liability to the landlord ceases. However, the Covenants Act permits the lease to provide that, on such assignment, the assignor can be required to enter into an authorised guarantee of the assignee's obligations to the landlord under the lease. Such authorised guarantee only covers the obligations of the original assignee of that assignor while the tenant under the lease but not any subsequent assignees.

Substantially all of the Occupational Leases (other than certain short term lettings and noting that only a sample of the leases have been reviewed) of the Property require the tenant to provide an authorised guarantee of any assignee's obligations as part of the consent to assignment provisions, either as an absolute prerequisite to assignment or where reasonably required by the relevant Borrower.

Notwithstanding these arrangements, there can be no assurance that any assignee of an Occupational Lease will be of a similar credit quality to the original Occupational Tenant, or that any subsequent assignees (who will not be covered by the original Occupational Tenant's authorised guarantee) will be of a similar credit quality.

### ***Competition – Borrowers operating in same market***

The office space market in the UK is competitive; competition exists not only within a city centre but also between city centre office developments and out of town business parks. The Portfolios are predominantly based within city centre and surrounding town locations.

The principal factors affecting a Property's ability to attract and retain tenants include the quality of the building, the amenities and facilities offered, the convenience and location of a Property, the amount of space available to be let, the identity and nature of its tenants and the transport infrastructure (including availability and cost of parking) in comparison to competing areas. As above, it should be noted that the Borrowers may be in competition between themselves to attract and maintain tenant occupancy levels.

It should be noted that the Borrowers own and manage Properties that are very similar in nature (predominantly office property) and geographical location and their Occupational Tenants may in some cases be the same. As a result, were there to be a downturn in this market, the Borrowers could be in competition to attract tenants to their Properties. However, the Property Manager appointed by the Borrowers is the same and is required to manage both Portfolios without bias pursuant to the terms of the Property Management Agreements. The commanding position held by the Borrowers in this market also mitigates against any severe market downturn through their combined control in the market.

### ***Title***

In connection with the securitisation of the BE Portfolio and the B2000 Portfolio, the Borrowers' solicitors, Cobbetts LLP, DLA Piper UK LLP and Halliwells LLP undertook a review of title. They have prepared certificates of title on 18 properties (the **COT Properties**) representing 61% of total Portfolio value in the Portfolios (the **Certificates of Title**) and reviewed the official copies and any filed copies referred to in those official copies for properties constituting 39% of value (the **Official Copies Properties**) in the Portfolios. The Certificates of Title address the quality of title of each Property as at the date of this Prospectus and have been issued on the basis of a review of the title documents and the usual conveyancing searches and enquiries.

The title review revealed the following information:

Part of the property at Bank Chambers, a BE Portfolio Property, is known as land on the north east side of Charlotte Street and north west side of Portland Street and is leasehold. The use permitted under the lease for this land is to keep open and use this land for the purposes of a landscaping scheme in accordance with a scheme of plants, trees and shrubberies. The lease also states that the tenant cannot erect any structures of any kind on the land. The BE Borrower entered into negotiations with the local authority some time ago concerning a proposed change of use to this area of land. With the relevant local authority fully aware of (and encouraging) the proposed change of use and alterations, the BE Borrower had constructed an extension on this area for office/retail use. A formal deed of variation and licence for alteration were in the process of being finalised with the relevant local authority but this was never actually completed. The landlord has, however, provided written waiver of the breach of covenant of the lease as it relates to those alterations carried out on the Property. The BE Borrower is currently seeking to finalise the deed of variation and licence for alteration with the relevant local authority. The lease for this land also states that if the landlord in its capacity as highway authority, requires the property or any part for the purposes of highway or road widening or improvement and wishes to determine the lease then it can do so by giving the tenant not less than six months' notice; the intended deed of variation will also delete this clause. Rental income derived from the affected part of the premises amounts to £122,500 per annum.

### ***Development of the Properties***

Under each Loan Agreement, the Borrower is restricted from entering into any development, refurbishment, improvement or other capital works in respect of a Property. Development may only be undertaken in accordance with the terms of the relevant Loan Agreement.

To limit the risk that the Borrowers will incur liabilities or engage in work that will negatively impact on their ability to earn rental income the Loan Agreements prevent the Borrowers from, except under limited conditions, engaging in work of a structural nature where (a) the work will result in a rent abatement, reduction or other non-payment of rent of more than 50% of the current passing rent for the Property, or (b) the projected cost of the work represents more than 5% of relevant Portfolio value or 15% of value of the relevant Property (the **Major Work**).

To engage in Major Work, another member of the Borrower's group that is not an Obligor must enter into all agreements in respect of the Major Work and, before work has commenced, the Borrower must either obtain

permission from the Borrower Security Trustee, or post a performance bond or cash equal to 110% of the cost of the Major Work or satisfy the Borrower Security that it can afford to pay for 110% of the Major Work from excess rental income or any combination of bond, cash or excess rental income.

### ***Statutory rights of tenants***

In certain limited circumstances, tenants of a Property may have legal rights to require the landlord of that Property to grant them future tenancies, pursuant to the Landlord and Tenant Act 1954 (as amended). Should such a right arise, the landlord may not have his normal freedom to negotiate the terms of the new tenancies with the tenant, such terms being imposed by the English court as being the same, save for the rent, as those under the previous tenancy of the relevant premises save for the rent. While it is the general practice of the English courts in lease renewals under the Landlord and Tenant Act 1954 (as amended) to grant a new tenancy on similar terms to the expiring tenancy, the basic annual rent will be adjusted in line with the market rents at the relevant time and there can be no guarantee as to the terms on which any new such tenancy will be granted.

### ***Administration risk in respect of certain tenants***

If an Occupational Tenant which is a company were to become subject to administration, the relevant Borrower would be restricted under the Insolvency Act 1986, as amended (**the Insolvency Act**) from taking certain action against that Occupational Tenant for recovery of sums due or re-entry to the relevant premises. In addition, during the administration relation to an Occupational Tenant which is a company, the statutory moratorium means that a landlord requires the consent of the tenant's administrator or (and when a petition has been presented, only with) leave of the court before it is able to enforce rights against that company as tenant to forfeit the tenant's lease by peaceable re-entry onto the premises.

If the tenant is still trading at the premises or has plans to recommence trading with a view to the survival of the company as a going concern, it is possible that the court would refuse to grant such leave to re-enter to the landlord on the grounds that to do so would frustrate the purpose of the administration and, furthermore, that the court would do so notwithstanding that the administrator was only paying a reduced or even no rent under the terms of the relevant lease. In addition, if a scheme of arrangement is brought forward, the company could, as part of the scheme, repudiate a lease. This could impact on the management of the Properties and could result in units in a Property producing no or reduced rent from time to time.

### ***Service charge caps in certain Leases***

There are a small number of Occupational Leases in respect of the Portfolios that are fully inclusive where the rental payment covers, among other things, a service charge element. The Occupational Tenant may in addition, be required to pay a proportion of the relevant buildings insurance costs. If service costs were to increase, those Occupational Tenants who rent units under fully inclusive leases would not be required to contribute to higher service charge costs. In addition each Occupational Tenant must pay water and general rates (or a fair proportion thereof) to either the relevant Borrower or in the main the local authority, in addition to the inclusive figures.

Some of the Occupational Leases within the Portfolios have service charge caps. A significant number of these caps are index linked to the retail price index and have sufficient headroom protecting against service charge increases.

The level of service charge payable by Occupational Tenants under the Occupational Leases may differ, but overall level of service charge payable by all Occupational Tenants is normally set at a level which is intended to ensure that the relevant Borrower recovers from the Occupational Tenants taken as whole, substantially all the service charge costs associated with the management and operation of each property to the extent that the relevant Borrower itself does not make a contribution to these costs. This principle

applies to the capped service charge applicable to Occupational Leases in terms of the indexation or headroom created.

There are some items of expenditure which the relevant Borrower may not be entitled to recover from the Occupational Tenants, for example the cost of repairing any defects which were inherent in a property at the start of any Occupational Lease, the cost of major improvements or refurbishment of net internal lettable space of a property.

To the extent that there is any empty net lettable space in a property a Borrower will generally experience a shortfall of service charge dependent on the proportion that is empty.

The Borrowers will covenant in the Loan Agreements to operate under a policy designed to achieve full service charge recoveries even where service charge caps are agreed.

### ***Late payment or non-payment of rent***

There is a risk that rental payments due under the Occupational Leases on or before the relevant Interest Payment Date will not be paid on the due date or not paid at all. If any payment of rent is not received on or prior to the immediately following Interest Payment Date and any resultant shortfall is not otherwise compensated for from other resources, there may be insufficient cash available to the Borrowers to make payments to the Issuer under the Loan Agreement in full or at all. Such a default by the Borrower may not itself result in a Note Event of Default since the Issuer will have access to other resources as mentioned above (specifically, funds made available under the Liquidity Facility to make certain payments under the Notes). However, no assurance can be given that such resources will, in all cases and in all circumstances, be sufficient to cover any such shortfall and that a Note Event of Default will not occur as a result of the late payment of rent.

### ***Refinancing risk***

Unless repaid previously, each Borrower will be required to repay the relevant Loan on the Loan Maturity Date. The ability of each Borrower to repay the relevant Loan in its entirety on the Loan Maturity Date will depend upon, among other things, its ability to find a lender willing to lend (secured against the Properties) sufficient funds to enable repayment of the Loans. If a Borrower cannot find such a lender then it might be forced into selling the Properties in circumstances which may not be advantageous in order to repay the relevant Loan. If the Properties could not be sold for a sufficient amount to enable repayment of the relevant Loan then the Servicer or the Special Servicer (as appropriate) may decide that enforcement of the relevant Loan Security and trading out of a Property (via receivership) would be more likely to result in sufficient funds being obtained to enable repayment of the relevant Loan. If trading out of a Property was to continue and/or a Property retained beyond the Final Maturity Date then each Borrower may be unable to meet its obligations to make payments under the relevant Loan and as a consequence the Issuer may be unable to repay the Notes in full on that date.

### ***Reliance on Valuation Reports***

The valuation reports (the **Valuation Reports**) which are reproduced in the section headed *Valuation Reports* below are addressed to, among others, the relevant Borrower, the Issuer, the Borrower Security Trustee, the Trustee and the Lead Manager but may be relied on by each of them only as more fully set out therein.

The Valuer has valued the BE Portfolio at £310,112,000 and the B2000 Portfolio at £358,930,000 in each case as at 30 November 2006. However, there can be no assurance that the market value of a Property will continue to be equal to such valuation. As the market value of each Portfolio fluctuates, there is no assurance that this market value will be equal to or greater than the unpaid principal and accrued interest and any other amounts due under the Loans. If a Portfolio is sold following a Loan Event of Default under the

relevant Loan Agreement, there can be no assurance that the net proceeds of such sale will be sufficient to pay in full all amounts due under the relevant Loan and therefore the corresponding amounts due under the Notes.

### ***Security over Bank Accounts***

In certain circumstances a charge which purports to be taken as a fixed charge may take effect as a floating charge. Under English law, for a charge to be characterised as a fixed charge, among other things, the charge holder is required to exercise the requisite level of control over the assets purported to be charged and the proceeds of such assets, including any bank account into which such proceeds are paid.

The Borrower Security Trustee will have exclusive signing rights only in respect of each Borrower's Holding Account, Disposal Proceeds Account and Debt Service Account. The Borrower Security Trustee will have signing rights to each Borrower's Receipts Account and, in respect of the General Account, only after a Loan Event of Default under the relevant Loan Agreement has occurred. The Loan Agreements will contain provisions requiring the funds in the Borrowers' Accounts to be used for specified purposes (see further *Borrower Transaction Documents – Loan Agreements* below).

Under the Issuer Deed of Charge, the Issuer will grant security over the Issuer Bank Accounts.

However, there is a risk that if the Borrower Security Trustee or, in the case of the Issuer, the Trustee, does not exercise the requisite degree of control over the relevant accounts in practice a court could determine that the security interests granted in respect of those accounts takes effect as a floating security interest only. In such circumstances the money paid into such accounts could be diverted to pay preferential creditors (and up to £600,000 in respect of each Borrower for unsecured creditors) were a receiver or administrative receiver, liquidator or administrator to be appointed in respect of that Borrower or the Issuer as the case may be.

### ***Hedging risks***

Both Loans bear interest at a fixed rate (calculated by reference to the Issuer's cost of funds (which may vary)) while each Class of the Notes bears interest at a rate based on three-month LIBOR plus a margin. In order to hedge interest rate risk, the Issuer will enter into the Swap Transaction pursuant to the Swap Agreement. There can be no assurance, however, that the Swap Transaction will adequately address unforeseen interest rate hedging risks. In certain circumstances, the Swap Transaction may be terminated and as a result the Issuer may be unhedged if a replacement Swap Transaction cannot be entered into. In particular, Noteholders may suffer a loss if, as a result of a default by a Borrower under the relevant Loan Agreement, the Swap Transaction is terminated and the Issuer is, as a result of such termination, required to pay amounts to the Swap Counterparty. Certain of such amounts payable on an early termination rank senior to any payments to be made to the Noteholders both before enforcement of the Issuer Security and after enforcement of the Issuer Security.

### ***Assignment of rents***

The Borrower Security Agreements will contain provisions whereby the rent receivable in respect of Occupational Leases is assigned by way of security to the Borrower Security Trustee. Notice of the assignment will be given to the Occupational Tenants prior to or on the Closing Date. However, should any notice not be given to a new tenant by the relevant Borrower, such assignment of rents would take effect as equitable assignments only and as such would be subject to any equities or claims, such as rights of set-off, between the relevant Borrower and the relevant Occupational Tenant. The Borrowers will covenant in the Loan Agreements not to dispose of or assign assets (such as the rents) to any other party, although if either Borrower were to assign the rents in breach of that provision and subsequently give notice of such unauthorised assignment to the relevant Occupational Tenant (s), then the relevant assignee's claims would have priority over the rents in question. However, this would constitute a Loan Event of Default entitling the

Issuer (subject to the terms of the relevant Loan) to accelerate the relevant Loan and to enforce the relevant Loan Security.

### ***Insurance***

The Loan Agreements will provide that the Borrower Security Trustee is to be named as the co-insured under each insurance policy to be maintained by the relevant Borrower in respect of its Properties (an **Insurance Policy**).

If a claim under an Insurance Policy is made, but the relevant insurer under that policy fails to make payment in respect of that claim, this could prejudice the ability of a Borrower to make payments in respect of the Loan, which would in turn prejudice the ability of the Issuer to make payments in respect of the Notes. Under the terms of each Loan Agreement the relevant Borrower will be required to maintain each Insurance Policy with an insurance company or underwriter that has a financial strength rating, if rated by S&P, of at least A by S&P, if rated by Fitch, of at least A by Fitch.

To the extent required by the basis of settlement under any Insurance Policy or Lease Document, each Obligor must apply moneys received under any Insurance Policy in respect of a Property towards replacing, restoring or reinstating that Property. To the extent that they are not applied in this way, the proceeds of any Insurance Policy must, if the Borrower Security Trustee so requires (acting on the instructions of the Issuer), be used to prepay the relevant Borrower's Loan.

### ***Disposals and substitution***

Under the terms of the Loan Agreements the Borrowers will be entitled to dispose of and/or substitute some of the Properties in certain circumstances. There is no guarantee that the pattern or number of disposals and/or substitution will increase or maintain the quality of each Portfolio or its income generative capacities.

Pursuant to the terms of the Loan Agreements the Borrowers may only substitute Properties if, among other requirements, the replacement property is similar in nature and quality (including the financial strength of the tenants) to the current Property, the Market Value and Projected Rental Income of the replacement property is equal to or greater than that of the current Property. On the disposal of a Property the Borrower must deposit the Net Disposal Proceeds into its Disposal Proceeds Account.

### ***Uninsured losses***

The Loan Agreements will also contain provisions requiring each Borrower to carry or procure the carrying of insurance with respect to its Property in accordance with specified terms (as to which, see further *Borrower Transaction Documents – Loan Agreements – Covenants* below). There are, however, certain types of losses (such as losses resulting from war, terrorism (which, within certain limits, is currently covered by the existing insurances), nuclear radiation, radioactive contamination and heave or settling of structures) which may be or become either uninsurable or not insurable at economically viable rates or which for other reasons are not covered, or required to be covered, by the required Insurance Policies. A Borrower's ability to pay in respect of the relevant Loan (and, consequently, the Issuer's ability to make payments on the Notes) might be adversely affected if such an uninsured or uninsurable loss were to occur, to the extent that such loss is not the responsibility of the Occupational Tenants pursuant to the terms of their Occupational Leases.

### ***Planning matters***

Each Borrower has confirmed by way of the relevant Certificate of Titles that its Portfolio has been constructed in substantial compliance with all relevant planning legislation save as disclosed in such Certificate of Title and, as far as it is aware, there are no material breaches of planning control existing on the relevant Property save as disclosed in such Certificate of Title and excluding any Occupational Tenants



works or uses. In this regard, it should be noted that where Occupational Tenants are in breach of planning obligations or conditions, they would be required under the terms of their Occupational Lease to take responsibility for such breach. Failure to comply with planning obligations or conditions could give rise to planning enforcement or other compliance action by the local planning authority. There will be a number of ongoing planning obligations or restrictions relating to certain elements of a Property. Outstanding sums due under planning obligations deem the planning permission not to be valid until payment of the obligation charge.

### *Environmental matters*

An owner or occupier of land may be held liable to carry out clean-up works or to fund the clean-up costs or pay fines or suffer imprisonment for environmental damage in circumstances where that person is found to have caused or permitted the pollution to occur. Liability would remain with that person after disposal of the contaminated land. An owner or occupier of land that has been contaminated by a third party is the "holder" of waste and may be held liable to carry out clean-up works or to fund clean-up costs. The relevant liability arises under English waste, water and air pollution legislation. The term "owner" would include anyone with a proprietary interest in the property. Even if more than one person is responsible for the contamination, any person who comes within the relevant environmental legislative provision may be held jointly and severally liable for all the clean-up costs involved.

If any environmental liability were to exist in respect of a Property, neither the Issuer nor the Borrower Security Trustee should incur responsibility for such liability prior to enforcement of the relevant Borrower Security, unless it can be established that the Issuer or the Borrower Security Trustee had entered into possession of the affected property or could be said to be in control of the affected property. After enforcement, the Borrower Security Trustee, if deemed to be a mortgagee in possession, or through there being a receiver appointed on behalf of the Borrower Security Trustee, could be held liable under the applicable English legislation. The Borrower Security Trustee will be indemnified against any such liability under the terms of the relevant Loan Agreement and will be paid in priority to any payments due to the Issuer (as Lender), could become responsible for environmental liabilities in respect of the relevant Property.

If an environmental liability arises in relation to a Property and is not remedied, or is not capable of being remedied, this may result in an inability to let the relevant Property, either at all or at full market rent, or to sell the relevant Property, or in a reduction in the price obtainable on sale of the Property resulting in sale at a loss. This, in turn, may result in a reduction in the amounts available to the Issuer to fund payments of principal and interest due on the Notes. In addition, under the waste management legislation, a "holder" of waste (such as contaminated land) may not transfer title in the waste to an unauthorised person. In this regard, whilst the property may have been sold, the vendor may retain legal title to and responsibility for the contaminated land that was once in its control. It may therefore be necessary to incur the cost of remedying the environmental problem prior to sale.

In addition, third parties may sue a current or previous owner, occupier or operator of the site for damages and costs resulting from substances emanating from that site, or the presence of substances on the Property. Such responsibility for claims might be grounded in negligence, nuisance, trespass to land and trespass to the person.

Environmental reviews have been conducted in relation to each of the Properties. In a handful of cases, low to medium risk (and in one case medium to high risk) to controlled waters or current end users of the site from historical and current site activities were identified, but in no cases were the risks considered sufficient to warrant any remedial activities in relation to the site in its current configuration. The risks identified are not viewed as material in the context of this transaction. The environmental reviews have been considered by the Valuers and they have confirmed that such findings have no impact on the value of the relevant Properties.

### ***Compulsory purchase***

Any Property or part thereof may at any time be compulsorily acquired by, among others, a local or public authority or a governmental department, generally in connection with proposed redevelopment or infrastructure projects (a **Compulsory Purchase**). No such Compulsory Purchase order has been revealed in the Certificate of Title issued in relation to each Property.

However, if a Compulsory Purchase order is made in respect of the Properties (or part of any Property), compensation would be payable on the basis of what a willing seller in the open market may realise at such time. Following such a purchase the Occupational Tenants would cease to be obliged to make any further rental payments to the relevant Borrower under the relevant Occupational Lease (or rental payments would be reduced to reflect the Compulsory Purchase of a part of its Property if applicable).

The risk to Noteholders is that the amount received from the proceeds of purchase of the freehold or leasehold estate of such Property may be less than the original value ascribed to it.

It should be noted that there is often a delay between the Compulsory Purchase of a property and the payment of compensation (although interest may be payable from the date upon which the acquiring authority takes possession of the property) which will largely depend upon the ability of the property owner and the entity acquiring the property to agree on the level of compensation. Such a delay may, unless the relevant Borrower has other funds available to it, adversely affect the relevant Borrower's ability to make payments under the relevant Loan which may thereby affect the Issuer's ability to make payments under the Notes.

### ***Frustration***

In exceptional circumstances, a tenancy could be frustrated under English law, with the result that the parties need not perform any obligation arising under the relevant agreement after the frustration has taken place. Frustration may occur where superseding events radically alter the continuance of the arrangement under the agreement for a party to the agreement, so that it would be inequitable for such an agreement or agreements to continue. If a tenancy granted in respect of the Property were to be frustrated then this could operate to have an adverse effect on the income derived from, or able to be generated by, such Property. This in turn could cause the Borrower to have insufficient funds to make payments in full in respect of the relevant Loan Agreement, which could lead to a default thereunder.

### ***Mortgagee in possession liability***

The Borrower Security Trustee or the Issuer may (on enforcement of its security interest) be deemed to be a mortgagee in possession in relation to a Property if it physically enters into possession of the Property or performs an act of control or influence which may amount to possession, such as submitting a demand direct to tenants requiring them to pay rents to the Borrower Security Trustee. In a case where it is necessary to initiate enforcement procedures in respect of a Property, the Borrower Security Trustee is likely to appoint a receiver to collect the rental income on behalf of itself and the other Borrower Secured Creditors. This in itself should not have the effect that the Borrower Security Trustee or the Issuer is deemed to be a mortgagee in possession.

The Trustee holds security granted by the Issuer in respect of, among other things, the Notes, including security over the Issuer's Interest in the Borrower Security Agreements. It is unlikely, in light of the nature of the security interests held by the Trustee, that the Trustee could be held liable as a mortgagee in possession of a Property.

A mortgagee in possession of land in England has an obligation to account for the income obtained from the relevant property and in the case of tenanted property will be liable to a tenant for any mismanagement of the relevant property. A mortgagee in possession may also incur liabilities to third parties in nuisance and

negligence and, under certain statutes (including environmental legislation), can incur the liabilities of a property owner.

### ***Risks relating to conflicts of interest***

There will be no restrictions on either the Servicer or the Special Servicer preventing them from acquiring Notes or servicing loans for third parties, including loans similar to the Loans. The properties securing any such loans may be in the same market as the Properties. Consequently, personnel of the Servicer or the Special Servicer, as the case may be, may perform services on behalf of the Issuer with respect to the Loans at the same time as they are performing services on behalf of other persons with respect to similar loans. Despite the requirement on each of the Servicer and the Special Servicer to perform their respective servicing obligations in accordance with the terms of the Servicing Agreement (including the Servicing Standard), such other servicing obligations may pose inherent conflicts for the Servicer or the Special Servicer.

The Servicing Agreement will require the Servicer and the Special Servicer to service the Loans in accordance with the Servicing Standard. Certain discretions are given to the Servicer and the Special Servicer in determining how and in what manner to proceed in relation to the Loans. The Servicer and the Special Servicer will be required under the Servicing Agreement to act in the best interests of all of the Noteholders.

### ***Appointment of substitute Servicer***

Prior to or contemporaneously with any termination of the appointment of the Servicer it would first be necessary for the Issuer to appoint a substitute Servicer approved by the Trustee. The ability of any substitute Servicer to administer the Loans successfully would depend on the information and records then available to it. There is no guarantee that a substitute Servicer could be found who would be willing to administer the Loans at a commercially reasonable fee, or at all, on the terms of the Servicing Agreement (even though the Servicing Agreement will provide for the fees payable to a substitute Servicer to be consistent with those payable generally at that time for the provision of commercial mortgage administration services). The fees and expenses of a substitute Servicer would be payable in priority to payments due under the Notes.

### ***Receivership of an Obligor***

Pursuant to the Servicing Agreement, the Servicer is required to take all reasonable steps to recover amounts due from the Borrowers, and to comply, together with the Borrower Security Trustee, with the procedures for enforcement of the Loan Security and the Related Security current from time to time. The principal remedies available following a default in respect of the Loan, as contemplated by the Servicer's enforcement procedures, are the appointment of a receiver over the Property and/or entering into possession of the Property.

The Servicer's usual practice would be to require the Borrower Security Trustee to appoint a receiver. The receiver's powers derive not only from the mortgage under which he has been appointed but also from statute and the common law. A receiver is deemed by law to be the agent of the entity providing security until the commencement of liquidation proceedings against such entity and so, for as long as the receiver acts within his powers he will only incur liability on behalf of the entity providing security. If, however, the Borrower Security Trustee or the Trustee or the Servicer on behalf of the Issuer, unduly directs or interferes with and influences the receiver's actions, a court may decide that the receiver is the Borrower Security Trustee's or the Trustee's agent and the Borrower Security Trustee or the Trustee should be responsible for the receiver's acts.

## **(B) General considerations**

### ***Reliance on warranties***

Neither the Issuer, the Borrower Security Trustee nor the Trustee has independently undertaken any investigations as to the accuracy of the various representations given by the Obligors in respect of the Loans, the Loan Security and related matters. Instead, they will rely on the representations and warranties to be given by the Obligors under the Loan Agreements, the Certificates of Title, the Overview Reports, the Lease Reports, the Structural Reports, the Property Reports, the Environmental Reports and the Valuation Reports.

### ***Implementation of Basel II risk-weighted asset framework may result in changes to the risk-weighting of the Notes***

Following the issue of proposals from the Basel Committee on Banking Supervision for reform of the 1988 Capital Accord, a framework has been developed which places enhanced emphasis on market discipline and sensitivity to risk. An updated version of the text of the proposed framework was published in November 2005 under the title *Basel II: International Convergence of Capital Management and Capital Standards: a Revised Framework* (the **Framework**). The Framework is being implemented in stages (partly from year-end 2006 and the most advanced from year-end 2007). However, the Framework is not self-implementing and, accordingly, implementation dates in participating countries are dependent on the relevant national implementation process in those countries. As and when implemented, the Framework could affect risk-weighting of the Notes for investors who are subject to capital adequacy requirements that follow the Framework. Consequently, investors should consult their own advisers as to the consequences to and effect on them of the application of the Framework and any relevant implementing measures. Proposals and guidelines for implementing the Framework in certain participating jurisdictions are still in development and no predictions can be made as to the precise effects of potential changes on any investor or otherwise.

### ***Insolvency***

#### **Appointment of a receiver**

At any time after the Issuer Security has become enforceable, the Trustee (provided that it is indemnified and/or secured to its satisfaction) may pursue a number of different remedies. One such remedy is the appointment of a receiver over all, or part, of the assets and undertakings of the Issuer.

#### **Enterprise Act 2002**

On 15 September 2003 the corporate insolvency provisions of the Enterprise Act 2002 (the **Enterprise Act**) came into force, amending certain provisions of the Insolvency Act. These provisions introduced significant reforms to corporate insolvency law. In particular, the reforms restrict the right of the holder of a floating charge to appoint an administrative receiver (unless an exception applies) and instead gives primacy to collective insolvency procedures (in particular, administration). Previously, the holder of a floating charge over the whole or substantially the whole of the assets of a company had the ability to block the appointment of an administrator by appointing an administrative receiver, who would act primarily in the interests of the floating charge holder.

However, section 72B of the Insolvency Act contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security (such as the floating charge granted by the Issuer pursuant to the Issuer Deed of Charge, the Borrowers, the Guarantors and the Nominees pursuant to the relevant Borrower Security Agreements and the Share Mortgagors pursuant to the relevant Share Mortgages) which form part of a capital market arrangement (as defined in the Insolvency Act) and which involves both indebtedness of at least £50,000,000 (or, when the relevant security document (being in respect of the transactions described in this Prospectus,

the Issuer Deed of Charge and the relevant Borrower Security Agreement) was entered into, a party to the relevant transaction (such as the Issuer) was expected to incur a debt of at least £50,000,000) and also the issue of a capital market investment (also defined, but generally a rated, listed or traded bond).

The Issuer is of the view that the floating charges granted by the Issuer, the Borrowers, the Share Mortgagors and the Guarantors will fall within the capital market exception' under section 72B of the Insolvency Act. It should, however, be noted that the Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this Prospectus, will not be detrimental to the interests of the Noteholders.

The Insolvency Act also contains a new out-of-court route into administration for a qualifying floating chargeholder, the directors or the relevant company itself. The relevant provisions provide for a notice period during which the holder of the floating charge can either agree to the appointment of the administrator proposed by the directors or the company or appoint an alternative administrator, although a moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating chargeholder does not respond to the directors' or company's notice of intention to appoint, the directors' or, as the case may be, the company's appointee will automatically take office after the notice period has elapsed. Where the holder of a qualifying floating charge within the context of a capital market transaction retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court based procedure) by appointing an administrative receiver prior to the appointment of the administrator being completed.

The new provisions of the Insolvency Act give primary emphasis to the rescue of a company as a going concern and achieving a better result for the creditors as a whole. The purpose of realising property to make a distribution to secured creditors is secondary. No assurance can be given that the primary purpose of the new provisions will not conflict with the interests of Noteholders were the Issuer and/or the Obligors ever subject to administration.

In addition to the introduction of a prohibition on the appointment of an administrative receiver as set out above, section 176A of the Insolvency Act provides that any receiver (including an administrative receiver), liquidator or administrator of a company is required to make a "prescribed part" of the company's "net property" available for the satisfaction of unsecured debts in priority to the claims of the floating charge holder. The company's "net property" is defined as the amount of the company's property which would be available for satisfaction of debts due to the holder(s) of any debentures secured by a floating charge and so refers to any floating charge realisations less any amounts payable to the preferential creditors or in respect of the expenses of the liquidation or administration. The "prescribed part" is defined in the Insolvency Act 1986 (Prescribed Part) Order 2003 (SI 2003/2097) to be an amount equal to 50% of the first £10,000 of floating charge realisations plus 20% of the floating charge realisations thereafter, up to a maximum of £600,000. The Guarantors have been historically active companies, they are likely to have unsecured creditors, although each Guarantor will provide representations as to its solvency as at the Closing Date and that there are no administrative proceedings which are current or, to its knowledge, pending or threatened against it or any of its assets or properties, which are reasonably likely to be material. Each Borrower was incorporated on 8 December 2006 and since then has only engaged in such activities as were incidental to its registration, the matters referred to or otherwise contemplated in this Prospectus and the authorisation, execution, delivery and performance of the other documents referred to in this Prospectus to which it is a party and matters which are incidental or ancillary to the foregoing.

This obligation does not apply if the net property is less than a prescribed minimum and the relevant officeholder is of the view that the cost of making a distribution to unsecured creditors would be disproportionate to the benefits. The relevant officeholder may also apply to court for an order that the provisions of section 176A should not apply on the basis that the cost of making a distribution would be

disproportionate to the benefits. Floating charge realisations upon the enforcement of the Issuer Security and the relevant Loan Security may be reduced by the operation of these "ring fencing" provisions.

#### Receiver as agent

A receiver would generally be the agent of the relevant company until the company's liquidation, and thus, while acting within his powers, will enter into agreements and take actions in the name of, and on behalf of, the company. The receiver will be personally liable on any contract entered into by him in carrying out his functions (except in so far as the contract provides otherwise) but will have an indemnity out of the assets of the company. If, however, the receiver's appointor unduly directed or interfered with or influenced the receiver's actions, a court may decide that the receiver was the agent of his appointor and that his appointor should be responsible for the receiver's acts and omissions.

Each of the Borrower Security Trustee and the Trustee is entitled to receive remuneration and reimbursement for its expenses and an indemnity out of the assets of the Obligors or the Issuer, as applicable, for their potential liabilities. Such payments to the Borrower Security Trustee will rank ahead of the interest and principal due under the Loan Agreements (and, in turn, payments by the Issuer under the Notes). Similarly, such payments to the Trustee will rank ahead of payments by the Issuer under the Notes. Accordingly, should the Borrower Security Trustee or the Trustee become liable for acts of such a receiver, the amount that would otherwise be available for payment to the Noteholders may be reduced.

If the company to which the receiver is appointed goes into liquidation, then, as noted above, the receiver will cease to be that company's agent. At such time he will then act either as agent of his appointor or as principal according to the facts existing at that time. If he acts as agent of his appointor, then for the reasons set out in the foregoing paragraph, the amount that would otherwise be available for payment to Noteholders may be reduced. If the receiver acts as principal and incurs a personal liability, he will have a right of indemnity out of the assets in his hands in respect of that liability and the amount that would otherwise have been available for payment to the Noteholders (subject to any claims of the Borrower Security Trustee or the Trustee) would be reduced accordingly.

#### Insolvency Act 2000

Under the Insolvency Act 2000, which amended the Insolvency Act 1986 with effect from 1 January 2003, certain companies (**small companies**) are entitled to seek protection from their creditors for a period of 28 days for the purposes of putting together a company voluntary arrangement with the option for creditors to extend the moratorium for a further two months. A small company is defined as one which satisfies two or more of the following criteria:

- (a) its turnover is not more than £5.6 million;
- (b) its balance sheet total is not more than £2.8 million; and
- (c) the number of employees is not more than 50.

The position as to whether or not a company is a small company may change from time to time and consequently no assurance can be given that the Issuer or the relevant Obligor will not, at any given time, be determined to be a small company. The Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for small companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of Noteholders.

However, secondary legislation has been enacted which excludes certain special purpose companies in relation to capital market transactions from the optional moratorium provisions. Such exceptions include (a) a company which is a party to an agreement which is or forms part of a capital market arrangement (as

defined in that secondary legislation) under which a party has incurred or when the agreement was entered into was expected to incur a debt of at least £10 million and which involves the issue of a capital market investment (also defined, but generally a rated, listed or traded bond) and (b) a company which has incurred a liability (including a present, future or contingent liability) of at least £10 million. While the Issuer is of the view that the Issuer and each Obligor should fall within the exceptions, there is no guidance as to how the legislation will be interpreted and the Secretary of State for Trade and Industry may by regulation modify the exceptions. No assurance can be given that any modification of the eligibility requirements for these exceptions will not be detrimental to the interests of Noteholders.

If the Issuer and/or each Obligor is determined to be a "small company" and determined not to fall within one of the exceptions (by reason of modification of the exceptions or otherwise), then the enforcement of the security for the Notes by the Trustee may, for a period, be prohibited by the imposition of a moratorium.

#### Administration

If the Borrower Security Trustee or the Trustee are prohibited from appointing an administrative receiver, whether by virtue of the amendments made to the Insolvency Act by the Enterprise Act or otherwise, or fails to exercise its right to appoint an administrative receiver within the relevant notice period, and the Obligors or, as the case may be, the Issuer were to go into administration, the expenses of the administration would also rank ahead of the claims of the Borrower Security Trustee or the Trustee (as the case may be) as floating charge holder. Furthermore, in such circumstances, the administrator would be free to dispose of floating charge assets without the leave of the court, although the Borrower Security Trustee or the Trustee (as the case may be) would have the same priority in respect of the property of the company representing the floating charge assets disposed of (if any) as it would have had in respect of such floating charge assets.

#### Recharacterisation of fixed security interest

There is a possibility that a Court could find that certain of the fixed security interests expressed to be created by the relevant Borrower Security Agreements, the relevant Mortgage of Shares and the Issuer Deed of Charge, which are governed by English law, could take effect as floating charges notwithstanding that they are expressed to be fixed charges.

If the fixed security interests are recharacterised as floating security interests, the claims of: (i) the unsecured creditors of the relevant Obligor or, as the case may be, of the Issuer in respect of that part of the Obligor's or, as the case may be, the Issuer's net property which is ring-fenced as a result of the Enterprise Act; and (ii) certain statutorily defined preferential creditors of the relevant Obligor or the Issuer, as the case may be, may have priority over the rights of the Borrower Security Trustee or the Trustee, as the case may be, to the proceeds of enforcement of such security.

#### ***New Regulation***

The rules on insider trading and market manipulation in respect of securities admitted to trading on an EU regulated market require issuers of such securities to disclose any non-public, price sensitive information as soon as possible, subject to certain limited exemptions. The listing of Notes on the Official List of the Irish Stock Exchange and the admission of the Notes to trading on the regulated market of the Irish Stock Exchange will subject the Issuer to regulation under the Market Abuse Directive (Directive 2003/6/EC) (the **Market Abuse Directive**). The Trust Deed will not require the Issuer to maintain a listing for Notes on an EU stock exchange if compliance with the Market Abuse Directive or the Prospectus Directive (or other requirements adopted by the European Commission or relevant Member State) is agreed by the Trustee to be unduly onerous.

### ***Change of Law***

The structure of the issue of the Notes, the ratings which are to be assigned to them and the related transactions described in this Prospectus are based on English law and administrative practice in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law or administrative practice after the date of this Prospectus, 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.

*The Issuer believes that the risks described above are the principal risks inherent in the transaction for the Noteholders, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons. The Issuer does not represent that the above statements regarding the risks of holding the Notes are exhaustive. Although the Issuer believes that the various structural elements described in this Prospectus may mitigate some of these risks for Noteholders, there can be no assurance that these elements will be sufficient to ensure payment to Noteholders of interest, principal or any other amounts on or in connection with the Notes on a timely basis or at all.*



## THE ISSUER

The Issuer, Bruntwood Alpha Plc, was incorporated in England on 3 January 2007 (registered number 6040736), as a public company with limited liability under the Companies Acts 1985 to 1989 of England. The registered office of the Issuer is at City Tower, Piccadilly Plaza, Manchester M1 4BD and its contact telephone number is 0161 237 3883. The Issuer has no subsidiaries.

### 1. Principal Activities

The principal objects of the Issuer are set out in clauses 4 and 5 of its Memorandum of Association and are, among other things, to lend money and give credit, secured and unsecured, to borrow or raise money howsoever it sees fit, including by the creation and issue of bonds, debentures, notes or other securities, to secure the payment of money to grant security over its property for the performance of its obligations or the payment of money. The Issuer was established for the limited purposes of the issue of the Notes, the making of the Loans and certain related transactions described elsewhere in this Prospectus.

The Issuer has not commenced operations and has not engaged, since its incorporation, in any activities other than those incidental to its incorporation and registration as a public limited company under the Companies Acts 1985 to 1989, the authorisation of the issue of the Notes and of the other documents and matters referred to or contemplated in this Prospectus and matters which are incidental or ancillary to the foregoing.

The Issuer will covenant to observe certain restrictions on its activities which are detailed in the Conditions, the Issuer Deed of Charge and the Trust Deed and will be limited to the issue of the Notes, the making of the Loans, the exercise of related rights and powers and the other activities described in this Prospectus. See further **Condition 4 (Covenants)**.

### 2. Directors and Secretary

The directors of the Issuer (and their alternates) and their respective business addresses and other principal activities are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
C G Oglesby	City Tower Piccadilly Plaza Manchester M1 4BD	Company Director
K J Crotty	City Tower Piccadilly Plaza Manchester M1 4BD	Company Director
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Management of Special Purpose Entities

The company secretary of the Issuer is K J Vokes, of City Tower, Piccadilly Plaza, Manchester M1 4BD.

The Independent Director Provider will, pursuant to the terms of the Independent Director Agreement, provide a corporate director to the board of directors of the Issuer.

### Capitalisation and Indebtedness

The capitalisation and indebtedness of the Issuer as at the date of this Prospectus, adjusted to take account of the issue of the Notes, is as follows:

Authorised Share Capital	Issued Share Capital	Value of each Share	Number of Shares paid up as to 25%	Paid Up Share Capital
£100,000	£50,000	£1	50,000	£12,500

49,999 of the issued shares (being 49,999 shares of £1 each, each of which is paid up as to 25%) in the Issuer are legally and beneficially owned by Bruntwood Limited, a company incorporated in England and Wales, with company number 2825044, having its registered office at City Tower, Piccadilly Plaza, Manchester M1 4BD. One of the issued shares (being one share of £1, which is paid up as to 25%) in the Issuer is legally owned by K J Crotty, whose business address is City Tower, Piccadilly Plaza, Manchester M1 4BD, and beneficially owned by Bruntwood Limited.

The rights of Bruntwood Limited as a shareholder in the Issuer are contained in the Articles of Association of the Issuer and the Issuer will be managed by its Directors in accordance with those articles and the provisions of the law of England and Wales.

#### Loan Capital

Class A Commercial Mortgage Backed Floating Rate Notes due 2017	£350,000,000
Class B Commercial Mortgage Backed Floating Rate Notes due 2017	£37,000,000
Class C Commercial Mortgage Backed Floating Rate Notes due 2017	£53,000,000
Total Loan Capital	£440,000,000

Except as set out above, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities and the Issuer has not created any mortgages or charges nor has it given any guarantees as at the date of this Prospectus.

### 3. Financial Information

The Issuer will publish annual reports and accounts. The Issuer has not prepared audited financial statements as at the date of this Prospectus. Reports and accounts published by the Issuer will, when published, be available for inspection during normal office hours at the specified office of the Irish Paying Agent.

The Issuer has appointed Deloitte & Touche LLP of 2 Hardman Street, Manchester M60 2AT, as its auditors. Deloitte & Touche LLP is a member of the Institute of Chartered Accountants in England and Wales.

### 4. Investor Information

The Issuer (or Cash Administrator on its behalf) will prepare or procure the preparation of a quarterly investor report (the **Quarterly Investor Report**) after each Interest Payment Date.

The Quarterly Investor Report will comprise information in respect of, among other things, (i) payments of interest and repayments (or prepayments) on the Loan Agreements and the Notes, (ii) the performance and compliance by the Borrowers with their obligations under the Loan Agreements, and (iii) the current state of the Property Portfolios, including as to current leases and tenants and details as to the disposal of any Properties since the last Quarterly Investor Report.

The Quarterly Investor Reports will be sent by the Issuer (or Cash Administrator on its behalf) to, amongst others, the Paying Agents, the Trustee and the Rating Agencies and may be posted by the Issuer (or the Cash Administrator on its behalf) on a website of Bloomberg or, as the case may be, such other website as the Cash Administrator may designate.

## THE BE BORROWER

### *Introduction*

The BE Borrower was incorporated in England and Wales on 8 December 2006 as a limited liability company, with company number 6023466, under the Companies Acts 1985 to 1989. The registered office of the BE Borrower is City Tower, Piccadilly Plaza, Manchester M1 4BD, with telephone number 0161 237 3883.

The BE Borrower's authorised share capital as at the date of this Prospectus comprised 1,000 ordinary shares of £1 each. The BE Borrower's issued share capital as at the date of this Prospectus comprised 1,000 ordinary shares of £1 each.

All of the BE Borrower's issued share capital is legally and beneficially owned and controlled directly by Bruntwood Estates Holdings Limited, a company incorporated in England and Wales, with company number 6020680, having its registered office at City Tower, Piccadilly Plaza, Manchester M1 4BD. See *Transaction and Borrower Structure Diagram* above.

The rights of Bruntwood Estates Holdings Limited as a shareholder in the BE Borrower are contained in the Articles of Association of the BE Borrower and the BE Borrower will be managed by its Directors in accordance with those articles and the provisions of the law of England and Wales.

### *Principal Activities*

The principal objects of the BE Borrower are set out in clauses 3 and 4 of its Memorandum of Association and are, amongst other things, to engage in the holding and the making of investments, together with the power to borrow money and to mortgage or charge its undertakings and property or any part thereof, and to act as a general commercial company.

The BE Borrower's primary business activity centres around the leasing and ownership of the BE Portfolio. The BE Borrower will undertake, pursuant to the terms of the BE Loan Agreement, that it will not carry on any other business other than conducting the business of owning, managing and letting the BE Portfolio and related activities.

The BE Borrower has not traded or carried on any business, since its incorporation and registration, other than conducting the business of acquiring, owning, managing and letting the BE Properties and related activities. In addition, the BE Borrower has no borrowings or indebtedness in the nature of borrowings, save for its obligations pursuant to the relevant Borrower Transaction Documents and certain subordinated intra-group loan arrangements.

For further information in relation to the BE Borrower's Memorandum and Articles of Association, see also paragraph 14 of the *General Information* section of this Prospectus.

The BE Borrower has no employees.

The current financial period of the BE Borrower will end on 30 September 2007.

### ***Directors and Company Secretary***

The Directors of the BE Borrower and their business addresses and occupations are:

<b><i>Name</i></b>	<b><i>Business Address</i></b>	<b><i>Occupation</i></b>
M J Oglesby	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
C G Oglesby	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
K J Crotty	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
R P Burgess	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
A J Allan	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
I J Grant	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
K J Vokes	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
R D Yates	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
P A Crowther	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
D R J Guest	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
J R Marland	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
R W Malin (non-executive)	21 Molyneux St, London, W1H 5HU	Company Director

The Company Secretary of the BE Borrower is K J Vokes, also of City Tower, Piccadilly Plaza, Manchester M1 4BD.

### ***Auditors***

The BE Borrower has appointed Deloitte & Touche LLP of 2 Hardman Street, Manchester M60 2AT, as its auditors. Deloitte & Touche LLP is a member of the Institute of Chartered Accountants in England and Wales.

### ***Financial Statements***

The BE Borrower was incorporated on 8 December 2006 and has not commenced operations and no financial statements have been made up as of the date of this Prospectus.

## THE B2000 BORROWER

### *Introduction*

The B2000 Borrower was incorporated in England and Wales on 8 December 2006 as a limited liability company, with company number 6023880, under the Companies Acts 1985 to 1989. The registered office of the B2000 Borrower is City Tower, Piccadilly Plaza, Manchester M1 4BD, with telephone number 0161 237 3883.

The B2000 Borrower's authorised share capital as at the date of this Prospectus comprised 1,000 ordinary shares of £1 each. The B2000 Borrower's issued share capital as at the date of this Prospectus comprised 1,000 ordinary shares of £1 each.

All of the B2000 Borrower's issued share capital is legally and beneficially owned and controlled directly by Bruntwood 2000 Holdings Limited, a company incorporated in England and Wales, with company number 6020688, having its registered office at City Tower, Piccadilly Plaza, Manchester M1 4BD. See *Transaction and Borrower Structure Diagram* above.

The rights of Bruntwood 2000 Holdings Limited as a shareholder in the B2000 Borrower are contained in the Articles of Association of the B2000 Borrower and the B2000 Borrower will be managed by its Directors in accordance with those articles and the provisions of the law of England and Wales.

### *Principal Activities*

The principal objects of the B2000 Borrower are set out in clauses 3 and 4 of its Memorandum of Association and are, amongst other things, to engage in the holding and the making of investments, together with the power to borrow money and to mortgage or charge its undertakings and property or any part thereof, and to act as a general commercial company.

The B2000 Borrower's primary business activity centres around the leasing and ownership of the B2000 Portfolio. The B2000 Borrower undertakes, pursuant to the terms of the B2000 Loan Agreement, that it will not carry on any other business other than conducting the business of owning, managing and letting the B2000 Portfolio and related activities.

The B2000 Borrower has not traded or carried on any business, since its incorporation and registration, other than conducting the business of acquiring, owning, managing and letting the B2000 Properties and related activities. In addition, the B2000 Borrower has no borrowings or indebtedness in the nature of borrowings, save for its obligations pursuant to the Borrower Transaction Documents and certain subordinated intra-group loan arrangements.

For further information in relation to the B2000 Borrower's Memorandum and Articles of Association, see also paragraph 14 of the *General Information* section of this Prospectus.

The B2000 Borrower has no employees.

The current financial period of the B2000 Borrower will end on 30 September 2007.

### ***Directors and Company Secretary***

The Directors of the B2000 Borrower and their business addresses and occupations are:

<b><i>Name</i></b>	<b><i>Business Address</i></b>	<b><i>Occupation</i></b>
M J Oglesby	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
C G Oglesby	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
K J Crotty	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
R P Burgess	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
A J Allan	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
I J Grant	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
K J Vokes	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
R D Yates	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
P A Crowther	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
D R J Guest	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
J R Marland	City Tower, Piccadilly Plaza, Manchester M1 4BD	Company Director
R W Malin (non-executive)	21 Molyneux St, London, W1H 5HU	Company Director

The Company Secretary of the B2000 Borrower is K J Vokes, also of City Tower, Piccadilly Plaza, Manchester M1 4BD.

### ***Auditors***

The B2000 Borrower has appointed Deloitte & Touche LLP of 2 Hardman Street, Manchester M60 2AT, as its auditors. Deloitte & Touche LLP is a member of the Institute of Chartered Accountants in England and Wales.

### ***Financial Statements***

The B2000 Borrower was incorporated on 8 December 2006 and has not commenced operations and no financial statements have been made up as of the date of this Prospectus.

## DESCRIPTION OF THE BRUNTWOOD BUSINESS AND THE PROPERTIES

### Introduction

#### *The Bruntwood Group*

The group of companies consisting of Bruntwood Limited, Bruntwood 2000 Limited and their respective affiliates (the **Bruntwood Group**) is one of the UK's largest privately owned commercial property groups. Founded in 1977, it remains a family-owned business that reinvests profits and takes a long-term view. The Bruntwood Group rarely sells buildings and has delivered impressive yet sustainable longterm growth, even through periods of downturn. The group consists of two sub-groups, namely the Bruntwood Estates Group and the Bruntwood 2000 Group, to reflect family ownership, but both groups have unified management and control and all staff are employed – by a jointly owned management company, Bruntwood Management Services Limited.

The whole business strategy is aligned behind the principle of delivering the best customer service to its office occupiers (who are viewed as customers not tenants). There is a strong emphasis on relationship management; working closely with Occupational Tenants to meet their needs. This customer service policy has led to retention rates unparalleled within the office sector.

The Bruntwood Group is a strong people-business. The unified Board of 11 Executive Directors has an average of 15 years' experience at the Bruntwood Group and the top 30 senior managers have an average of 8.5 years' service with the Group.

The Bruntwood Group are office specialists with various portfolios comprising 98% office buildings by value. The Bruntwood Group's strategy of owning clusters of buildings allows it to establish strong market knowledge and control. The cluster strategy delivers management economies of scale and significantly improves tenant retention as a range of properties in a single location is always offered to allow for occupiers' changing needs.

All of the Bruntwood Group's office buildings are branded externally and internally. This policy increases awareness of the Bruntwood Group within its markets and reinforces the customer service strategy. The Occupational Tenants range from single person operations up to large blue-chip companies and government occupiers. The Bruntwood Group concentrates on ensuring it has a diverse tenant base, which also includes the nurturing of small enterprising businesses, which often become the large occupiers of the future, as the Bruntwood Group's extensive experience has shown.

#### *Property Management*

The properties are actively managed by Bruntwood Management Services Limited (**BMSL**). A customer service team operates within every building. This team operates the front of house at each building, greeting the customers at the start of the day and operating as their main point of contact for any day-to-day issues that may arise. The customer service manager within the building is an invaluable point of contact with the customers as he/she is the first to know of the customers' changing space requirements. This invaluable information is fed into regional management teams who concentrate solely on the properties in their region. Management teams are based in Manchester city centre, Greater Manchester, Leeds and Liverpool. Every month Bruntwood Directors undertake a detailed building inspection and on a weekly basis management teams review each property considering progress on lettings, rent reviews and lease renewals.

All of the employees of Bruntwood are employed by BMSL. A management agreement is in place with BMSL whereby BMSL provides all the day-to-day management services of the properties; this includes maintaining records, accounting, running the service charge, marketing the property, dealing with lettings,



making all necessary repairs, complying with legislation etc. See further *Borrower Transaction Documents – Property Management Agreements* below.

### **Occupational Leases**

The majority of Occupational Leases follow the Bruntwood Standard Lease format, which is a standard “institutional lease” containing robust provisions for payment of rent, insurance and service charge. Bruntwood Group also uses a shortform lease for lettings of small suites for limited periods. Standard licence agreements are used for service space and car parking spaces. All standard documents are reviewed regularly to ensure they follow best practice and encompass latest legislation.

There are also a limited number of leases which were completed prior to Bruntwood Group's acquisition of buildings. These are largely to institutional standards with a few exceptions.

#### *Bruntwood Standard Lease*

- rent, insurance, service charge, electricity charge and interest reserved as rent
- rent and service charge payable quarterly in advance
- keep in good and substantial repair
- permitted use only
- no alterations without consent
- assignment of whole permitted if usual conditions satisfied including an AGA
- sub-letting of part permitted, sub-lease to be contracted-out
- rent review to open market value with normal disregards
- service charge arrangements permitting full recovery of costs

#### *Bruntwood Shortform Lease*

- rent, insurance and service charge reserved as rent
- rent and service charge payable quarterly in advance
- keep in good repair
- permitted use only
- no alterations
- assignment of whole permitted, consent not to be unreasonably withheld; no sub-letting permitted
- service charge arrangements permitting full recovery of costs
- occasionally may include break option, rent review, guarantor, be contracted-out

The Bruntwood Shortform Lease is typically used for a letting of a small suite for a maximum of five years, where it is important to the occupier to minimise legal costs. The terms are not negotiable.

## **Bruntwood Licence Agreement**

### *For car parking spaces*

- licence fee with interest due on late payment
- payable quarterly in advance
- occupier responsible for rates
- either party may terminate on one month's notice
- personal – not transferable

### *For Serviced Space*

- inclusive licence fee with interest due on late payment
- payable monthly in advance
- deposit held
- keep property and furniture, fixtures and fittings in same conditions as outset
- no alterations
- personal – not transferable

## **Valuation**

Independent valuations of the Properties in each Borrower's Portfolio, constituting security for the relevant Loan, have been undertaken (each a **Valuation**).

The BE Portfolio has been valued at £310,112,000 and the B2000 Portfolio has been valued at £358,930,000 as at the Cut-Off Date by Knight Frank (the **Valuer**). See *Risk Factors – (A) Considerations Relating to the Notes – Reliance on Valuation Reports*.

## **Insurance**

All Properties in the Portfolios are insured by Norwich Union (rated AA by Fitch, AA by S&P and Aa3 by Moody's Investors Service Limited (**Moody's**)) on Commercial All Risks basis, including subsidence and terrorism. The buildings are insured for £756 million, which allows for an uplift of 30% on average (City Tower 50%), during the annual policy period.

The sum insured is based on the estimated reinstatement cost of commercial properties. The insurer can settle any claim by either paying the insured value of the claim or at the opinion of the insurer reinstating the relevant commercial property. The Borrowers are also insured for up to £200 million in respect of loss of rents due to damage by an insured risk.

Loss of rent cover for all buildings excluding City Tower ranges between a minimum of 36 months up to 48 months for some buildings. City Tower has 60 months of cover.

## *The Portfolio – Overview*

As at the Closing Date, the BE Portfolio will consist of 25 properties and the B2000 Portfolio will consist of 23 properties across the North of England, such Properties providing security for the relevant Loan of the BE Borrower and the B2000 Borrower respectively. Both Portfolios are managed by BMSL as one portfolio (without prejudice between portfolios).

84% of the combined BE Portfolio and B2000 Portfolio (by lettable square footage) is office space, with leisure and retail space making up 6% each. The Properties are usually multi-tenanted and, out of a total of 1,071 lettable units, 857 are occupied (representing a vacancy rate of less than 9% by reference to lettable square footage).

There are 570 different Occupational Tenants from over 16 different industry sectors, limiting exposure to any individual sector.

## *BE Portfolio Summary*

Certain characteristics of the BE Portfolio, as at the Cut-Off Date, are set out in the following tables (the **BE Portfolio Summary**).

The statistics in the BE Portfolio were derived primarily from information provided to The Royal Bank of Scotland plc by Bruntwood Limited, other than assumptions or projections used in calculating such statistics, which were determined by The Royal Bank of Scotland plc.

Portfolio Market Value	£310,112,000
Gross Rent	£18,242,607
Net rent: <sup>1</sup>	£18,026,519
Estimated Rental Value (ERV):	£24,404,491
Area:	1,743,957 sq ft.
Number of Properties:	25
Number of Units:	411
Number of Leases: <sup>2</sup>	320
Number of Tenants:	252
Weighted Average Lease Length to Expiry:	8.3 years
Weighted Average Time to Lease Break:	5.0 years
Vacant Units:	91
Investment Grade Tenants (% by gross rent):	28.4%
LTV:	65.8%
Interest Cover Ratio: <sup>3</sup>	172%

<sup>1</sup> Before ground rents of £100,533.

<sup>2</sup> Excluding leases in a rent-free period or holding-over.

<sup>3</sup> Based on net contracted rental income as at 10 January 2007.

*Top Ten Buildings by Value*

Building	Location	Value	%	Gross Rent	%	Net Rent	%	ERV	%	Area	%	Occupancy	No of tenants
City Tower	Manchester	102,760,000	33.14%	5,365,445	29.41%	5,316,246	29.49%	9,504,759	38.95%	609,370	34.94%	78.16%	33
Riverside	Manchester	29,540,000	9.53%	1,870,811	10.26%	1,844,580	10.23%	2,096,300	8.59%	158,328	9.08%	99.41%	25
Portland Tower	Manchester	25,410,000	8.19%	1,643,141	9.01%	1,617,845	8.97%	1,827,669	7.49%	132,558	7.60%	99.66%	34
111 Piccadilly	Manchester	16,310,000	5.26%	967,488	5.30%	967,488	5.37%	1,188,986	4.87%	75,286	4.32%	85.44%	30
Bank House	Manchester	15,290,000	4.93%	860,018	4.71%	860,018	4.77%	923,069	3.78%	56,561	3.24%	93.73%	3
Blackfriars House	Manchester	13,880,000	4.48%	954,955	5.23%	846,366	4.70%	933,247	3.82%	72,615	4.16%	100.00%	18
South Central	Manchester	11,400,000	3.68%	567,241	3.11%	565,995	3.14%	871,470	3.57%	64,912	3.72%	78.37%	9
York House	Manchester	11,380,000	3.67%	684,272	3.75%	678,744	3.77%	704,251	2.89%	33,753	1.94%	100.00%	20
Abney Hall	Greater Manchester	9,360,000	3.02%	670,000	3.67%	670,000	3.72%	698,055	2.86%	51,571	2.96%	100.00%	1
113-119 Portland Street	Manchester	9,160,000	2.95%	556,478	3.05%	556,478	3.09%	700,395	2.87%	58,308	3.34%	100.00%	9
<b>Top 10 Total</b>		<b>244,490,000</b>	<b>78.84%</b>	<b>14,139,849</b>	<b>77.51%</b>	<b>13,923,761</b>	<b>77.24%</b>	<b>19,448,201</b>	<b>79.69%</b>	<b>1,313,262</b>	<b>75.30%</b>		

*Geographic Distribution*

Region	Value	%	Area	%	Gross Rent	%	Net Rent	%	ERV	%
Manchester City Centre	253,670,000	81.80%	1,347,425	77.26%	14,455,341	79.24%	14,239,253	78.99%	20,040,033	82.12%
Greater Manchester	42,272,000	13.63%	285,913	16.39%	2,957,386	16.21%	2,957,386	16.41%	3,244,194	13.29%
Warrington	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Leeds	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Liverpool	14,170,000	4.57%	110,619	6.34%	829,880	4.55%	829,880	4.60%	1,120,264	4.59%
<b>Total</b>	<b>310,112,000</b>	<b>100.00%</b>	<b>1,743,957</b>	<b>100.00%</b>	<b>18,242,607</b>	<b>100.00%</b>	<b>18,026,519</b>	<b>100.00%</b>	<b>24,404,491</b>	<b>100.00%</b>

*Portfolio by Tenure*

Tenure Type	No. of Properties	Value	%	Area	%	Gross Rent	%	Net Rent	%	ERV	%	
Long Leasehold	11	44.00%	169,622,000	54.70%	954,075	54.71%	9,692,524	53.13%	9,618,029	53.35%	14,226,857	58.30%
Freehold	13	52.00%	131,800,000	42.50%	721,448	41.37%	7,933,398	43.49%	7,791,804	43.22%	9,504,201	38.94%
Mixture(Freehold/LLH)	1	4.00%	8,690,000	2.80%	68,434	3.92%	616,685	3.38%	616,685	3.42%	673,433	2.76%
<b>Total</b>	<b>25</b>	<b>100.00%</b>	<b>310,112,000</b>	<b>100.00%</b>	<b>1,743,957</b>	<b>100.00%</b>	<b>18,242,607</b>	<b>100.00%</b>	<b>18,026,519</b>	<b>100.00%</b>	<b>24,404,491</b>	<b>100.00%</b>

*Portfolio by Property Type*

Property Type	Area	%	Gross Rent	%	Net Rent	%	ERV	%	Area	%
Industrial	94,988	5.45%	606,665	3.33%	606,665	3.37%	658,073	3.70%	84,857	4.87%
Leisure	224,671	12.88%	691,726	3.79%	691,726	3.84%	2,346,475	9.61%	31,963	1.83%
Office	1,261,984	72.36%	14,377,839	78.81%	14,164,557	78.58%	17,703,267	72.54%	102,865	5.90%
Other	6,861	0.39%	543,342	2.98%	543,342	3.01%	730,135	2.99%	130,428	7.48%
Parking	0	0.00%	322,030	1.77%	322,030	1.79%	577,350	2.37%	199,084	11.42%
Retail	149,517	8.57%	1,692,928	9.28%	1,690,122	9.38%	2,324,839	9.53%	8,569	0.49%
Storage	5,936	0.34%	8,077	0.04%	8,077	0.04%	64,352	0.26%	361,818	20.75%
<b>Total</b>	<b>1,743,957</b>	<b>100.00%</b>	<b>18,242,607</b>	<b>100.00%</b>	<b>18,026,519</b>	<b>100.00%</b>	<b>24,404,491</b>	<b>100.00%</b>	<b>1,743,957</b>	<b>100.00%</b>

### Tenant Distribution by Industry Sector

Tenant/Industry	Gross Rent	%	Net Rent	%	ERV	%	Area	%
Financial / Insurance	1,149,702	6.30%	1,146,102	6.36%	1,319,339	5.41%	84,857	4.87%
Construction & Property	436,783	2.39%	430,904	2.39%	469,604	1.92%	31,963	1.83%
Industrial Services	910,773	4.99%	910,773	5.05%	962,470	3.94%	102,865	5.90%
IT Companies	1,638,143	8.98%	1,638,143	9.09%	1,748,026	7.16%	130,428	7.48%
Professionals	2,278,349	12.49%	2,265,116	12.57%	2,732,840	11.20%	199,084	11.42%
Property Advisers	142,605	0.78%	142,605	0.79%	146,495	0.60%	8,569	0.49%
Public Sector	4,391,948	24.08%	4,316,143	23.94%	4,831,303	19.80%	361,818	20.75%
Recruitment Agents / HR Advisers	1,141,645	6.26%	1,134,928	6.30%	1,297,521	5.32%	83,644	4.80%
Retail & Leisure	1,766,125	9.68%	1,763,190	9.78%	2,048,703	8.39%	134,496	7.71%
Service Sector	1,569,827	8.61%	1,461,907	8.11%	2,559,226	10.49%	253,127	14.51%
Media	748,200	4.10%	748,200	4.15%	846,047	3.47%	59,410	3.41%
Accountants	728,743	3.99%	728,743	4.04%	731,000	3.00%	44,980	2.58%
Telecoms Companies	605,894	3.32%	605,894	3.36%	689,985	2.83%	11,600	0.67%
Lawyers	47,987	0.26%	47,987	0.27%	48,509	0.20%	2,804	0.16%
Import / Export Company	30,903	0.17%	30,903	0.17%	30,903	0.13%	3,121	0.18%
Car Space Customer	198,730	1.09%	198,730	1.10%	266,500	1.09%	0	0.00%
Other Debtors	456,250	2.50%	456,250	2.53%	533,055	2.18%	31,531	1.81%
Vacant	0	0.00%	0	0.00%	3,142,965	12.88%	199,660	11.45%
<b>Total</b>	<b>18,242,607</b>	<b>100.00%</b>	<b>18,026,519</b>	<b>100.00%</b>	<b>24,404,491</b>	<b>100.00%</b>	<b>1,743,957</b>	<b>100.00%</b>

### Unit Distribution by Size

Size of Units	Gross Rent	%	Net Rent	%	ERV	%	Area	%
0 to 5,000 sq. ft.	6,201,946	34.00%	6,146,826	34.10%	8,120,434	33.27%	489,798	28.09%

	Gross Rent	%	Net Rent	%	ERV	%	Area	%
5,000 to 10,000 sq. ft.	3,279,821	17.98%	3,200,299	17.75%	4,413,365	18.08%	346,531	19.87%
10,000 to 20,000 sq. ft.	2,140,935	11.74%	2,137,676	11.86%	2,554,176	10.47%	190,871	10.94%
20,000 to 30,000 sq. ft.	2,112,202	11.58%	2,089,456	11.59%	2,205,404	9.04%	174,100	9.98%
30,000 to 40,000 sq. ft.	936,459	5.13%	927,410	5.14%	1,825,932	7.48%	111,960	6.42%
40,000 to 50,000 sq. ft.	1,275,224	6.99%	1,275,224	7.07%	1,967,556	8.06%	139,110	7.98%
50,000 to 75,000 sq. ft.	1,761,994	9.66%	1,715,602	9.52%	1,817,624	7.45%	126,587	7.26%
75,000 to 100,000 sq. ft.	0	0.00%	0	0.00%	0	0.00%	0	0.00%
100,000 to 125,000 sq. ft.	0	0.00%	0	0.00%	0	0.00%	0	0.00%
125,000 to 150,000 sq. ft.	0	0.00%	0	0.00%	0	0.00%	0	0.00%
150,000 to 175,000 sq. ft.	534,026	2.93%	534,026	2.96%	1,500,000	6.15%	165,000	9.46%
<b>Total</b>	<b>18,242,607</b>	<b>100.00%</b>	<b>18,026,519</b>	<b>100.00%</b>	<b>24,404,491</b>	<b>100.00%</b>	<b>1,743,957</b>	<b>100.00%</b>

### Unit Distribution by Gross Rent

Gross Rent (unit by unit)	Gross Rent	%	Net Rent	%	ERV	%	Area	%
£0 to £5,000	108,362	0.59%	108,038	0.60%	3,696,244	15.15%	229,436	13.16%
£5,000 to £10,000	213,437	1.17%	213,437	1.18%	361,507	1.48%	21,416	1.23%
£10,000 to £15,000	382,011	2.09%	382,011	2.12%	450,712	1.85%	17,924	1.03%
£15,000 to £20,000	294,332	1.61%	294,332	1.63%	354,834	1.45%	27,886	1.60%
£20,000 to £25,000	556,813	3.05%	552,189	3.06%	671,465	2.75%	48,274	2.77%
£25,000 to £50,000	2,834,242	15.54%	2,789,317	15.47%	3,064,368	12.56%	237,860	13.64%
£50,000 to £100,000	3,166,605	17.36%	3,151,352	17.48%	3,368,877	13.80%	249,798	14.32%
£100,000 to £200,000	3,281,981	17.99%	3,209,206	17.80%	3,620,397	14.83%	242,092	13.88%
£200,000 to £300,000	1,813,926	9.94%	1,785,013	9.90%	1,873,156	7.68%	150,423	8.63%
£300,000 to £400,000	1,373,195	7.53%	1,370,313	7.60%	1,471,447	6.03%	94,215	5.40%
£400,000 to £500,000	0	0.00%	0	0.00%	0	0.00%	0	0.00%
£500,000 to £1,000,000	3,214,877	17.62%	3,214,877	17.83%	4,413,028	18.08%	357,705	20.51%
£1,000,000 to £2,000,000	1,002,826	5.50%	956,434	5.31%	1,058,456	4.34%	66,928	3.84%
<b>Total</b>	<b>18,242,607</b>	<b>100.00%</b>	<b>18,026,519</b>	<b>100.00%</b>	<b>24,404,491</b>	<b>100.00%</b>	<b>1,743,957</b>	<b>100.00%</b>

## Unit Distribution by ERV

ERV (unit by unit)	Gross Rent	%	Net Rent	%	ERV	%	Area	%
£0 to £5,000	108,962	0.60%	108,638	0.60%	166,312	0.68%	8,635	0.50%
£5,000 to £10,000	192,117	1.05%	192,117	1.07%	285,839	1.17%	17,952	1.03%
£10,000 to £15,000	333,398	1.83%	333,398	1.85%	422,020	1.73%	17,374	1.00%
£15,000 to £20,000	263,195	1.44%	263,195	1.46%	395,861	1.62%	27,191	1.56%
£20,000 to £25,000	590,383	3.24%	569,303	3.16%	691,899	2.84%	50,672	2.91%
£25,000 to £50,000	2,603,062	14.27%	2,574,593	14.28%	3,509,990	14.38%	270,140	15.49%
£50,000 to £100,000	3,402,212	18.65%	3,320,734	18.42%	4,191,113	17.17%	300,812	17.25%
£100,000 to £200,000	2,987,724	16.38%	2,981,174	16.54%	4,112,092	16.85%	286,270	16.41%
£200,000 to £300,000	1,875,656	10.28%	1,846,743	10.24%	2,022,591	8.29%	135,164	7.75%
£300,000 to £400,000	1,668,195	9.14%	1,665,313	9.24%	1,789,262	7.33%	121,626	6.97%
£400,000 to £500,000	0	0.00%	0	0.00%	0	0.00%	0	0.00%
£500,000 to £1,000,000	2,680,851	14.70%	2,680,851	14.87%	4,259,056	17.45%	276,193	15.84%
£1,000,000 to £2,000,000	1,536,852	8.42%	1,490,460	8.27%	2,558,456	10.48%	231,928	13.30%
<b>Total</b>	<b>18,242,607</b>	<b>100.00%</b>	<b>18,026,519</b>	<b>100.00%</b>	<b>24,404,491</b>	<b>100.00%</b>	<b>1,743,957</b>	<b>100.00%</b>

## Lease Expiry Profile

Years to Expiry	Gross Rent	%	Net Rent	%	ERV	%	Area	%
0 to 1 yrs	1,321,317	7.24%	1,304,728	7.24%	4,994,431	20.47%	351,291	20.14%
1 to 2 yrs	623,822	3.42%	623,822	3.46%	686,393	2.81%	57,161	3.28%
2 to 3 yrs	2,926,229	16.04%	2,771,917	15.38%	3,015,895	12.36%	190,568	10.93%
3 to 4 yrs	2,096,989	11.50%	2,085,482	11.57%	2,195,602	9.00%	168,574	9.67%
4 to 5 yrs	1,893,325	10.38%	1,878,494	10.42%	1,930,965	7.91%	154,033	8.83%
5 to 7 yrs	1,668,254	9.14%	1,657,422	9.19%	1,803,274	7.39%	146,233	8.39%
7 to 10 yrs	3,337,819	18.30%	3,336,650	18.51%	3,831,534	15.70%	254,591	14.60%
10 to 13 yrs	1,793,432	9.83%	1,793,432	9.95%	2,167,296	8.88%	102,871	5.90%
13 to 15 yrs	274,451	1.50%	270,407	1.50%	290,608	1.19%	15,837	0.91%
15 to 20 yrs	1,187,743	6.51%	1,187,743	6.59%	1,245,004	5.10%	79,459	4.56%
20 to 25 yrs	427,500	2.34%	424,694	2.36%	503,895	2.06%	29,167	1.67%
25+ yrs	691,726	3.79%	691,726	3.84%	1,739,594	7.13%	194,172	11.13%
<b>Total</b>	<b>18,242,607</b>	<b>100.00%</b>	<b>18,026,519</b>	<b>100.00%</b>	<b>24,404,491</b>	<b>100.00%</b>	<b>1,743,957</b>	<b>100.00%</b>

*Lease Expiry/Break Profile*

Years to Expiry/Break	Gross Rent	%	Net Rent	%	ERV	%	Area	%
0 to 1 yrs	1,904,662	10.44%	1,883,429	10.45%	5,603,289	22.96%	387,033	22.19%
1 to 2 yrs	3,039,955	16.66%	3,032,105	16.82%	3,202,386	13.12%	230,644	13.23%
2 to 3 yrs	3,972,039	21.77%	3,817,727	21.18%	4,114,570	16.86%	253,665	14.55%
3 to 4 yrs	2,843,683	15.59%	2,829,168	15.69%	3,081,415	12.63%	221,726	12.71%
4 to 5 yrs	1,170,054	6.41%	1,154,683	6.41%	1,383,786	5.67%	101,513	5.82%
5 to 7 yrs	1,366,268	7.49%	1,366,268	7.58%	1,665,977	6.83%	110,605	6.34%
7 to 10 yrs	1,367,309	7.50%	1,367,309	7.58%	1,642,731	6.73%	117,304	6.73%
10 to 13 yrs	1,440,493	7.90%	1,437,687	7.98%	1,522,612	6.24%	95,790	5.49%
13 to 15 yrs	92,418	0.51%	92,418	0.51%	100,893	0.41%	8,746	0.50%
15 to 20 yrs	808,226	4.43%	808,226	4.48%	1,843,282	7.55%	192,408	11.03%
20 to 25 yrs	97,500	0.53%	97,500	0.54%	97,800	0.40%	7,523	0.43%
25+ yrs	140,000	0.77%	140,000	0.78%	145,750	0.60%	17,000	0.97%
<b>Total</b>	<b>18,242,607</b>	<b>100.00%</b>	<b>18,026,519</b>	<b>100.00%</b>	<b>24,404,491</b>	<b>100.00%</b>	<b>1,743,957</b>	<b>100.00%</b>

*Top Ten Tenants by Gross Rent*

Tenant Name	Gross Rent	%	Net Rent	%	ERV	%
First Secretary of State	1,989,700	10.91%	1,943,308	10.78%	2,058,091	8.43%
Deloitte & Touche LLP	728,743	3.99%	728,743	4.04%	731,000	3.00%
Jarvis Hospitality Serv Ltd	691,726	3.79%	691,726	3.84%	1,690,522	6.93%
Electronic Data Systems Ltd	670,000	3.67%	670,000	3.72%	698,055	2.86%
Department for Constitutional Affairs	646,459	3.54%	646,459	3.59%	876,379	3.59%
Peninsula Business Services Ltd	567,023	3.11%	561,287	3.11%	608,304	2.49%
IBM United Kingdom Ltd	559,431	3.07%	559,431	3.10%	559,431	2.29%
First Secretary of State – Environment	468,497	2.57%	448,633	2.49%	477,497	1.96%
Edmundson Electrical Limited	317,500	1.74%	317,500	1.76%	341,852	1.40%
Bruntwood Trading Group Ltd	307,290	1.68%	307,290	1.70%	352,555	1.44%
<b>Top 10 Total</b>	<b>6,946,369</b>	<b>38.08%</b>	<b>6,874,377</b>	<b>38.13%</b>	<b>8,393,686</b>	<b>34.39%</b>



### ***B2000 Portfolio Summary***

Certain characteristics of the B2000 Portfolio, as at the Cut-Off Date, are set out in the following tables (the **B2000 Loan Portfolio**).

The statistics in the B2000 Portfolio Loan were derived primarily from information provided to The Royal Bank of Scotland plc by Bruntwood Limited, other than assumptions or projections used in calculating such statistics, which were determined by The Royal Bank of Scotland plc.

Portfolio Market Value:	£358,930,000
Gross Rent:	£21,097,009
Net Rent: <sup>1</sup>	£20,491,214
Estimated Rental Value (ERV):	£26,548,349
Area:	1,812,595 sq ft.
Number of Properties:	23
Number of Units:	660
Number of Leases: <sup>2</sup>	537
Number of Tenants:	352
Weighted Average Lease Length to Expiry:	6.9 years
Weighted Average Time to Lease Break:	3.6 years
Vacant Units:	124
Investment Grade Tenants (% by gross rent):	18.6%
LTV:	65.8%
Interest Cover Ratio: <sup>3</sup>	181%

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<sup>1</sup> Before ground rents of £129,700.

<sup>2</sup> Excluding leases in rent-free period or holding-over.

<sup>3</sup> Based on net contracted rental income as at 10 January 2007.

### Top Ten Buildings by Value

Building	Location	Value	%	Gross Rent	%	Net Rent	%	ERV	%	Area	%	Occupancy	No. of tenants
St James Buildings	Manchester	57,320,000	15.97%	3,402,305	16.13%	3,380,097	16.50%	3,906,932	14.72%	277,621	15.32%	95.73%	58
West One	Leeds	25,640,000	7.14%	1,824,319	8.65%	1,824,319	8.90%	1,987,498	7.49%	91,106	5.03%	84.57%	46
Square One	Manchester	21,400,000	5.96%	32,500 <sup>1</sup>	0.15%	32,500 <sup>6</sup>	0.16%	1,977,165	7.45%	136,177	7.51%	78.57%	5
No1 Portland Street	Manchester	20,190,000	5.63%	623,390	2.95%	623,390	3.04%	1,280,365	4.82%	60,355	3.33%	83.14%	17
Trafford House	Greater Manchester	19,050,000	5.31%	1,412,346	6.69%	1,412,346	6.89%	1,493,162	5.62%	133,731	7.38%	99.40%	33
Wilderspool Business Park	Warrington	17,540,000	4.89%	1,271,182	6.03%	1,271,182	6.20%	1,310,796	4.94%	89,790	4.95%	100.00%	17
West Gate	Leeds	17,490,000	4.87%	1,918,776	9.10%	1,495,897	7.30%	1,193,344	4.49%	79,622	4.39%	98.74%	7
Centurion House	Manchester	17,340,000	4.83%	907,536	4.30%	905,738	4.42%	1,136,752	4.28%	59,877	3.30%	88.64%	15
Overseas House	Manchester	15,220,000	4.24%	468,995	2.22%	468,995	2.29%	956,670	3.60%	61,959	3.42%	100.00%	8
Station House	Greater Manchester	15,100,000	4.21%	1,203,578	5.70%	1,203,578	5.87%	1,292,954	4.87%	78,292	4.32%	92.48%	14
<b>Top 10 Total</b>		<b>226,290,000</b>	<b>63.05%</b>	<b>13,064,927</b>	<b>61.93%</b>	<b>12,618,042</b>	<b>61.58%</b>	<b>16,535,638</b>	<b>62.28%</b>	<b>1,068,530</b>	<b>58.95%</b>		

### Geographic Distribution

Region	Value	%	Area	%	Gross Rent	%	Net Rent	%	ERV	%
Manchester City Centre	181,500,000	50.57%	816,013	45.02%	8,291,485	39.30%	8,152,625	39.79%	12,814,279	48.27%
Greater Manchester	99,860,000	27.82%	639,782	35.30%	6,838,555	32.41%	6,797,822	33.17%	7,896,811	29.75%
Warrington	17,540,000	4.89%	89,790	4.95%	1,271,182	6.03%	1,271,182	6.20%	1,310,796	4.94%
Leeds	52,180,000	14.54%	215,366	11.88%	4,206,179	19.94%	3,783,300	18.46%	3,927,070	14.79%
Liverpool	7,850,000	2.19%	51,644	2.85%	489,608	2.32%	486,285	2.37%	599,393	2.26%
<b>Total</b>	<b>358,930,000</b>	<b>100.00%</b>	<b>1,812,595</b>	<b>100.00%</b>	<b>21,097,009</b>	<b>100.00%</b>	<b>20,491,214</b>	<b>100.00%</b>	<b>26,548,349</b>	<b>100.00%</b>

<sup>1</sup> Square One is due to reach practical completion by 8 February 2007. Network Rail and Mouchel Parkman have taken pre-lets which complete following the completion of works. Following expiration of rent-free periods, the rental for this property is expected to be approximately £1.5 million.

*Portfolio by Tenure*

<u>Tenure Type</u>	<u>No. of Properties</u>	<u>%</u>	<u>Value</u>	<u>%</u>	<u>Area</u>	<u>%</u>	<u>Gross Rent</u>	<u>%</u>	<u>Net Rent</u>	<u>%</u>	<u>ERV</u>	<u>%</u>
Long Leasehold	6	26.09%	88,320,000	24.61%	397,852	21.95%	5,757,810	27.29%	5,642,956	27.54%	6,933,374	26.12%
Freehold	14	60.87%	221,450,000	61.70%	1,145,022	63.17%	13,470,517	63.85%	12,979,576	63.34%	15,705,707	59.16%
Mixed (Freehold/LLH)	3	13.04%	49,160,000	13.70%	269,721	14.88%	1,868,682	8.86%	1,868,682	9.12%	3,909,268	14.73%
<b>Total</b>	<b>23</b>	<b>100.00%</b>	<b>358,930,000</b>	<b>100.00%</b>	<b>1,812,595</b>	<b>100.00%</b>	<b>21,097,009</b>	<b>100.00%</b>	<b>20,491,214</b>	<b>100.00%</b>	<b>26,548,349</b>	<b>100.00%</b>

*Portfolio by Property Type*

<u>Property Type</u>	<u>Area</u>	<u>%</u>	<u>Gross Rent</u>	<u>%</u>	<u>Net Rent</u>	<u>%</u>	<u>RV</u>	<u>%</u>
Industrial	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Office	1,713,492	94.53%	19,497,288	92.42%	18,891,493	92.19%	23,959,292	90.25%
Retail	70,902	3.91%	911,468	4.32%	911,468	4.45%	1,172,178	4.42%
Leisure	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other	10,520	0.58%	251,900	1.19%	251,900	1.23%	299,480	1.13%
Parking	2,506	0.14%	352,610	1.67%	352,610	1.72%	973,265	3.67%
Storage	15,175	0.84%	83,743	0.40%	83,743	0.41%	144,134	0.54%
<b>Total</b>	<b>1,812,595</b>	<b>100.00%</b>	<b>21,097,009</b>	<b>100.00%</b>	<b>20,491,214</b>	<b>100.00%</b>	<b>26,548,349</b>	<b>100.00%</b>

*Tenant Distribution by Industry Sector*

<b>Tenant Industry</b>	<b>Gross Rent</b>	<b>%</b>	<b>Net Rent</b>	<b>%</b>	<b>ERV</b>	<b>%</b>	<b>Area</b>	<b>%</b>
Financial / Insurance	2,022,307	9.59%	2,020,688	9.86%	2,057,765	7.75%	135,982	7.50%
Construction & Property	1,392,729	6.60%	1,364,465	6.66%	1,665,601	6.27%	119,916	6.62%
Industrial Services	835,380	3.96%	831,890	4.06%	880,573	3.32%	70,578	3.89%
IT Companies	1,418,593	6.72%	1,418,593	6.92%	1,891,060	7.12%	118,454	6.54%
Professionals	3,766,659	17.85%	3,720,406	18.16%	4,077,786	15.36%	296,557	16.36%
Property Advisors	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Public Sector	4,306,467	20.41%	3,881,884	18.94%	5,867,155	22.10%	435,534	24.03%
Recruitment Agents / HR Advisers	1,072,462	5.08%	1,072,462	5.23%	1,022,788	3.85%	56,834	3.14%
Retail & Leisure	1,896,371	8.99%	1,864,320	9.10%	2,100,300	7.91%	147,365	8.13%
Service Sector	1,546,578	7.33%	1,545,183	7.54%	1,847,250	6.96%	131,356	7.25%
Media	311,442	1.48%	311,442	1.52%	373,125	1.41%	25,619	1.41%
Accountants	168,049	0.80%	168,049	0.82%	185,691	0.70%	13,218	0.73%
Telecoms Companies	522,133	2.47%	453,994	2.22%	547,458	2.06%	25,578	1.41%
Lawyers	1,255,094	5.95%	1,255,094	6.13%	1,465,967	5.52%	85,492	4.72%
Import / Export Company	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Car Space Customer	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other Debtors	582,745	2.76%	582,745	2.84%	560,779	2.11%	40,372	2.23%
Vacant	0	0.00%	0	0.00%	2,005,051	7.55%	109,740	6.05%
<b>Total</b>	<b>21,097,009</b>	<b>100.00%</b>	<b>20,491,214</b>	<b>100.00%</b>	<b>26,548,349</b>	<b>100.00%</b>	<b>1,812,595</b>	<b>100.00%</b>

### Unit Distribution by Size

Size of Units	Gross Rent	%	Net Rent	%	ERV	%	Area	%
0 to 5,000 sq. ft.	8,570,938	40.63%	8,550,988	41.73%	10,584,857	39.87%	646,309	35.66%
5,000 to 10,000 sq. ft.	4,352,690	20.63%	4,308,252	21.02%	5,099,302	19.21%	346,493	19.12%
10,000 to 20,000 sq. ft.	3,633,147	17.22%	3,536,827	17.26%	4,768,466	17.96%	361,708	19.96%
20,000 to 30,000 sq. ft.	1,463,218	6.94%	1,441,010	7.03%	1,512,234	5.70%	102,435	5.65%
30,000 to 40,000 sq. ft.	1,273,682	6.04%	850,803	4.15%	1,803,542	6.79%	131,014	7.23%
40,000 to 50,000 sq. ft.	1,561,334	7.40%	1,561,334	7.62%	2,324,989	8.76%	174,085	9.60%
50,000 to 75,000 sq. ft.	242,000	1.15%	242,000	1.18%	454,959	1.71%	50,551	2.79%
75,000 to 100,000 sq. ft.	0	0.00%	0	0.00%	0	0.00%	0	0.00%
100,000 to 125,000 sq. ft.	0	0.00%	0	0.00%	0	0.00%	0	0.00%
125,000 to 150,000 sq. ft.	0	0.00%	0	0.00%	0	0.00%	0	0.00%
150,000 to 175,000 sq. ft.	0	0.00%	0	0.00%	0	0.00%	0	0.00%
<b>Total</b>	<b>21,097,009</b>	<b>100.00%</b>	<b>20,491,214</b>	<b>100.00%</b>	<b>26,548,349</b>	<b>100.00%</b>	<b>1,812,595</b>	<b>100.00%</b>

### Unit Distribution (by Gross Rent)

Gross Rent (unit by unit)	Gross Rent	%	Net Rent	%	ERV	%	Area	%
£0 to £5,000	238,363	1.13%	237,236	1.16%	2,832,132	10.67%	152,056	8.39%
£5,000 to £10,000	348,366	1.65%	348,366	1.70%	536,817	2.02%	32,245	1.78%
£10,000 to £15,000	795,828	3.77%	795,180	3.88%	871,940	3.28%	49,506	2.73%
£15,000 to £20,000	833,380	3.95%	833,380	4.07%	817,699	3.08%	55,790	3.08%
£20,000 to £25,000	673,062	3.19%	669,161	3.27%	699,884	2.64%	50,326	2.78%
£25,000 to £50,000	3,204,402	15.19%	3,191,243	15.57%	3,518,739	13.25%	240,084	13.25%
£50,000 to £100,000	4,585,750	21.74%	4,563,416	22.27%	4,752,266	17.90%	333,877	18.42%
£100,000 to £200,000	4,629,940	21.95%	4,534,868	22.13%	5,159,799	19.44%	358,577	19.78%
£200,000 to £300,000	1,396,818	6.62%	1,372,350	6.70%	2,069,192	7.79%	164,198	9.06%
£300,000 to £400,000	1,690,963	8.02%	1,668,755	8.14%	1,783,354	6.72%	131,173	7.24%
£400,000 to £500,000	861,455	4.08%	861,455	4.20%	2,371,920	8.93%	164,991	9.10%
£500,000 to £1,000,000	565,000	2.68%	565,000	2.76%	621,307	2.34%	43,754	2.41%
£1,000,000 to £2,000,000	1,273,682	6.04%	850,803	4.15%	513,300	1.93%	36,018	1.99%
<b>Total</b>	<b>21,097,009</b>	<b>100.00%</b>	<b>20,491,214</b>	<b>100.00%</b>	<b>26,548,349</b>	<b>100.00%</b>	<b>1,812,595</b>	<b>100.00%</b>

### Unit Distribution by ERV

ERV (unit by unit)	Gross Rent	%	Net Rent	%	ERV	%	Area	%
£0 to £5,000	354,300	1.68%	353,173	1.72%	375,799	1.42%	15,348	0.85%
£5,000 to £10,000	482,329	2.29%	482,329	2.35%	451,282	1.70%	26,447	1.46%
£10,000 to £15,000	919,496	4.36%	918,848	4.48%	863,982	3.25%	47,353	2.61%
£15,000 to £20,000	792,290	3.76%	792,290	3.87%	904,272	3.41%	65,849	3.63%
£20,000 to £25,000	622,681	2.95%	621,684	3.03%	722,965	2.72%	47,111	2.60%
£25,000 to £50,000	2,817,677	13.36%	2,802,881	13.68%	3,613,195	13.61%	252,534	13.93%
£50,000 to £100,000	4,515,886	21.41%	4,492,722	21.93%	5,759,813	21.70%	383,759	21.17%
£100,000 to £200,000	4,652,394	22.05%	4,556,886	22.24%	5,901,575	22.23%	396,699	21.89%
£200,000 to £300,000	915,568	4.34%	891,100	4.35%	1,173,826	4.42%	83,523	4.61%
£300,000 to £400,000	1,843,001	8.74%	1,820,793	8.89%	2,137,154	8.05%	149,873	8.27%
£400,000 to £500,000	656,371	3.11%	656,371	3.20%	2,167,951	8.17%	174,359	9.62%
£500,000 to £1,000,000	2,525,016	11.97%	2,102,137	10.26%	2,476,535	9.33%	169,740	9.36%
£1,000,000 to £2,000,000	0	0.00%	0	0.00%	0	0.00%	0	0.00%
<b>Total</b>	<b>21,097,009</b>	<b>100.00%</b>	<b>20,491,214</b>	<b>100.00%</b>	<b>26,548,349</b>	<b>100.00%</b>	<b>1,812,595</b>	<b>100.00%</b>

### Lease Expiry Profile

Year of Expiry	Gross Rent	%	Net Rent	%	ERV	%	Area	%
0 to 1 yrs	1,067,465	5.06%	1,067,465	5.21%	2,923,978	11.01%	156,722	8.65%
1 to 2 yrs	590,194	2.80%	584,596	2.85%	642,665	2.42%	46,429	2.56%
2 to 3 yrs	1,200,194	5.69%	1,198,799	5.85%	1,484,958	5.59%	131,995	7.28%
3 to 4 yrs	3,513,000	16.65%	3,057,501	14.92%	2,849,090	10.73%	204,042	11.26%
4 to 5 yrs	2,453,943	11.63%	2,431,207	11.86%	2,978,328	11.22%	207,215	11.43%
5 to 7 yrs	2,930,584	13.89%	2,928,786	14.29%	3,691,561	13.91%	278,869	15.39%
7 to 10 yrs	4,797,484	22.74%	4,770,766	23.28%	5,580,890	21.02%	365,499	20.16%
10 to 13 yrs	2,768,700	13.12%	2,766,996	13.50%	4,378,829	16.49%	281,130	15.51%
13 to 15 yrs	538,632	2.55%	538,632	2.63%	713,400	2.69%	41,002	2.26%
15 to 20 yrs	978,007	4.64%	887,660	4.33%	1,045,344	3.94%	83,661	4.62%
20 to 25 yrs	258,806	1.23%	258,806	1.26%	259,306	0.98%	16,031	0.88%
25+ yrs	0	0.00%	0	0.00%	0	0.00%	0	0.00%
<b>Total</b>	<b>21,097,009</b>	<b>100.00%</b>	<b>20,491,214</b>	<b>100.00%</b>	<b>26,548,349</b>	<b>100.00%</b>	<b>1,812,595</b>	<b>100.00%</b>

### Lease Expiry/Break Profile

Year of Expiry/Break	Gross Rent	%	Net Rent	%	ERV	%	Area	%
0 to 1 yrs	2,877,503	13.64%	2,875,705	14.03%	4,856,242	18.29%	284,574	15.70%
1 to 2 yrs	3,357,268	15.91%	3,317,999	16.19%	3,571,110	13.45%	253,591	13.99%
2 to 3 yrs	4,412,615	20.92%	4,389,012	21.42%	5,263,242	19.83%	367,952	20.30%
3 to 4 yrs	3,382,075	16.03%	2,956,118	14.43%	3,119,268	11.75%	211,073	11.64%
4 to 5 yrs	3,173,784	15.04%	3,126,755	15.26%	3,923,900	14.78%	266,126	14.68%
5 to 7 yrs	1,102,432	5.23%	1,102,432	5.38%	1,427,769	5.38%	113,927	6.29%
7 to 10 yrs	1,767,026	8.38%	1,698,887	8.29%	1,981,213	7.46%	136,635	7.54%
10 to 13 yrs	565,000	2.68%	565,000	2.76%	1,911,549	7.20%	138,750	7.65%
13 to 15 yrs	250,306	1.19%	250,306	1.22%	250,306	0.94%	16,021	0.88%
15 to 20 yrs	123,500	0.59%	123,500	0.60%	157,750	0.59%	19,919	1.10%
20 to 25 yrs	85,500	0.41%	85,500	0.42%	86,000	0.32%	4,027	0.22%
25+ yrs	0	0.00%	0	0.00%	0	0.00%	0	0.00%
<b>Total</b>	<b>21,097,009</b>	<b>100.00%</b>	<b>20,491,214</b>	<b>100.00%</b>	<b>26,548,349</b>	<b>100.00%</b>	<b>1,812,595</b>	<b>100.00%</b>

### Top Ten Tenants (by Gross Rent)

Tenant Name	Gross Rent	%	Net Rent	%	ERV	%
Accenture (UK) Ltd <sup>1</sup>	1,273,682	6.04%	850,803	4.15%	513,300	1.93%
General Medical Council	892,252	4.23%	892,252	4.35%	908,550	3.42%
Trillium Prime Property GP Ltd	691,550	3.28%	689,846	3.37%	774,559	2.92%
Co-operative Group Ltd	643,532	3.05%	612,934	2.99%	677,760	2.55%
Keypoint Investment Mis-Selling Services Ltd	470,000	2.23%	470,000	2.29%	470,000	1.77%
Leeds Metropolitan University	447,084	2.12%	447,084	2.18%	658,928	2.48%
Bruntwood Business Centres Ltd	405,713	1.92%	405,713	1.98%	406,626	1.53%
Leeds City Council	394,800	1.87%	394,800	1.93%	406,000	1.53%
Davis Wallis Foyster	364,567	1.73%	364,567	1.78%	557,956	2.10%
BPP Holdings Plc	357,925	1.70%	335,717	1.64%	364,000	1.37%
<b>Top 10 Total</b>	<b>5,941,105</b>	<b>28.16%</b>	<b>5,463,716</b>	<b>26.66%</b>	<b>5,737,679</b>	<b>21.61%</b>

<sup>1</sup> This lease is currently in the process of being assigned to CSC Computer Services Limited.

## **PORTFOLIO VALUATION REPORTS**



Valuation Report

Bruntwood Estates Alpha Portfolio Limited

Property Portfolio

**Prepared on behalf of The Royal Bank of Scotland Plc**

30 November 2006

**Prepared by**

David L Roper BSc FRICS  
Knight Frank LLP  
Third Floor  
55 King Street  
Manchester  
M2 4LQ

The Directors  
Bruntwood Alpha plc  
City Tower  
Piccadilly Plaza  
Manchester  
M1 4BD  
(the Issuer)

HSBC Trustee (C.I). Limited  
1 Grenville Street  
St Helier  
Jersey  
JE4 9PF  
(in its capacity as Note Trustee)

The Royal Bank of Scotland plc  
135 Bishopsgate  
London EC2M 3UR  
(in its capacities as Arranger and Lead Manager)

The Royal Bank of Scotland plc  
135 Bishopsgate  
London EC2M 3UR  
(in its capacities as Swap Counterparty)

The Directors  
Bruntwood Estates Alpha Portfolio Limited  
City Tower  
Piccadilly Plaza  
Manchester  
M1 4BD  
(the Borrower)

30 November 2006

Dear Sirs

**Portfolio Valuation Bruntwood Estates Alpha Portfolio Ltd.**

**1. INTRODUCTION**

- 1.1 In accordance with instructions received from the above addressees on 30 November 2006, we have inspected the properties described in the attached Schedule (the "Properties") and made all relevant enquiries in order to provide our opinion of Market Value of the freehold and leasehold interests in the Properties as at 30 November 2006 (the "Valuation Date"), subject to and with the benefit of the various occupational leases.
- 1.2 This "Property Valuation Report" has been prepared for the purpose of inclusion in the Prospectus of Bruntwood Estates Alpha Portfolio Limited (the "Borrower") in respect of the admission of the Notes of the Issuer to the official list of the Irish Stock Exchange and in respect of the transactions contemplated in such a prospectus.

- 1.3 Our valuations have (as amended) been prepared in accordance with the Appraisal and Valuation Standards Fifth Edition published by the Royal Institution of Chartered Surveyors (The Red Book). We have acted in the capacity of External Valuer, as defined within the above Standards.
- 1.4 Our Valuations are co-ordinated from our Manchester office, but this work has involved qualified valuation personnel in our Manchester, Liverpool and London offices. In addition, our valuation has been overviewed by Senior Valuation Partner, Rupert Johnson BSc MRICS in order to provide additional independent verification and ensure compliance with RICS standards.
- 1.5 The valuations have been undertaken under the overall supervision of the joint signatories David Roper BSc FRICS and Rupert Johnson BSc MRICS. David Roper BSc FRICS commenced as lead signatory at Knight Frank LLP in September 2000 and has had an involvement in the portfolio since 1983.

## **2. COMPLIANCE AND INDEPENDENCE**

- 2.1 In relation to Knight Frank LLP's preceding year, the proportion of the total fees paid by Bruntwood Estates Alpha Portfolio Limited (the "Borrower") and its joint venture partners to the total fee income of Knight Frank LLP was less than 5%
- 2.2 We recognise and support the RICS Rules of Conduct and have established procedures for identifying conflicts of interest.
- 2.3 Knight Frank LLP have a rotation policy for valuers and signatories in order to comply with the RICS Appraisal and Valuation Standards.
- 2.4 We confirm that we are not aware of any conflicts of interest that will prevent us from providing formal valuations of the properties. We have no shareholding in Bruntwood Estates Alpha Portfolio Limited (the "Borrower") and no right to subscribe for or to nominate persons to subscribe for securities in that company.
- 2.5 The valuations have been prepared as at 30 November 2006.
- 2.6 Our inspections of the subject properties were made during May 2006 to October 2006. We confirm that we have not undertaken measured surveys of the properties listed in the Schedule, but have relied on areas provided to us by the Issuer. We have verified areas as appropriate.

## **3. BASIS OF VALUATION**

### **3.1 Definitions**

The definition of Market Value provided in this Report is in accordance with the Appraisal and Valuation Standards Fifth Edition (as amended) published by the Royal Institution of Chartered Surveyors (The Red Book).

The properties have been valued individually and not as part of a portfolio.

### **3.2 Market Value**

Market Value is defined as *"The estimated amount for which a property should exchange on the date of valuation, between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion"*.

### 3.3 Caveats and Assumptions

The valuations provided in this Report have been prepared by valuers who are qualified asset valuers as defined by the Red Book. The valuations have been carried out on the basis set out below:

(a) **Costs of disposal**

We have not allowed in our valuations for the costs which would be incurred on the disposal of the properties.

(b) **Purchasers' acquisition costs**

We have made a deduction from our valuations to reflect purchasers' acquisition costs in accordance with normal valuation practice. The quantum of costs deducted will depend on the valuation lot size of the property.

(c) **Taxation**

No account has been taken in our valuations of any liability for tax (including Value Added Tax) on either the rental income from the properties (if any), the notional sale prices or any gains which may be realised on disposal.

(d) **Grants & Subsidies**

We have not been able to establish if any allowances, grants or subsidies of any nature are available from Central or Local Government or any other body, statutory or otherwise.

(e) **Mortgage or other charge**

No account has been taken in our valuations of any mortgage, charge or similar encumbrance over the properties.

(f) **Areas and dimensions**

We have relied on areas supplied by Bruntwood Estates Alpha Portfolio Limited and its appointed advisers.

(g) **Title & Legal Documents**

In undertaking our valuations, we have relied upon documents of title and leases where provided and information supplied by Bruntwood Estates Alpha Portfolio Limited and its appointed advisers. Our valuations assume that good freehold or leasehold titles can be shown and that they are not subject to any easements, wayleaves, restrictive covenants, tenancies, mortgages, charges or other encumbrances other than those summarised in this Report.

Our valuations assume that the properties have good and marketable titles and are free of any undisclosed onerous burdens, outgoing or restrictions. Boundaries for the purpose of our valuation are those indicated to us and although believed to be correct, are subject to legal title being proved, if necessary. We have not seen planning consents and, except where advertised to the contrary, have assumed that the properties have been erected and are being occupied and used in accordance with all requisite consents and that there are not outstanding statutory notices.

We have not read all documents of title or leases and, for the purpose of our valuations, have accepted the details of tenure, tenancies and all other relevant information with which we have been supplied by the Issuer. When considering the covenant strength of individual tenants, we have not carried out credit enquiries but have reflected in our valuations our general understanding of purchasers' likely perceptions of tenants' financial status. We have, in addition, discussed with the Borrower any bad debts or material arrears of rent and have considered this information in arriving at our valuations.

When considering occupational leases, we have not been able to establish the liability of original lessees or the liability of existing lessees to disclaim leases. This should be referred to your Solicitors. We have, however, relied on the information provided and are of the opinion that these matters are dealt with in accordance with good estate management procedures.

**(h) Local Authority information & Statutory Enquiries**

In the preparation of this Report we made verbal inquiries of the appropriate local authority regarding town planning, highways and rating. We believe that the information we have been given is correct but we cannot accept liability for either incorrect information or for material omissions in the information supplied to us.

We have assumed that all necessary planning and other permissions have been obtained to enable the properties to be put to the current uses and that, unless otherwise indicated, there are no outstanding works or conditions that remain to be undertaken in order to satisfy such permissions.

We have not made enquiries as to whether the properties meet statutory and local authority requirements regarding such matters as fire prevent, public/environmental health, health and safety at work and building legislation. We have assumed that the buildings do comply with the various requirements.

**(i) Repair & Condition**

In the preparation of this Report, we inspected the properties but did not carry out structural surveys as this was outside the scope of our instructions. We have not, therefore, inspected those parts of the properties that are covered, unexposed or inaccessible and we are unable to report that any parts of the properties are free from defect, including latent defects, rot and inherently dangerous or unsuitable materials and techniques.

We are unable to state whether or not high alumina cement concrete, calcium chloride additive or other deleterious materials have been used as structural materials in the construction, improvement or alteration of the properties. Our valuation is on the assumption that these materials have not been used.

Although we were not instructed to carry out structural surveys of the properties, nor to test the services, we have reflected in our valuations, where necessary, any defects, items of disrepair or outstanding works of alteration or improvement which we noticed during the course of our inspections or of which we have been advised. Our valuations assume the buildings contain no radioactive, chemical or other deleterious materials and that the sites are unaffected by adverse soil conditions, except where we have been notified to the contrary. We cannot offer an opinion as to the likely extent or any settlement or subsidence which may exist now or in the future.

In addition to the above, we have been provided with structural survey reports on the majority of the properties. These have generally been carried out when the properties were occupied. We have had regard to these reports in preparing our valuation.

(j) **Plant & Machinery**

Our open market valuation does not include figures for items which might more appropriately be considered Plant & Machinery. Where buildings have central heating, this has been taken into account, but only insofar as the installation is not connected with any manufacturing process. With regard to electrical services, we have included all wiring and switch gear up to and including the main distribution board in the buildings, together with:

(i) *In Non-Industrial Buildings*

Wiring for lighting and power from the distribution board to wall and ceiling points.

(ii) *In Industrial Buildings*

Wiring for lighting and wall and ceiling points.

(iii) *Externally*

Wiring and associated structures for lighting to roads and yards etc.

(k) **Environmental Considerations**

We have not undertaken, nor are we aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw any attention to any contamination or the possibility of any contamination. We have not carried out any investigation into past or present uses of the properties nor of any neighbouring land to establish whether there is any potential for contamination from these uses or sites adjacent to the subject properties and have, as instructed, therefore assumed that none exists. However, we have considered environmental reports where they have been made available to us.

We have not carried out any investigation into past or present uses of either the properties or any neighbouring land to establish whether there is any potential for contamination from these uses or sites to the subject properties. We understand that the Issuer has established procedures for the inspection of newly acquired properties to be carried out with particular reference to environmental matters, and that any such matters identified receive appropriate attention. Unless we have been provided with information to the contrary, we have assumed that the properties are not, nor are likely to be, affected by land contamination and that there are no ground conditions which would affect the present or future uses of the properties.

(l) **Services**

We have assumed that mains gas, water, electricity and sewerage services are provided to the sites and there are no services on, or crossing, the sites in a position which would inhibit development or make it unduly expensive.

No specialist tests have been carried out on any of the service systems and for the purposes of this valuation, we have assumed that all are in reasonable working order and in compliance with any relevant statutory or bye law regulations.

(m) **Statutory Requirements**

We have not seen Fire Certificates for the properties. We have assumed that such Certificates (if required) have been granted and that they do not restrict the use of the properties in a manner which affects the value and which is not apparent on an inspection of the property.

We have not taken account of any rights, liabilities and obligations under the Defective Premises Act 1972. Also, unless specifically advised, we have assumed the properties currently comply, and will continue to comply, with current Health and Safety and Disability legislation.

(n) **Insurance**

Our valuations assume that the properties would, in all respects, be insurable against all usual risks including terrorism, flooding and rising water table at normal, commercially acceptable premiums.

(o) **Asset Management**

In providing our opinion, we have made the following assumptions:

- (i) In providing Market Values, we have assumed that any vacant space is let on similar terms to those we consider would be the norm in the market place at the valuation date.
- (ii) Appropriate estate management procedures are in place to ensure that the buildings are maintained.

(p) **Development & Refurbished Properties**

For properties in the course of development and for refurbishment, we have reflected the stage reached in construction and the costs remaining to be spent at the date of valuation. We have had regard to the contractual liabilities of the parties involved in the developments and any cost estimates that have been provided by professional advisors to the projects. For recently completed developments we have taken no account of any retentions, nor made allowances for any outstanding development costs, fees, or other expenditure for which there may be a liability.

**4. NET ANNUAL RENT**

4.1 In providing Net Annual Rent receivable, we have had regard to the definition contained in paragraph 18.2(d) of the Listing Rules. This defines "Net Annual Rent" as the current income or income estimated by the valuer:

- (a) ignoring any special receipts or deductions arising from the property;
- (b) excluding Value Added Tax and before taxation (including tax on profits and any allowances for interest on capital or loans); and
- (c) after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a condition to command its rent.

4.2 The aggregate current Net Annual Rent of the subject properties in accordance with the above, as at 30 November 2006, is £18,464,968 per annum exclusive.

4.3 The Individual Net Annual Rent for each property is summarised in the Schedule below.

## 5. MARKET RENTAL VALUE

In our opinion the Aggregate Market Rental Value for the properties as at 30 November 2006 is £24,404,491 per annum excluding the individual market rents for each property is summarised in the schedule below.

## 6. MARKET VALUE

On the bases and assumptions contained within this report, we are of the opinion that the aggregate Market Value of the freehold and long leasehold interests in the subject properties owned by the Bruntwood Estates Alpha Portfolio Limited, set out in the Schedule, subject to the tenancies as detailed herein, as at 30 November 2006, is:

**£310,112,000**

**(Three Hundred and Ten Million, One Hundred and Twelve Thousand Pounds)**

The property investment values are summarised in the following table:

## 7. SCHEDULE OF BREAKDOWN OF INVESTMENT VALUES

Tenure	Number of Properties	Net Annual Rent (£)	Market Value (£)
Freehold	13	£8,072,872	£131,800,000
Freehold / Long Leasehold	2	£769,028	£10,800,000
Long Leasehold	10	£9,623,068	£167,512,000
<b>Total</b>	<b>25</b>	<b>£18,464,968</b>	<b>£310,112,000</b>

The above figures represent simple mathematical apportionments provided for indicative purposes only and do not represent a valuation of the Issuer's shares.

## 8. ECONOMIC OVERVIEW

	Quarterly Q3 (%)		Annual (%)	
<b>GDP</b>	0.7	↑	2.8	↑
<b>Service Sector Output</b>	0.8	↓	3.0	↑
<b>Manufacturing Output</b>	0.7	→	-0.6	↑
<b>Inflation (CPI)</b>	~		2.5	↓



	Quarterly Q3 (%)		Annual (%)	
<b>Unemployment</b>	~		5.5	↑
<b>Retail Sales</b>	0.8	↓	3.2	↓
<b>Housing: Halifax</b>	0.7	↓	8.0	↓
<b>Housing: Nationwide</b>	2.2	↑	8.2	↑

- Provisional estimates of GDP output in Q3 proved stronger than many commentators had expected totalling 0.7%. The latest provisional output figures have boosted annual GDP up to 2.8% although with the stronger activity it is more likely that there will be further interest rate rises.
- Growth in the service sector fell slightly during Q3 2006 from 0.9% in Q2 to 0.8%. The fall was largely due to a decline in the growth of the distribution sector which fell from 0.9% to 0.2% in line with recent data releases suggesting weak retail performance.
- The modest downturn in the services sector was off-set by a stronger than expected rise in industrial production from 0.0% to 0.3%. The increase was principally a result of improvement in the energy-related sectors while manufacturing output remained steady at 0.7%.
- Both house price indices showed positive annual growth, with the Halifax index running at 8.0% over the 12 months to September and Nationwide at 8.2%. For the Halifax the annual rate eased for the third successive month, the lowest rate since April. However the Nationwide house price index for September recorded its largest monthly rise since January which proved sufficient to boost the annual rate to 8.2%, its highest level since February 2005.
- Inflation (CPI) decreased in September from 2.5% to 2.4% broadly in line with market expectations. Most significantly there was a sharp rise in core inflation from 1.1% to 1.4% which provides the MPC with further evidence that another interest rate rise may be necessary in November. The latest data reflects the MPC lasting view that the falling effects of energy price rises will be offset by a rise in core inflation.
- Although the MPC voted to maintain the base rate at 4.75% in October the latest data would suggest that a further interest rate increase is likely in November. The stronger than expected economic activity within the UK during Q3 combined with further gains in the core inflation rate would suggest that the MPC could justify the rate increase despite recent weak retail sales figures.
- Having moderated following the August interest rate rise, five year swap rates have started to rise again, up from 5.08% at the close of September to 5.28% in mid-October. This reflects the tone of the recent economic data releases and would suggest that market expectations are that interest rates may not peak at 5.0% in the present cycle.
- While swap rates have risen since the beginning of the year, property yields have continued on their downward shift, undermining the historic relationship between swap rates and yields. At the end of September, the initial yield on property stood 41 basis points below the five year swap rate.

- Overall it remains a very strong market with yields hardening, particularly in the office sector.
- Bank lending to commercial property continues to rise with the latest figures revealing an increase of £6.2bn during Q2 2006 to £151.4bn, representing an annual growth rate of 18.4%.
- A substantial weight of money remains available for commercial property with institutional demand remaining strong. According to Property Data, in Q3 2006 total investment in commercial property was £10.4bn, with net investment by UK institutions equating to £498m.
- Some investors have been taking profits although there is no shortage of demand to take up the slack.
- The yield range between primary and secondary continues to narrow.

### Offices

	Quarterly (%)	Monthly (%)	Year to date (%)	12 months to August (%)	12 months to September (%)
Income Return	1.3	0.4	4.2	5.9	5.8
Capital Growth	4.7	1.3	12.7	17.3	17.5
Rental Growth	1.5	0.9	3.9	3.5	4.2
Equivalent Yield	5.7	5.7	~	5.8	5.7
<b>Total Return</b>	<b>6.1</b>	<b>1.7</b>	<b>17.3</b>	<b>24.1</b>	<b>24.2</b>

*Source: All figures from September IPD Monthly Index, except Quarterly, from IPD Quarterly Digest Q2 2006*

**The office sector has performed strongly over the past 12 months generating the highest total return of any sector. The experienced and forecast strengthening of rental growth continues to impact positively upon the sector.**

- The resurgence of the office sector is most clearly reflected by total returns in excess of 24%.
- Total returns for offices over the 12 months to September rose slightly and now stand at 24.2% compared to 24.1% the previous month.
- According to the IPD Quarterly Digest, quarterly total returns climbed back in Q2 2006 to reach 6.1%.
- Capital growth improved over the last month to total 17.5%. The strengthening of capital growth reflects the intense investment activity which has led to a considerable hardening of yields to just 5.7% and would suggest that yields may harden further in the remainder of 2006.
- This is largely based on the strong rental growth achieved in some key locations e.g. West End, City and some South East locations (e.g. Uxbridge). There are also expectations within the market that rental growth will improve across the broader market moving forwards.

- Rental growth has continued to improve month-on-month during 2006 and now totals 4.2%, the highest level in five years, predominantly driven by the City where rental growth has reached 5.5% and Mid Town, where rental growth has reached 9.3%.
- Both prime and secondary investment markets within the South East have strengthened during Q3 with a significant weight of money chasing both well let and prime speculative opportunities across the sector. Due to the limited supply of investment opportunities, certain investors are considering more risk by acquiring vacant and development sites.
- Demand is strong for bond type investments which are secured by long leases let to strong covenants.
- Demand is also good for secondary stock with short income (2 to 4 years) and active management potential.

### All Retail

	Quarterly (%)	Monthly (%)	Year to date (%)	12 months to August (%)	12 months to September (%)
Income Return	1.1	0.4	3.6	4.9	4.9
Capital Growth	3.1	0.7	8.5	15.0	14.2
Rental Growth	0.7	0.3	2.3	3.5	3.5
Equivalent Yield	5.1	5.1	~	5.1	5.1
<b>Total Return</b>	<b>4.3</b>	<b>1.1</b>	<b>12.3</b>	<b>20.5</b>	<b>19.7</b>

Source: All figures from September IPD Monthly Index, except Quarterly, from IPD Quarterly Digest Q2 2006

**Total returns for all retail have continued to fall over the last six months although remain very strong and in the 12 months to September totalled 19.7%.**

- Retail no longer offers the highest total returns of any property sector, over the 12 months to September total returns stood at 19.7%, notably only 9bp above industrial returns.
- There is growing evidence within the market to suggest that the retail market is cooling with total returns having fallen each month since the end of March. Quarterly returns appear to have stabilised at 4.3% in Q2.
- Capital growth within the sector is also declining at a faster rate having fallen 76bp on the previous month to total 14.2%. For the 12 months to September. Capital growth remains driven principally by sustained demand for prime product. Following a slight easing in the rate of capital growth during Q1 2006, Q2 represented a slight improvement with growth of 3.2%.
- The rate of rental growth for all retail has continued to slow and currently stands at 3.5% for the 12 months to September. In part this reflects the lack of quality accommodation reaching the market, although given the interest rate cut in August and with another widely expected in November, weakened consumer spending may also impact upon the market.
- Retail sales growth decreased during Q3 with sales rising by only 0.8% during the whole of Q3 compared to the 1.9% rise recorded in Q2. The slowdown in sales may reflect the recent upturn in inflation on the high street with the retail sales deflator rose from -0.1% in August to 0.6% in September marking the first year-on-year rise in prices in five years. The would

suggest that consumers are not willing to accept higher prices and that if the retail sales recovery is to continue prices will have to fall back.

- Mainstream market is still the province of funds, but strong demand from private investors, particularly Irish.

### High Street Retail

	Quarterly (%)	Monthly (%)	Year to date (%)	12 months to August (%)	12 months to September (%)
Income Return	1.2	0.4	3.8	5.2	5.2
Capital Growth	2.7	0.5	6.9	11.2	10.3
Rental Growth	0.4	0.2	1.4	2.3	2.3
Equivalent Yield	5.1	~	~	5.2	5.2
<b>Total Return</b>	<b>3.9</b>	<b>0.9</b>	<b>10.9</b>	<b>17.0</b>	<b>16</b>

Source: All figures from September IPD Monthly Index, except Quarterly, from IPD Quarterly Digest Q2 2006

- Total returns for the sector have continued to fall since March and stand at 16.0% over the 12 months to September. Growth within the sub-sector continues to be driven by prime accommodation, although there remains interest in the market there has been a marked decline over the last 12 months.
- Capital growth has also fallen in recent months to stand at 10.3%, with the sub-sector's equivalent yield hardening to just 5.15%. However, the rate of rental growth remains subdued in comparison with the other retail sectors, standing at 2.3% over the year to September.
- Depth of demand for prime high street investments has also declined, with fewer underbidders. Although the prime end of the market continues to perform well there has been a notable decline in the demand for secondary stock which in turn is placing greater pressure on yields to soften.

### Property Market Forecasts

		Office	Industrial	High Street	Shopping Centres	Retail Warehouses	All Property
<b>Rental Value Growth (%)</b>	2006	5.0	1.3	1.9	3.2	3.4	<b>3.3</b>
	2007	5.5	1.8	1.5	2.4	3.1	<b>3.3</b>
	2008	4.9	2.3	1.5	2.1	3.3	<b>3.1</b>
	2006/10	4.5	1.9	1.7	2.4	3.4	<b>3.1</b>
<b>Capital Growth (%)</b>	2006	15.1	9.1	8.0	10.3	10.1	<b>11.2</b>
	2007	5.0	1.4	0.6	1.4	2.2	<b>2.5</b>
	2008	1.8	-0.3	-1.2	-1.0	0.5	<b>0.2</b>
	2006/10	4.6	2.2	1.5	2.2	3.4	<b>3.1</b>
<b>Total Return (%)</b>	2006	20.7	15.3	12.8	15.4	14.7	<b>16.5</b>
	2007	10.2	7.2	5.2	6.2	6.5	<b>7.5</b>
	2008	6.9	5.5	3.5	3.9	4.9	<b>5.2</b>
	2006/10	<b>9.9</b>	<b>8.0</b>	<b>6.3</b>	<b>7.1</b>	<b>7.9</b>	<b>8.2</b>

Source: IPF Consensus Forecasts, August 2006

- Total return forecasts for 2006 have been revised upwards again, rising from 13.4% in the May IPF Consensus to 16.5% in August.
- The forecasts demonstrate expectations of a strong recovery in the office sector with annual rental growth of 4.5% p.a. projected between 2006-2010.
- Over the medium-term, the office sector is still expected to produce the best performance, with forecast returns of 9.9% p.a. to 2010. Retail is forecast to be the poorest performer and high street retail in particular, with average returns of 6.3% p.a. over the next five years.
- Most sectors are forecast to experience negative capital growth in 2008, and for those sectors showing positive growth the rates are below that of projected ERV growth. Therefore, it would appear that the consensus is for yields to move out across all property markets in 2008, and potentially in some sectors as early as 2007.

## **9. MANCHESTER MARKET COMMENTARY**

### **9.1 Location**

Manchester is the commercial, educational and cultural capital for the North of England having a resident population within Greater Manchester of 2,575,000, with in excess of 11,000,000 persons within a 50 mile (80 km) radius of the City Centre. 60% of the UK's population can be reached within a 2 hour drive time.

The Greater Manchester conurbation is made up of the two cities of Manchester and Salford and the Metropolitan Boroughs of Bolton, Bury, Oldham, Rochdale, Stockport, Tameside, Trafford and Wigan. These boroughs still retain a strong industrial and manufacturing base although, Manchester City itself has now become largely serviced sector orientated being the North West regional administrative, retail and financial centre. However, of the primary employment sectors, over 20.5% are still employed within manufacturing industry, 25.1% in construction and distribution and 32.0% in the service sector.

Over the past decade there has been considerable diversity in the sectors of employment in the Greater Manchester conurbation with the headquarters and research and development offices, of amongst others, Brother International (European head office), Cussons International Ltd (World headquarters), Kelloggs (European headquarters), T & N Plc (World headquarters), Heinz European Research and Development Centre, Sharp (UK Marketing headquarters) and Siemens (UK Energy and Automation headquarters) within the region.

80 of the Financial Times top 100 companies operate in Manchester and 800 foreign owned companies have a base in the North West.

In excess of 70 US companies are located in Manchester including Colgate Palmolive, Bank of New York, Goodyear Tyres, Procter & Gamble and over 30 Japanese and numerous European organisations such as BSF, Bayer, Elf Aquintine, Olivetti, Phillips, Shell and Unilever.

Of the Greater Manchester population, the work force is approximately 1.2m; the present unemployment rate within the travel to work area being 2.6%, which is less than the Great Britain average of 2.7%, as at July 2006.

As previously mentioned, Manchester's service sector has grown rapidly over the last two decades and is now the City's most significant source of employment. The City has more banks than any other city in the United Kingdom outside London including over 60 domestic, merchant, international and foreign banks.

Manchester is an international insurance centre being second to London in non-life insurance and specialist sectors like marine insurance. The City is the home of the Co-Operative Insurance Society and the five largest non-life insurance groups all have regional offices in the City.

The City has good road communications with over 169 km of motorway within the conurbation. The M62 motorway provides a link to Liverpool, Leeds and the West and East coast ports and the M6 links with Birmingham and London in the South and Glasgow in the North. The M60 Manchester Orbital Motorway completes the link to the inner city relief road around the City Centre and motorway links to the M6 to the M56 and M62.

Driving distances to other major conurbation's are:

Leeds	40 miles	(64 km)
Birmingham	80 miles	(128 km)
Bristol	160 miles	(256 km)
London	181 miles	(290 km)
Glasgow	209 miles	(334 km)
Edinburgh	210 miles	(336 km)

The City has two main line railway stations - Piccadilly and Victoria - linked by Shuttle Bus and the Metrolink (tram). There are local line stations in the City at Oxford Road, Deansgate, and Salford.

Inter city trains link to all major cities with an hourly service to London Euston (2 hours). The journey time has recently been reduced by the upgrading of the west coast route between London and Manchester.

The influence of Manchester International Airport has also helped the international profile of the city. The airport has extensive airline links with the largest coverage of any regional airport outside London. The domestic terminal caters for 2 million passengers a year with 110 flights daily to 20 destinations. The London Heathrow Shuttle takes 45 minutes with 69 flights per week together with a regular service to Glasgow, Edinburgh, Belfast and Dublin. There are scheduled services to all major European cities and New York, Chicago, Atlanta, Bangkok, Singapore and Sydney.

The airport lies 10 miles (16 km), South West of the City Centre, 20 minute drive time. In addition, there is an electrified rail link between the airport and the surrounding regional centres, trains running between the airport and Manchester Piccadilly every 15 minutes.

The North West is the largest generator of rail traffic in the UK and it is estimated this will continue to grow with links from the rail freight terminus to 17 European destinations.

Phase I of Manchester's Metrolink (tram) opened in spring 1992 running between Bury and Altrincham and already an estimated 50,000 people use this facility per day, equating to 19 million per year. Trams run every 6 minutes at peak times utilising existing railway lines and a 1½ mile (2.5 km) track on the City Centre streets. This has been extended to Eccles and it is hoped further expansion will be possible, subject to government funding. The G-Mex tram stop is only a short walk from the subject property.

As well as the established commercial infrastructure, the region and the city itself also offer the diversity of entertainment and leisure facilities which are commensurate with a regional centre including the Palace Theatre, the Royal Exchange Theatre, the Manchester City Art Gallery, the Whitworth Gallery, the BBC Philharmonic Orchestra, Halle Orchestra, the Opera House, the

Northern Ballet and the Royal Northern College of Music. Furthermore, the City's international profile has been enhanced through Manchester's successful hosting of the 2002 Commonwealth Games.

Greater Manchester has the largest concentration of newspaper, offices, radio, and television stations within any regional centre including Granada Television, local Radio BBC North West and BBC Radio. The recent announcement by the BBC to move a number of departments to the City has further enforced the City's profile as a media centre.

The Guardian, Express, Daily Mail, Daily Mirror, Sun, Financial Times, Daily Telegraph and Star are produced at six printing presses within the region together with Manchester Evening News, Britain's largest selling regional newspaper.

Manchester also has the largest university campus in Europe comprising the University of Manchester, City Campus (formerly UMIIST), the Manchester Metropolitan University, Manchester Business School and the University of Salford.

The key economic assets across Greater Manchester are:

- The city is the strongest regional centre in the UK, employing approximately 160,000 people and is the largest and fastest growing employment area in the North-West.
- Approximately 1,200,000 people are employed within Greater Manchester.
- The city is home to the largest university in the UK (Manchester University/UMIST merger).
- The largest and fastest growing financial, professional and legal services centre outside of London.
- Manchester's infrastructure is excellent. Manchester Airport is the UK's third largest airport; the City is surrounded by an orbital motorway with superb access to the national motorway network and has excellent rail links to the rest of the UK.

## **9.2 Office Market**

The total office stock in Manchester City Centre currently stands at around 1.58 million sq m (17 million sq ft) with about 836,000 sq m (9 million sq ft) contained within the recognised prime core area.

The extent of the City Centre office market stretches from the River Irwell to the west, Piccadilly Station to the east, Victoria Station to the north and the Mancunian Way to the south. The traditional prime core area is centred around Cross Street, Mosley Street and Market Street. However, due to the increasing number of requirements within the City from professional firms with requirements of between 7,432 sq m and 11,148 sq m (80,000 sq ft and 120,000 sq ft), schemes such as Spinningfields, which offers large flexible floor-plates, have been widely coveted.

Take-up of Grade A office space in the prime core which was built in 1996 / 1997 has stagnated in recent years between £188.37 to £215.28 per sq m (£17.50 to £20.00 per sq ft). However, since 2001 headline rents for Grade A space have risen due to the alarming shortage of supply and steady level of demand. For instance, at 82 King Street £199.13 per sq m (£18.50 per sq ft) was achieved in 1998, £234.12 per sq m (£21.75 per sq ft) was achieved in 1999 and a rental of £301.39 per sq m (£28.00 per sq ft) is now being quoted for a sub-lease in the building for half of a floor. In 2002, Chubb Insurance acquired the 13th floor at £290.63 per sq m (£27.00 per sq ft), plus car parking at

£3,000 per space. At the refurbished 55 King Street, Orbit Developments have achieved £247.57 per sq m (£23.00 per sq ft) on recent lettings and is now fully let. The Pinnacle, located on King Street, is currently achieving rents of between £301.39 per sq m to £322.92 per sq m (£28.00 per sq ft to £30.00 per sq ft), with £3,500 per car parking space. Investec have taken the top floor of The Pinnacle Building at a rent equating to £371.90 per sq m (£34.55 per sq ft).

Office development in the prime core has been on relatively small constrained sites offering floor-plates below 650 sq m (7,000 sq ft). Indeed, the majority of new schemes in the past 10 years have delivered total floor space from 4,645 sq m to 7,432 sq m (50,000 sq ft to 80,000 sq ft). The majority of these schemes have been viewed as having small floor-plates over a large number of floors and therefore not particularly attractive for single occupation.

Whilst King Street represents the traditional prime core within Manchester, over the past five years its boundaries have been stretched somewhat, following the developments at Allied London's Spinningfields and Argent's One Piccadilly Gardens. The Argent development provides 13,006 sq m (140,000 sq ft) of Category A office accommodation over 6 upper floors, with floor plates of 2,508.38 sq m (27,000 sq ft). The building was completed in 2003 and its specification includes four 21 person passenger lifts, air conditioning, raised floors and a car parking ratio of 1:785 sq ft. Initially the scheme was slow to attract tenants, possibly due to its perceived secondary location. However, in 2005 there was significant interest and all the office accommodation has been let. Tenants of the building include Bank of New York, Alliance Cornhill, The Housing Corporation and King Sturge, who are paying rents of between £242.19 per sq m (£22.50 per sq ft) and £252.95 per sq m (£23.50 per sq ft). This development indicates that tenants are prepared to pay full rents in areas such as Piccadilly which is seen as an emerging location.

Throughout the past five years, there has been significant growth in the secondary office market. Property owners who seek to expend capital on refurbishment projects will benefit from the reduction in letting voids whilst maintaining rental growth.

The availability for good quality Grade B accommodation is restricted and as a consequence, rental levels have begun to rise faster in the past 12 to 18 months than at any time during the past 10 years. Lease terms, however, remain relatively flexible, particularly where there is still good occupier choice in either the size range or quality of specification available.

Achievable rental levels for Grade B accommodation, located outside the financial core have witnessed significant growth in recent years. The majority of this type of accommodation, two to three years ago were achieving rentals of circa £107.64 per sq m (£10.00 per sq ft). In contrast in today's market £161.46 to £182.99 per sq m (£15.00 to £17.00 per sq ft) is often being achieved. Better quality refurbished buildings which contain raised floors and air conditioning have also achieved impressive rental growth in recent years rising from £129.17 to £215.28 per sq m (£12.00 per sq ft to £20.00 per sq ft) for accommodation located outside the financial core.

Due to the shortage of Grade A accommodation, it is anticipated that occupiers will focus on good quality refurbished buildings. As a result, it is anticipated rental levels will continue to catch up to Grade A office buildings.

Car spaces are now at a premium, particularly within the financial core. In recent years a large number of car parks have been acquired for residential developments thus reducing the number of available contract car spaces and forcing up the cost of secure on-site car parking. Typically, car spaces outside the financial core can achieve £1,500 to £3,000 per car space, per annum. Car spaces located in buildings within the financial core can achieve up to £3,500 per car space.



There is currently approximately 88,255 sq m (950,000 sq ft) of total office space available in the City Centre. The immediate Grade A supply is relatively limited to Aurora 5,295 sq m (57,000 sq ft) on Princess Street and Bauhaus 4,738 sq m (51,000 sq ft) on Quay Street.

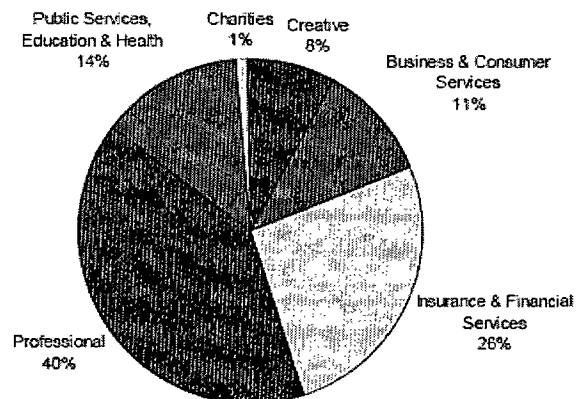
### 9.3 Letting Market

Supply currently stands at 117,058 sq m (1.26 million sq ft) with a vacancy rate of 11.1% (up from 10% at the end of 2005). Average annual take-up for the Manchester office market has been 72,549 sq m (780,936 sq ft) per annum over the last five years, although prelets at Spinningfields over this period has skewed the figure somewhat. 2005 was average at 78,968 sq m (850,000 sq ft). By mid-2006 the figures are reaching almost 37,160 sq m (400,000 sq ft). Lack of speculative development due in 2004 and 2005 meant Grade A supply was at an all time low. Currently just 25% of ready to occupy space is Grade A. This compares with 30% in Birmingham and 35% in Central London, both of which are currently being considered as competitive markets for top quality units. Grade A supply now stands at 64,662.30 sq m (696,042 sq ft), although this is up from 39,960 sq m (430,140 sq ft) at the end of 2005. The average Grade A take-up is approximately 36,540 sq m (393,329 sq ft) over a five year average resulting in just under two years Grade A supply currently on the market. The shortage of speculative space coming onto the market in the next 12 months is only likely to encourage further preletting. Approximately 2,601.2 sq m (280,000 sq ft) over the last five year average were prelets. This has continued in 2006 when HBOS took a 4,366.30 sq m (47,000 sq ft) prelet at 40 Spring Gardens and Barclays Bank plc took a 9,290 sq m (100,000 sq ft) prelet at 3 Hardman Street. We consider that as the supply of Grade A space increases in the short to medium term the take-up levels will increase to reflect the historical shortage of supply.

The professional sector continues to be the main driving force behind the market accounting for 40% of take-up in the last 12 months. Deals to Deolittes of 5,574 sq m (60,000 sq ft) and Haliwells of 16,257.5 sq m (175,000 sq ft) at Spinningfields in 2005 contributed to these figures.

The pie chart below shows an analysis of this demand.

*The Professional sector has dominated the market in the last 12 months.*



The table below compiled by Knight Frank Research highlights the key Manchester City Centre requirements as at the end of Quarter 3 2006.

Tenant	Search Area	Size sq m (sq ft)
Chubb Insurance	Manchester City Centre	929 – 1,393.5 sq m (10,000 – 15,000 sq ft)
Allied Irish Bank	Manchester City Centre	1,858 sq m (20,000 sq ft)

Tenant	Search Area	Size sq m (sq ft)
HSBC	Manchester City Centre	2,787 sq m (30,000 sq ft)
Weightmans	Manchester City Centre	2,322.50 (25,000 sq ft)
The Highways Agency	Manchester City Centre	4,645 sq m (50,000 sq ft)
Begbie Traynor	Manchester City Centre	1,858 sq m (20,000 sq ft)
Pinsent Mason	Manchester City Centre	2,787 sq m (30,000 sq ft)
Regus	Manchester City Centre	2,787 sq m (30,000 sq ft)
Berryman Lace Mawer	Manchester City Centre	2,787 sq m (30,000 sq ft)
Training and Development Agency for Schools	Manchester City Centre	4,645 sq m (50,000 sq ft)
Home Office Requirement	Manchester City Centre	2,322.50 sq m (25,000 sq ft)
Serious Organised Crime Agency	Manchester City Centre	7,432 sq m - 8,361 sq m (80,000 – 90,000 sq ft)
MIDAS	Manchester City Centre	2,787 – 4,645 sq m (30,000 – 50,000 sq ft)
<b>TOTAL</b>		<b>39,947 sq m – 43,198.50 sq m (430,000 sq ft – 465,000 sq ft)</b>

Due to the tight relationship between supply and demand, the tone for rents in 2006 is beginning to improve with prelets commanding rents of approximately £301.39 per sq m (£28.00 per sq ft). Lack of upward rental growth has arguably been down to lack of quality space on the market, as opposed to lack of demand. As development completion starts to filter into the market and begins to soak up current demand, it is expected that rental levels could reach £322.93 per sq m (£30.00 per sq ft) by 2008.

When considering the office market within Manchester we have also had due consideration of schemes that are currently under construction and will increase the level of supply in the market. There is currently a total of 135,740.76 sq m (1,461,100 sq ft) currently under construction which will provide the supply for the next 12 to 18 months.

#### Office Supply Pipeline – Schemes Under Construction

Scheme	Developer	Completion Date	Sq M	Sq ft	Notes
Beetham Tower, 297 Deansgate	Beetham Group	Aug 06	5,852.90	63,000	Spec; offices plus hotel and flats
Bauhaus, Quay Street	Crosby Homes North/ASK/Castlefield Properties/Summerise	Sept 06	4,645.16	50,000	Spec; office plus resi and hotel.
Aurora, 50 (41/55) Princess St	CTP/LNC Property Group	Sept 06	5,258.32	56,600	Spec 7 storey office building.
80 Mosley Street	Bilsdale Properties	Oct 06	2,787.09	30,000	Spec; refurb & 5k extension.
Two Piccadilly Place, London Rd	Argent	Oct 06	5,109.67	55,000	Pre-let
Cobbetts House, 58 Mosley Street	Maple Grove	Dec 06	9,290.31	100,000	Pre-let to Cobbetts

<b>Scheme</b>	<b>Developer</b>	<b>Completion Date</b>	<b>Sq M</b>	<b>Sq ft</b>	<b>Notes</b>
4 Hardman Sq, Spinningfields	Allied London Properties	Dec 06	4,645.16	50,000	Spec.
Civil Justice Centre, Spinningfields	Allied London Properties/Hansard 2027	Dec 06	26,003.59	279,900	Pre-let to Department of Constitutional Affairs
City Tower, York Street	Bruntwood Estates	Dec 06	20,113.53	216,500	Part-spec; office refurbishment plus retail.
2 Hardman Sq, Spinningfields	Allied London Properties/Matrix Securities	Jan 07	13,842.57	149,000	Part-spec; Let to Gurardian Media and Deloitte
340 Deansgate	Property Alliance Group	Jan 07	3,056.51	32,900	Office building.
Royal Mills, Henry Street	ING Real Estate/Matila Investments	Feb 07	2,805.67	30,200	Spec relevel of mill building
Forty Spring Gardens, 28 Spring Gardens	Langtree Group	Feb 07	9,383.22	101,000	Spec; plus ground floor retail space.
Zenith, Spring Gardens	The Wrather Group	Feb 07	6,224.51	67,000	Spec; new build
3 Hardman Sq, Spinningfields	Allied London Properties/Matrix Securities	Sep 07	16,722.56	180,000	Part-spec; 120K let to Halliwells.
<b>Total</b>			<b>135,740.76</b>	<b>1,461,100</b>	

#### 9.4 Rental Growth Forecasts

Knight Frank Research have prepared the following rental growth forecasts for the City based on Experian Business Strategy's office rental growth forecasts. This is based upon prime Grade A space let on a 15 year term certain at a rent of £301.39 per sq m (£28.00 per sq ft).

#### Rental Growth Forecasts

<b>Year (End)</b>	<b>Rent £per sq m (£ per sq ft)</b>	<b>Percentage Growth</b>
2006	£301.39 (£28.00)	0.4%
2007	£310.76 (£28.87)	3.1%
2008	£330.46 (£30.70)	4.5%
2009	£341.33 (£31.71)	5.1%
2010	£358.82 (£33.26)	4.9%

Whilst the table above indicates forecasted figures, the table below illustrates actual office rental growth over the past six years in Manchester, prepared by IPD. The annualised figure for rental growth between 2000 – 2006 was 3.7%.

## Past Rental Growth Performance

Year (End)	Percentage Growth (actual)
2000	2.4%
2001	6.0%
2002	3.5%
2003	2.1%
2004	5.1%
2005	1.3%

## 9.5 Future Demand

Manchester is looking to compete on a global stage to secure new occupiers to the city centre. Following the Bank of New York taking 8,495 sq m (91,440 sq ft) of space at 1 Piccadilly Gardens in December 2004 and Kleinwort Benson, Investec and Brit Insurance all opening new offices there is considerable interest in the city as a global location. As a result of this interest, MIDAS was created to market Manchester on a global scale. MIDAS are Manchester's investment agency and offer an extensive and free package of advice and assistance for companies that want to do business in Greater Manchester. Their aim is to secure significant levels of new investment and employment for the area. They have achieved this through the global marketing of the Manchester conurbation and by offering a comprehensive service to their clients and enquirers.

The table below provides an indication of the success of MIDAS over the past twelve months:

### MIDAS Results 2005/2006

Objective	Target	Achieved
Enquiries Received	600	1,009
Companies Investing	40	90
Investment Value	£50,000,000	£128,980,000
Square Metres Occupied	50,000	56,382
Jobs Created	2,400	2,447

As part of MIDAS, The Manchester Links initiative is a strategic partnership programme that works to develop links with companies and investment agencies in key cities in North America. Through its targeted partnership network, Manchester International Links provides a wide range of advice and support for businesses who chose to locate in Manchester. Manchester International Links has successful partnerships with US City regions including Atlanta, Pittsburgh, Minneapolis - St Paul and Tucson.

MIDAS also enjoys very strong partnership links with China, a major developing economy that is rapidly turning into one of the commercial and industrial powerhouses of the twenty first century. Through the SinoVentures Programme run by MIDAS in partnership with Manchester City Council and Manchester Science Park Ltd, Chinese companies are offered specialist advice and assistance to help them establish and expand their business within the UK and Europe.

MIDAS have offices and associated offices in Manchester - England, Taipei - Taiwan and St Louis -Missouri – USA.

MIDAS work in close partnership with Manchester City Council, the North West Development Agency, The North of England Inward Investment Agency and The University of Manchester to secure new investment into the city.

## **9.6 Out of Town Market**

The out-of-town office market in Manchester is broadly divided between the North Manchester, South Manchester and Salford Quays areas. The out-of-town market as a whole is currently being driven by demand for freeholds which represent about 75% of enquiries predominantly for self contained units offering between 232.26 sq m to 929.03 sq m (2,500 sq ft to 10,000 sq ft).

Letting activity in South Manchester has continued to slow over the last 12 months. There is currently available approximately 46,451 sq m (500,000 sq ft) of Grade A space in 14 buildings in South Manchester over 1,858 sq m (20,000 sq ft). A notable exception has been Orbits letting of Sandfield House, Wilmslow and in North Manchester the lettings of 5,203 sq m (56,000 sq ft) to EON and 6,503 sq m (70,000 sq ft) to AXA at Middlebrook, Bolton. The development pipeline for large speculatively built office buildings has reduced dramatically, with one exception being the Countryside & Liberty Properties named ICO totalling 4,645 sq m (50,000 sq ft) at Princess Parkway which is scheduled to complete in early 2007. Despite low letting activity overall headline rents have held firm within South Manchester during 2006 standing at £215.28 per sq m (£20.00 per sq ft) and in North Manchester at £172.22 per sq m (£16.00 per sq ft).

It is the demand and provision in the market for freeholds that has maintained activity in the out-of-town business parks. There is an extensive development pipeline of small units of accommodation between 232.26 sq m to 929.03 sq m (2,500 sq ft to 10,000 sq ft) to meet this market. These schemes include Business Homes; Christie Fields, Seddon's Oak Green at Handforth, and AMEC's Oakfield scheme at Cheadle Royal. Freehold values in South Manchester are now in the region of £2,421.88 per sq m (£225 per sq ft) and rising.

The Salford Quays market has performed steadily during 2006 with take-up levels remaining robust currently standing at 13,935 sq m (150,000 sq ft) and with an annual average of 18,581 sq m (200,000 sq ft) take up over the past five years there is confidence that this figure will be exceeded. Benmores Wharfside (3,901.93 sq m (42,000 sq ft)) has just been completed where £215.28 per sq m (£20 per sq ft) is being quoted. HBG's Metro Building (6,596 sq m (71,000 sq ft)) is the only other speculative building under construction and is scheduled to complete at the end of 2007.

Rents achieved in Salford Quays have exceeded 199.13 per sq m (£18.50 per sq ft) for new space whilst secondary accommodation has achieved £188.37 per sq m (£17.50 per sq ft) at Exchange Quay. Encouragingly although many of the larger requirements have now been fulfilled there are fresh enquiries in the market and other new developments being planned on a speculative basis are on the horizon. Most notably Salford Quays has been identified as the BBC's preferred location as part of its decentralisation policy, although to date no firm decision has been made.

## **9.7 Investment Market**

Investment transactions in Manchester reached record levels of £439 million in 2005 compared to approximately £250 million in 2004. In line with all investment sectors at present there is a chronic lack of supply of good quality well let product and this has continued to maintain the downward pressure on investment yields irrespective of increases in borrowing rates.

The large amount of money available from investors has created an imbalance between supply and demand which has seen prime yields fall to below 5% on new buildings let to investment Grade covenants on 15 year plus leases. The strong performance of Manchester City offices and a significant amount of money focussed on limited stock will continue to drive yields down in the

short term and we anticipate that prime yields are likely to fall below 4.5% by the end of the year, although the recent rise in interest rates may temper this compression in the short term.

## 9.8 Retail Market

City Centre retail floor space in Manchester is estimated at 229,470.73 sq m (2.47 million sq ft), ranking the City fourth of the PROMIS centres. There are three managed centres within the City Centre, the largest being the Arndale, currently at 116,128.91 sq m (1.25 million sq ft), followed by The Triangle at 13,935 sq m (150,000 sq ft) and then the Royal Exchange at 6,503.22 sq m (70,000 sq ft). There has been considerable rebuilding within Central Manchester following bomb damage in 1996 and as a consequence, the shopping core has changed and reconfigured. The prime pitch remains focussed on Market Street, fronted on its northern side largely by the Arndale Shopping Centre and to the south by large stores/units.

There is currently 200,000 sq ft of additional city centre, retail floor space under construction, representing a potential increase of 8.1% of total volume of retail provision. In October 2005 a survey conducted by PMA showed 5.2% of retail units to be vacant, below the retail average and improving on the figures provided by the previous years report. Take up levels between 2004 and 2005 were above national averages. In July 2006 there were 133 city centre reported requirements for Manchester, against an average of 49, ranking the city fourth of the PROMIS Centres. Despite these figures Manchester has a slightly low level of retailer demand for a city of its size and status

Within a retail context, Manchester's primary catchment area is large, from Burnley in the north to Mid-Cheshire in the south, to the west there are large centres such as Bolton and Warrington and Stockport lies to the south east. The estimated primary catchment population is 1.432 million, above the Major City average and ranking the city of Manchester second out of the PROMIS centres, of this figure the estimated shopping population stands at 675,000 ranking the city 4th of the PROMIS centres.

The Manchester catchment population is not particularly affluent, ranking 175th of the PROMIS centres on the PMA Affluence Indicator. This primary catchment area contains a below average proportion of adults of working age, categorised within the most affluent social group AB, but an over representation of the unskilled manual D group. There are however considerable pockets of affluence in the catchment, such as the outer parts of Greater Manchester and in the south, in Cheshire. The level of car ownership in Manchester is significantly below average overall as is the level of home owner occupation. In June 2006, 3.9% of the workforce was unemployed, compared to the national unemployed rate of 2.6%.

Manchester also ranks second on the basis of its PMA Retail Score, second on the PMA Fashion Score and third on the PMA Anchor Score. The city centre has wide ranging retail provision, including upmarket fashion and quality 'lifestyle' stores, mainstream multiples and discount stores, as well as independent 'cutting edge' fashion and youth-oriented shops. Recent in-movers attracted by the new developments have boosted the upmarket fashion and 'lifestyle' provision in particular. The expected volume and quality of retail provision, given the size and affluence of the shopping population, has been realised.

City Living is on the increase in Manchester with the Spinningfields development alone providing 391, one, two and three bedroom apartments. The area is also one with a high concentration of workers in the area with approximately 17,000 anticipated to be within Spinningfields during a typical weekday. This mix of footfall creates 24 hour usage of the site.

Manchester ranks second in terms of the volume of comparison retail spend available in the catchment area and is forecast to see below average percentage growth in the available pool of comparison spending over the forecast period, 2004-09. While there will be some leakage of

spending from within the primary catchment area to competing centres like the Trafford Centre and smaller towns like Oldham and Ashton, Manchester is an important destination for visitors and will also attract a significant volume of spending from outside its catchment.

Retailing in Manchester City Centre has been quite dynamic over the last five years. The rebuilding of much of the old prime areas around Market Street / Cross Street has been completed with the flagship Marks & Spencer store, Selfridges store, together with units newly created along New Cathedral Street with its anchor of Harvey Nichols, Heals and the Corn Exchange has seen a dramatic upturn in its fortunes since conversion to a full shopping centre. The extension of the Arndale has involved some relocation and consolidation by stores such as Next, River Island, Top Shop / Top Man, but otherwise many taking space here are new entrants to the Manchester market and are of an international calibre. Market Street continues to be the prime shopping street with the large bulk of the Arndale Centre dominating its northern frontage and the retailing strength continues along High Street to Piccadilly.

Prime rentals in Manchester have a 'tone' reflecting 3,230 – 3,390 per sq m ITZA (£300 - £315 per sq ft ITZA) where these levels have been sustained over the last two years to traders such as Orange, Footlocker, Ann Summers, Vodafone and Clarks, together with an Expert's Determination at rent review upon the unit occupied by Phones 4U. Within the Arndale extension, the headline rental 'tone' has been at around £2,475 per sq m ITZA (£230 per sq ft ITZA), generally on leases of a 10 to 15 year length with up to 12 months rent free to occupiers such as Monsoon, Jane Norman, Bank and Bershka. The traditional niche areas of St Ann's Square and King Street comprise generally small units and the rental range here is at £2,152 - £2,314 per sq m ITZA (£200.00 - £215.00 per sq ft ITZA). Deansgate has retained its dominance as a good secondary street due to the presence of the House of Fraser store (renamed from Kendals), Waterstones and Daisy & Tom, plus its close proximity to King Street. Progressing south along Deansgate from the Bridge Street / John Dalton junction, the frontages are a mixture of retailers, food stores (two Sainsburys, one Tesco Extra) and restaurants / bars / café bars. Rental levels have been difficult to identify, although the Sainsburys' acquisition of Halifax House at Bridge Street / Deansgate reflects around £457 per sq m (£42.50 per sq ft) overall, compared to the Sainsburys and Tesco units in Overseas House at Quay Street / Deansgate at £172.00 - £194.00 per sq m (£16.00 – 18.00 per sq ft) overall. The southern end of Deansgate is supported by a strong mix of leisure units at Peter Street, the remodelled Great Northern with AMC Cinema, health club and a recent letting to a casino plus other leisure restaurants.

Leisure units for restaurants, bar and café bars have tended to level out at a maximum of circa £215.00 - £269.00 per sq m (£20.00 - £25.00 per sq ft) overall, although many units come in below these levels due to configuration space, fit out costs and lease terms.

## **10. LIVERPOOL MARKET COMMENTARY**

### **10.1 Office Market**

The City Centre office market is very compact with the majority of traditional office space situated on Castle Street, Water Street, North John Street and Brunswick Street, extending north as far as Tithebarn Street and south as far as James Street and westwards towards the Royal Liver Building, Port of Liverpool Building and the Cunard Building (The Three Graces). Going forward the focus is going to grow taking in new schemes in Pall Mall and Old Hall Street and it is widely anticipated that the business district will shift, focusing in and around Old Hall Street.

The rapid expansion of the city centre office market has continued, with the core around Castle Street being overshadowed by the new development and refurbishment that is occurring around Old Hall Street. Current take up and ongoing demand has led to restricted availability of good quality city centre office space, an escalating issue in the city centre during recent years. The lack of

speculative development has held back office market growth in the past, and consequently the City's ability to compete with other major regional centres in attracting occupiers. Take-up over the past five years has bucked the trends set in the 1980's and 90's by averaging around 42,735 sq m (460,000 sq ft) with a consistency of figures in the range of 39,018 to 45,057sq m (420,000 to 485,000 sq ft).

Prime rents in Liverpool currently stand at £192.75 per sq m (£18.00 per sq ft), a level which has been achieved at St Paul's Square, Old Hall Street, on a pre-let to Hill Dickinson for 12, 204 sq m (131,372 sq ft) together with 26 car parking spaces, on a 15 year term. The total initial rent will be £2,490,576 per annum reflecting £192.75 per sq m (£18.00 per sq ft) on the office accommodation, £64.58 (£6.00 per sq ft) on basement areas and £1,500 per car parking space. The scheme will be completed and ready for occupation by the end of 2007.

In addition, the Lord Chancellors Department have taken 9,847 sq m (106,000 sq ft) at £177.60 per sq m (£16.50 per sq ft) for a term of 15 years at City Square, Moorfields. There is an expectation that rental growth will see prime rents reaching close to £215.28 per sq m (£20.00 per sq ft) in the next six months as suggested by the quoting rents on the Unity development.

Away from the core of city centre all three office buildings completed so far at Princes Dock have been fully let. The Charity Commission took 3,418 sq m (36,800 sq ft) at 12 Princes Dock on a 15 year lease at £172.22 per sq m (£16.00 per sq ft) in 2005, while shipping company CMA CGM has signed for 2,554 sq m (27,500 sq ft) equating to £172.22 per sq m (£16.00 per sq ft). Both occupiers are paying £177.60 per sq m (£16.50 per sq ft) on ten-year leases. 12 Princes Dock was the third office building to be completed by Princes Dock Development Company, a subsidiary of Mersey Docks & Harbour Company. Other tenants in the 9,197sq m (99,000 sq ft) building include the Bank of Scotland who let 1,393 sq m (15,000 sq ft) at an equated £177.60 per sq m (£16.50 per sq ft), Cargill and the Mersey Partnership letting 334.44 sq m (3,600 sq ft) at £177.60 per sq m (£16.50 per sq ft).

## **10.2 Demand**

Occupation of Liverpool's office market is heavily weighted towards the public sector where jobs have been located in Liverpool as a form of regional aid to arrest its long term economic decline. Key public sector employers include H M Customs and Excise, the Inland Revenue and the Child Support Agency. The Criminal Bureau Records Agency, the Lord Chancellors Department and Unysis have also recently moved to the City. However, a combination of a much improved economic climate in the city and provision of new high quality Grade A office buildings, albeit limited, has enabled the city centre to attract new corporate occupiers from outside Liverpool and the market is now, along with Manchester City Centre, the most vibrant office market in the North West.

For 2005 office take up was reported at 46,301 sq m (498,391 sq ft). There are currently requirements totalling approximately 148,643 sq m (1.6 million sq ft) of office space in the city predominantly from the financial, public and professional sectors.

For Q1 of 2006 city centre office take up stood at 8,361 sq m (90,000 sq ft) and the general consensus from agents is the levels of 2005 are not going to be repeated in 2006 and there are no large requirements on the horizon along the lines of the Hill Dickinson pre let of 12,077 sq m (130,000 sq ft) St Paul's Square. That said Brabners Chaffe Street (Solicitors) have recently signed up for 3,809 sq m (41,000 sq ft) of accommodation in the soon to be refurbished Horton House, Exchange Flags.

In recent years, there has been a shortage of quality refurbished office space available in the city centre prompting further speculative refurbishment of existing buildings. Limited development opportunities within the traditional office core, much of which has conservation area status and comprises listed buildings, alongside the growth of Liverpool's Commercial market has led to a



number of tall office buildings being developed and proposals for such developments in the Old Hall Street area. Given the restrictions on the city centre, quality refurbishment and new office developments are playing a vital role in the market.

Some of the most significant developments have been that of Unity, The Plaza, The Capital and St Paul's Square. Since January 2006 Bruntwood's The Plaza has let 4,292 sq m (46,202 sq ft) of refurbished space and is now achieving headline rentals of £161.46 per sq m (£15.00 per sq ft). These are examples of new or comprehensively refurbished tall office schemes, with the future development of 60 Old Hall Street offering the potential to become the tallest office building in the City Centre.

Good quality re-furnished space is now consistently achieving headline rentals in the region of £129.16 - £161.46 per sq m (£12.00 - £15.00 per sq ft). Currently on the market and vacant to let is 36 Exchange Street East at a quoting rental of £161.46 per sq m (£15.00 per sq ft) for 3,483 sq m (37,500 sq ft) including 25 car parking spaces; and a suite in Norwich House, Water Street of 621.50 sq m (6,690 sq ft) is currently on the market at £145.31 per sq m (£13.50 per sq ft), whilst a first floor suite of 696.76 sq m (7,500 sq ft) at Merchants Court at Derby Square recently re-furnished has a quoting rental of £158.76 per sq m (£14.75 per sq ft). Furthermore, the £2.5 million refurbishment of 30 Exchange Street has been completed by Morley Fund Management and offers 3,530 sq m (38,000 sq ft) over 7 floors at quoting rentals of £166.84 (£15.50 per sq ft).

Until new office developments come stream, the demand for good quality office accommodation will remain strong, yet with the consequence of little available floorspace. Demand has led to the remaining 3,948 sq m (42,500 sq ft) at City Square being the only new Grade A floorspace available; the majority of which is under offer. City Square has pre-let 9,847sq m (106,000 sq ft) on a 15 year term with five year rent reviews and a rent free to the Department of Constitutional Affairs, equating to £177.60 per sq m (£16.50 per sq ft). Remaining space stands at 2,276 sq m (24,500 sq ft) on the 4th and 1,625 sq m (17,500 sq ft) on the 5th floor.

### Key City Centre Office Transactions

Property	Tenant	Size (sq m)	Size (sq ft)
Horton House, Exchange Flags	Brabners Chaffe Street	16.00	41,000
Martins Building	Kirwans - Assignment	12.50	28,729
The Plaza, Old Hall St	Maersk	14.00	20,633
The Plaza, Old Hall St	Intrum Justitia	14.00	16,650
Corn Exchange	Hill Dickinson	13.24	9,060

### 10.3 Supply

Once all available space at City Square is fully let, the only new Grade A office stock available until the 13,935 sq m (150,000 sq ft) office tower at Unity, which has just become available. Unity was built speculatively by Rumford Investments and demand is such that this scheme is expected to set a new headline rent for the city of £215.28 per sq m (£20.00 per sq ft). The current headline rent was set by the pre-let to Hill Dickinson of 12,077sq m (130,000 sq ft) at St Paul's Square in August 2005.

The refurbishment of The Capital, the former Sun & Alliance Building, is anticipated to set a new headline rent for refurbished Grade A accommodation at approximately £193.75 per sq m (£18.00 per sq ft).

In the Exchange flags complex, which will act as the gateway between Castle Street and the Old Hall Street office areas, is the 14,864 sq m (160,000 sq ft) Horton House which was recently acquired by

UK Land and Property. A comprehensive redevelopment of the building is planned following a pre-let to legal firm Brabners Chaffe Street of 3,809 sq m (41,000 sq ft).

### City Centre Development Pipeline

Scheme	Size (sq ft)	Developer	Estimated Completion Date
The Plaza	195,000	Bruntwood	October 2006
Unity	150,000	Rumford Investments	Late 2006
Exchange Flags	160,000	UK Land & Property	Spring 2007
The Capital	120,000	Downing Developments	Summer 2007
Pall Mall	350,000	English Cities Fund	First Phase 2008
St Paul's Square	130,000		April 2008
PSDA Liverpool 1	60,000	Grosvenor	2008
Mann Island Site	109,000	Neptune/Countrywide	2010

To date, indigenous professional firms have been the main driver of the city's occupational market, as is the trend in most regional cities. More recently, however, a number of high profile requirements have emerged, from major banks including RBS, HBOS and Allied Irish BANK, and business support providers such as Regus and Stonemartin.

At St Paul Square, Phase II work has started on site to provide 12,077 sq m (130,000 sq ft) within an eight storey office building due for completion April 2008. The development will create a new link from Pall Mall through to Old Hall Street. Pall Mall will additionally comprise a significant mixed use development incorporating around 32,515 sq m (350,000 sq ft) of offices. However, construction on these phases is not anticipated until late 2007 or Early 2008.

Other major regional cities are currently experiencing a similar shortage of supply combined with rising rents up to levels of around £322.92 per sq m (£30.00 per sq ft). Liverpool's newly emerging office core, new retail offer, healthy development pipeline and comparatively affordable rents are expected to result in a significant improvement in inward investment into the city over the medium-term.

## 10.4 Investment Market

Despite the dip in office space take up figures witnessed in 2004, the investment market remained buoyant throughout 2005 and this has carried on into the early part of 2006. The relatively low cost of borrowing, coupled with the comparatively poor performance of other investment media such as gilts and shares, continue to make property an attractive investment. Liverpool certainly exudes definitive signs of increased demand from large fund and institutional investors for investments in Liverpool. Consequently demand far outstrips supply and yields continue to harden.

In January 2005 Liverpool saw the sale of India Buildings to the Pacific Group Company based in London for £45,000,000 equating to a yield of 7.5%. India Buildings is one of the largest office buildings in the City and it is rumoured that the building is in the process of being sold for in excess of £50 million.

The investment deal of the City Square development was completed in September 2004. Shepborough Developments a joint venture between Scarborough Development Group PLC and Shepherd Developments sold the investment to Fixed Uplift Properties Ltd, a Close Brothers managed fund, for £36,400,000 at an initial yield of 6.48%.

Several recent investment opportunities have been marketed including the first phase of St Paul's Square, let to Hill Dickinson on a 15 year lease in the office core which is under offer at 5.70%.

In the early part of 2006 Bruntwood purchased the Grade I listed Oriel Chambers building on Water Street for £5 million.

Several recent investment opportunities have been marketed including the first phase of St Paul's Square, let to Hill Dickinson on a 15 year lease in the office core which is under offer at 5.74%. In addition, Atlantic Pavilion, Albert Dock, is under offer at 5.40% and comprises secondary accommodation let to Littlewoods with 17.5 years remaining.

Whilst both of these investments have not yet completed, the level of interest generated and offer figures illustrate the strength of the Liverpool market.

In addition, the RSA Building (The Sandcastle) Old Hall Street, was recently marketed which comprises part vacant secondary accommodation. We understand the investment was aggressively pursued by a number of investors and a purchase price of £51 million was achieved reflecting an initial yield of 6.14%. The building has since been re-launched as the Capital Building.

The Lyceum Building Bold Street Liverpool also recently sold for £7.3 million. The building is a multi let office & retail investment of 1,825 sq m (19,650 sq ft) producing a rental of £498,430 per annum. The deal reflects a yield of 6.25%.

Consequently, Knight Frank Research Department has forecast a continuing hardening of office yields to below 5.50% for multi let offices investments in the CBD of the city centre.

This Report and our valuations therein have been prepared on the basis that there has been full disclosure of all relevant information and facts which may affect them.

## **11. SUITABILITY AS SECURITY FOR A LOAN**

You have asked us to comment on the suitability of the properties and portfolio for loan security purposes.

The use of real estate as security against a loan facility represents a standard basis for lenders to secure debt finance. The level of commercial risk to the funder is usually reflected in the interest rates and the extent of the loan to value ratio. Under current market conditions, it is unusual for debt to equity ratios to exceed 75% of the value of the asset taken as security.

Security of the property as banking security must therefore be assessed in the context of the amount of the loan required against the marketability of the property in the event that the Bank is required to realise this asset.

We consider the market to be strong for this type of property. This is evidence by the level of bids on a number of other sales that have occurred in the market normally 10 – 20 bidders. The occupier market is also good for the correct type of investment property.

The Bruntwood Estates Alpha Limited Portfolio comprises office and business accommodation mainly in the Centre and South Manchester area with one property in Liverpool.

The majority of the properties have been bought by Bruntwood over the last 15 years. They have been acquired with the aim of refurbishing the accommodation and providing readily lettable space.

Occupancy levels are presently high and in the majority of cases in the order of 95%.

Significant additional value has been achieved principally due to the pro-active management and quality of the refurbishment program.

There is increasingly a demand for flexibility within leases and as such leases are usually for a term of 5-10 years incorporating break clauses. The market for investments in the North West is highly active and current yields have hardened in prime transactions.

We are of the opinion that Bruntwood Estates Alpha Portfolio Limited are experienced in the purchase, refurbishment and reletting of property as evidenced by their Portfolio.

We understand that it is the intention of Bruntwood Estates Alpha Portfolio Limited to retain the properties in their Portfolio with a view to further expansion and development. There has been considerable activity in the market, particularly in Manchester offices and Bruntwood Estates Alpha Portfolio Limited have been significant performers principally in refurbishment, particularly on the fringe of the prime core. They are able to provide a product which is acceptable to tenants and this has led to a majority of similar buildings within the portfolio having good occupancy rates.

We would recommend that the Bank should monitor regularly the progress of the portfolio to ensure that schemes are progressed in accordance with appropriate timescales and costings.

We consider that the freehold and long leasehold properties within the portfolio are suitable for Bank loan security purposes and the geographical spread across a number of sectors to offer good prospects for rental growth, a good level of security of income and good opportunities for increased value from intensive management and new lettings.

We have not been provided with accounts or other financial information on your customer and are unable to comment on their financial strength. We would recommend that you satisfy yourselves that the borrower has the necessary capacity to meet repayments and to continue to manage and maintain income levels.

Subject to the comments in this report, we consider the portfolio offers good security for loan purposes, although you should satisfy yourselves on the adequacy of capital or income cover afforded by the property portfolio as security to your own loan arrangements.

## **12. DISCLOSURE**

The Beneficiaries may disclose the report (without reliance): (a) where disclosure is required by law or in respect of legal proceedings in connection with the report; (b) to their respective agents or advisers, or any of them, in connection with the loan and hedging transactions under the Loan Documents or any securitisation; (c) to any financial institution or other entity in connection with the loan and hedging transactions under the Loan Documents, and their respective advisers; (d) to future owners, or prospective purchasers, of any property financed under the Loan Documents; and (e) to the rating agencies in connection with any securitisation of the Loan Documents and to investors or prospective investors in such securitisation. The Beneficiaries may also make reference to the report, and include all or part of the report, in any offering materials or ongoing investor reporting materials related to such securitisation. In addition, if any lead manager or co-manager is appointed in addition to The Royal Bank of Scotland plc in connection with any such securitisation, each such lead manager or co-manager will be permitted to rely upon this report as though an original addressee hereof.

Yours faithfully

D L Roper BSc FRICS  
Partner, Commercial Valuations  
For and on behalf of Knight Frank LLP

R J S Johnson BSc FRICS  
Partner, Commercial Valuations  
For and on behalf of Knight Frank LLP

This schedule forms part of the Valuation Report

**Properties Held by Bruntwood Estates Alpha Portfolio Limited**

	<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
1.	Abney Hall/Abney Court Manchester Road Cheadle Cheshire	Grade II listed house over 150 years old built of brick and stone pitched slate roofs and timber upper floors. Refurbished in 1980's to provide office and ancillary accommodation on basement, ground and two upper floors with a total net floor area of some 2,546 sq m (27,411 sq ft). Car parking is provided within the grounds. Site area approximately 1.01 ha (2.5 acres).  Abney Court is a two storey office building having total net floor of 2,244 sq m (24,160 sq ft) with 125 car parking spaces. Site area approximately 1.01 ha (2.5 acres). Built 1988.  Leasehold 125 years from 18 February 1988 at a peppercorn rent without review.	Let on 2 Full Repairing and Insuring leases with five yearly rent reviews. Expiring 2014.	£670,000	£698,055	£9,360,000

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	<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
2.	Arden Business Park, Bredbury Cheshire	Arden Business Park comprises of six 2 storey office buildings, each of which is approximately 255.5 sq m (2,750 sq ft) and a single storey production unit extending to approximately 567 sq m (6,100 sq ft). The total floor area extends to 1,751 sq m (18,850 sq ft). The site covers an area of approximately 0.64 ha (1.6 acres). Freehold and leasehold.	Let on 2 full repairing and insuring lease. Expiring between 2010 and 2015. 1 lease with break in 2007.	£140,200	£146,125	£2,110,000
3.	Bank House Faulkner Street Manchester	15 storey office building consisting of basement, ground and 13 upper floors. Constructed in the late 1960's. Total net internal area 5,255 sq m (56,561sq ft). Site area 0.08 ha (0.20 acres). Leasehold. 200 years from 1966 at a rent of £10,000 per annum.	Let on 3 internal repairing leases with service charge. Expiring between 2010 and 2023. 3 leases have breaks between 2008 and 2018,	£850,018	£923,069	£15,290,000

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**Properties Held by Bruntwood Estates Alpha Portfolio Limited**

	<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
4.	Blackfriars House St Mary's Parsonage Manchester	Office building comprising sub-basement, basement, ground and seven upper floors. Steel frame and brick construction with stone façade and flat asphalt roof having a total gross internal area of approx 6,746 sq m (72,615 sq ft). Site area 0.08 ha (0.21 acres). Over 50 years old. Freehold.	Multi let on 25 internal repairing leases with service charge. Expiring between 2006 and 2015. 9 leases have breaks between 2007 and 2013.	£871,559	£933,247	£13,880,000
5.	Broadoak Business Park Trafford Park Manchester	Four terraces of industrial/business units comprising 14 units, having a total gross internal floor area of 6,211 sq m (66,856 sq ft). Site area approximately 1.62 ha (4 acres). Built mid 1980's, freehold.	Let on 14 Full Repairing and Insuring leases. Expiring between 2010 and 2013. 2 leases have breaks between 2008 and 2011.	£410,215	£446,974	£5,945,000
6.	Burlington House Crosby Road North Crosby Merseyside	Office building, comprising 6,358 sq m (68,434 sq ft) of net lettable space with 180 car parking spaces. Built early 1970's. Site area approximately 0.66 ha (1.62 acres). Part freehold, part leasehold on 125 year lease from 21/03/67 at a peppercorn rental.	Multi let on 22 leases and licences on Internal Repairing terms with service charge. Expiry between 2007 and 2019. 3 suites vacant. 7 leases with break clauses.	£628,828	£673,433	£8,690,000



This schedule forms part of the Valuation Report

**Properties Held by Bruntwood Estates Alpha Portfolio Limited**

	<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
7.	Capstan House Chandlers Point Salford Quays Manchester	A 3 storey brick built office with pitched slate roof providing a total area of some 2,081 sq m (22,400 sq ft) on a site of 0.83 ha (2.06 acres). Built in 1990. Leasehold for 150 years expiring 15/12/2134 at a peppercorn rent.	Let on one Full Repairing and Insuring lease expiring 2018. The lease contains breaks at 2008 & 2013.	£282,800	£291,200	£4,070,000
8.	City Tower Piccadilly Manchester	It comprises a two storey David Lloyd leisure building, a 27 storey office building in Sunley Tower, providing some 56,610 sq m (609,369 sq ft) of office accommodation situated above a three level podium. There are some 190 car parking spaces. There is also a shopping complex comprising ground floor and basement shop units, office accommodation and a public house. The Piccadilly Hotel is a 272 bedroom four star hotel with accompanying restaurant, banqueting and bar facilities is also located on the site. 194 car parking,	Multi let on 48 internal repairing leases and licenses with service charge. Expiring between 2006 and 2060.10  Suites vacant. 5 shops vacant. 26 Car spaces vacant. 11 leases have break clauses between 2008 and 2018.	£5,558,740	£9,504,759 <sup>1</sup>	£102,760,000

<sup>1</sup> The Hotel has an index linked rent review and we have assumed this would reach an ERV at the end of the current lease of £6,600,000. The ERV above is not index linked, but is represented by a figure of £1,500,000.

This schedule forms part of the Valuation Report

**Properties Held by Bruntwood Estates Alpha Portfolio Limited**

Address	Description, Age and Tenure	Terms of Main Tenancies	Estimated Current Net Annual Rent Receivable	Estimated Current Annual Rental Value	Market Value as at 30 November 2006
	spaces in an underground public car park. There is a redundant petrol filling station within the complex. The complex was built in the early 1960's. Leasehold for 125 years from 26 August 1982 at a rental of £1 pcm without review.				
9. Claverton Road Wythenshawe Manchester	A modern B1/Warehouse building. Total floor area 862 sq m (9,282 sq ft). Built 1992. Total site area 0.24 ha (0.6 acres). Leasehold for 99 years from 02/06/1989 at a peppercorn rent.	Let on one full repairing and Insuring lease expiry 2017.	£56,250	£64,974	£760,000
10. Croxley House Manchester	Croxley House provides office and ancillary accommodation and leisure unit on basement, ground and four upper floors extending to a net floor area of 2,489 sq m (26,795 sq ft). The site covers an area of approximately 0.08 ha (0.19 acres). Freehold.	Let on 10 internal repairing leases and licences with service charge. Basement parking. 2 car spaces vacant. 6 leases with breaks between 2007 and 2010.	£267,211	£356,637	£5,440,000

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	<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
11.	Edmundson House Knutsford	A 3 storey office building extending to a total floor area of 2,268 sq m (24,418 sq ft). Built 1973. Site area 0.20 ha (0.5 acres). Leasehold for 130 years from 29/9/75 at a rent of £44,232 p.a.	Let on a single lease on Full Repairing and Insuring terms expiring in 2015. Break during 2011.	£273,268	£314,852	£4,125,000
12.	Elliot House Jackson Row Manchester	A Victorian building on basement, ground and two upper floors. Building of brick and steel construction with slate covered roof. Total net floor area 2,682 sq m (28,872 sq ft). Built 1878. Site area 0.11 ha (0.28 acres). Freehold.	Let on 4 internal repairing and insuring leases and licences with service charge. Expiring between 2007 and 2017. 1 lease with a break in 2012.	£349,410	£386,000	£5,670,000
13.	Faulkner House Faulkner Street Manchester	A 6 storey office building of brick and concrete construction with a flat roof. Car parking in basement. Built approximately 1970's. Total net internal area 2,793.22 sq m (30,067 sq ft). Total site area 0.10 ha (0.24 acres). Freehold.	Multi let on 9 Internal repairing leases and licences with service charge. Expiry between 2006 and 2019. 2 Suites Vacant. 2 leases have breaks in 2010 and 2011.	£373,371	£547,250	£7,430,000

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**Properties Held by Bruntwood Estates Alpha Portfolio Limited**

	<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
14.	Halyard Court Chandlers Point 31 Broadway Salford	The property comprises a 3 storey office building with car parking. Built 1990. Total Floor area 828 sq m (8,910 sq ft). Total site area 0.037 ha (0.091 acres). Leasehold for 150 years at a peppercorn.	Let on 2 Internal repairing leases with service charge expiring between 2009 and 2016	£109,250	£124,740	£1,775,000
15.	Hawbank House Cheadle Cheshire	A 2 storey office building having a total net internal floor area of 1,426 sq m (15,346 sq ft). Site area 0.53 ha (1.3 acres). Built 1992. Freehold.	Let on 5 internal repairing leases with service charge. Expiring between 2006 and 2011. 2 suites vacant.	£158,220	£253,929	£2,945,000
16.	Oriel Chambers Water Street Liverpool	A multi-storey office building built in 1920's. Total floor area 3,919 sq m (42,185 sq ft). Freehold.	Multi-let on 28 leases on internal repairing and insuring terms with service charge. Expiring between 2007 and 2014. 7 leases have breaks.	£275,235	£446,831	£5,480,000
17.	111 Piccadilly Manchester	A 19 storey office having a total net floor area of some 6,994 sq m (75,286 sq ft). Total site area approx 0.21 ha (0.53 acres). Built early 1970s. Freehold.	Multi let on 38 leases and licences on internal Repairing and Insuring terms with service charge. Expiring between 2007 and 2019. 3 vacant suites. 20 leases with Break Clauses between	£970,988	£1,188,986	£16,310,000

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	<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
			2007 and 2014.			
18.	113-119 Portland Street Manchester	The property comprises two 4 storey plus basement offices constructed in the early 20th Century. The total net internal area of both buildings is 5,417 sq m (58,308 sq ft). The total site area is 0.16 ha (0.39 acres). Freehold.	Multi let on 17 internal repairing leases and licences with Service Charge. Expiry between 2006 and 2015.	£637,408	£700,395	£9,160,000
19.	Portland Tower Portland Street Manchester	20 storey office building. Built in the 1960s having a total floor area of some 12,315 sq m (132,558 sq ft). Leasehold. 125 year lease with 5 yearly review at a current rent of £79,318 pa commencing 29/09/99.	Multi let on 50 internal repairing leases and licences with Service Charge. Expiring between 2006 and 2031. 18 leases have breaks between 2006 and 2012.	£1,574,823	£1,827,669	£25,410,000

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	<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
20.	Riverside New Bailey Street Manchester	Five multi-storey linked office buildings constructed about 1973 with car parking. Refurbishment completed 2000. Total net internal area 14,709 sq m (158,328 sq ft). Site area 1.21 ha (2.99 acres). Freehold.	Multi let on 36 internal Insuring and Repairing leases and licences with Service Charges. Expiring between 2004 and 2008. One vacant retail unit and 36 vacant car spaces. 3 leases have breaks between 2007 and 2010.	£1,935,811	£2,096,300	£29,540,000
21.	Sale Point 126/150 Washway Road Sale	The property comprises a modern office building providing accommodation on five upper levels with a reception and service area on the ground floor. The building is of concrete frame construction and is erected on columns allowing for car parking beneath the building. Built approximately 1970. The property extends to an area of 4,471 sq m (48,125 sq ft). The site covers some 0.29 ha (0.73 acres). Freehold.	Building is let on a single full repairing and insuring lease. The car park is let on a separate leases and there is a single lease on a telecoms mast. The main lease expires in 2011.	£571,931	£571,931	£7,220,000
22.	South Central Peter Street Manchester	Offices, showrooms, workshops, studio and shops on basement, ground and four upper floors. The building is of brick	Multi let on 11 Internal repairing leases until service charge. Expiring between 2010 and 2024. 2 suites are	£567,241	£871,470	£11,400,000

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<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
	construction with a pitched slated roof. Ground and basement floors are concrete, upper floors mainly timber. Refurbished 2000. Total lettable floor area approx 6,030 sq m (64,912 sq ft). Approx 100 years old. Site area approximately 0.13 ha (0.31 acres). Freehold.	vacant. 4 leases have break clauses between 2007 and 2011.			
23. Spinnaker Court Chandlers Point Salford Quays Manchester	A 3 storey brick built office with a pitched slate roof providing a total floor area of some 832 sq m (8,960 sq ft) of accommodation. Built 1990. Leasehold for 150 years at a peppercorn rent.	Let on 2 internal repairing and insuring leases with service charge. Expiring in 2016. 1 lease has a break in 2010.	£86,420	£129,920	£1,622,000

This schedule forms part of the Valuation Report

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24.	St Pauls Church Didsbury Manchester	The property comprises a former Victorian Church of regular course random faced stone constructed under a pitch slated roof. The accommodation extends to some 1,040 sq m (11,195 sq ft). The site covers an area of some 0.26 ha, (0.65 acres). Leasehold, 150 years from 21/01/90 at a peppercorn.	Let on full repairing and insuring lease. Expiring in 2022. The lease has a break in 2010.	£161,499	£174,494	£2,340,000
25.	York House York Street Manchester	Multi-storey office building consisting basement, ground and ten upper floors. Constructed about 1973. Total net internal area 3,136 sq m (33,753 sq ft). Site area 0.1 ha (0.24 acres). Freehold.	Multi let on 24 internal Repairing and Insuring leases and licences with service charges. Expiry between 2007 and 2023. 19 leases have breaks.	£684,272	£704,251	£11,380,000



Valuation Report

Bruntwood 2000 Alpha Portfolio Limited

Property Portfolio

**Prepared on behalf of The Royal Bank of Scotland Plc**

30 November 2006

**Prepared by**

David L Roper BSc FRICS  
Knight Frank LLP  
Third Floor  
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M2 4LQ

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(in its capacities as Swap Counterparty)

The Directors  
Bruntwood 2000 Alpha Portfolio Limited  
City Tower  
Piccadilly Plaza  
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M1 4BD  
(the Borrower)

30 November 2006

Dear Sirs

### **Portfolio Valuation Bruntwood 2000 Alpha Portfolio Limited**

#### **1. INTRODUCTION**

- 1.1 In accordance with instructions received from the above addressees on 30 November 2006, we have inspected the properties described in the attached Schedule (the "Properties") and made all relevant enquiries in order to provide our opinion of Market Value of the freehold and leasehold interests in the Properties as at 30 November 2006 (the "Valuation Date"), subject to and with the benefit of the various occupational leases.
- 1.2 This "Property Valuation Report" has been prepared for the purpose of inclusion in the Prospectus of Bruntwood 2000 Alpha Portfolio Limited (the "Borrower") in respect of the admission of the notes of the Issuer to the official list of the Irish Stock Exchange and in respect of the transactions contemplated in such a prospectus.

- 1.3 Our valuations have (as amended) been prepared in accordance with the Appraisal and Valuation Standards Fifth Edition published by the Royal Institution of Chartered Surveyors (The Red Book). We have acted in the capacity of External Valuer, as defined within the above Standards.
- 1.4 Our Valuations are co-ordinated from our Manchester office, but this work has involved qualified valuation personnel in our Manchester, Leeds, Liverpool and London offices. In addition, our valuation has been overviewed by Senior Valuation Partner, Rupert Johnson BSc MRICS in order to provide additional independent verification and ensure compliance with RICS standards.
- 1.5 The valuations have been undertaken under the overall supervision of the joint signatories David Roper BSc FRICS and Rupert Johnson BSc MRICS. David Roper BSc FRICS commenced as lead signatory at Knight Frank LLP in September 2000 and has had an involvement in the portfolio since 1983.

## **2. COMPLIANCE AND INDEPENDENCE**

- 2.1 In relation to Knight Frank LLP's preceding year, the proportion of the total fees paid by Bruntwood 2000 Alpha Portfolio Limited (the "Borrower") and its joint venture partners to the total fee income of Knight Frank LLP was less than 5%.
- 2.2 We recognise and support the RICS Rules of Conduct and have established procedures for identifying conflicts of interest.
- 2.3 Knight Frank LLP have a rotation policy for valuers and signatories in order to comply with the RICS Appraisal and Valuation Standards.
- 2.4 We confirm that we are not aware of any conflicts of interest that will prevent us from providing formal valuations of the properties. We have no shareholding in Bruntwood 2000 Alpha Portfolio Limited (the "Borrower") and no right to subscribe for or to nominate persons to subscribe for securities in that company.
- 2.5 The valuations have been prepared as at 30 November 2006.
- 2.6 Our inspections of the subject properties were made during May 2006 to October 2006. We confirm that we have not undertaken measured surveys of the properties listed in the Schedule, but have relied on areas provided to us by the Issuer. We have verified areas as appropriate.

## **3. BASIS OF VALUATION**

### **3.1 Definitions**

The definition of Market Value provided in this Report is in accordance with the Appraisal and Valuation Standards Fifth Edition (as amended) published by the Royal Institution of Chartered Surveyors (The Red Book).

The properties have been valued individually and not as part of a portfolio.

### **3.2 Market Value**

Market Value is defined as "*The estimated amount for which a property should exchange on the date of valuation, between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*".

### 3.3 Caveats and Assumptions

The valuations provided in this Report have been prepared by valuers who are qualified asset valuers as defined by the Red Book. The valuations have been carried out on the basis set out below:

(a) **Costs of disposal**

We have not allowed in our valuations for the costs which would be incurred on the disposal of the properties.

(b) **Purchasers' acquisition costs**

We have made a deduction from our valuations to reflect purchasers' acquisition costs in accordance with normal valuation practice. The quantum of costs deducted will depend on the valuation lot size of the property.

(c) **Taxation**

No account has been taken in our valuations of any liability for tax (including Value Added Tax) on either the rental income from the properties (if any), the notional sale prices or any gains which may be realised on disposal.

(d) **Grants & Subsidies**

We have not been able to establish if any allowances, grants or subsidies of any nature are available from Central or Local Government or any other body, statutory or otherwise.

(e) **Rent Passing and Rent Receivable**

The Estimated Current Net Annual Rent Receivable contained within the schedule to the rear of this report represents the net rent received after deduction of head rents where the property is held leasehold and chief rents. The rental of the passing rents contained within Para 10.0 of the individual property reports represents the rents received gross of lead rents and chief rents.

(f) **Mortgage or other charge**

No account has been taken in our valuations of any mortgage, charge or similar encumbrance over the properties.

(g) **Areas and dimensions**

We have relied on areas supplied by Bruntwood 2000 Alpha Portfolio Limited and its appointed advisers.

(h) **Title & Legal Documents**

In undertaking our valuations, we have relied upon documents of title and leases where provided and information supplied by Bruntwood 2000 Alpha Portfolio Limited and its appointed advisers. Our valuations assume that good freehold or leasehold titles can be shown and that they are not subject to any easements, wayleaves, restrictive covenants, tenancies, mortgages, charges or other encumbrances other than those summarised in this Report.

Our valuations assume that the properties have good and marketable titles and are free of any undisclosed onerous burdens, outgoings or restrictions. Boundaries for the purpose of our valuation are those indicated to us and although believed to be correct, are subject to legal title being proved, if necessary. We have not seen planning consents and, except where advertised to the contrary, have assumed that the properties have been erected and are being occupied and used in accordance with all requisite consents and that there are not outstanding statutory notices.

We have not read all documents of title or leases and, for the purpose of our valuations, have accepted the details of tenure, tenancies and all other relevant information with which we have been supplied by the Issuer. When considering the covenant strength of individual tenants, we have not carried out credit enquiries but have reflected in our valuations our general understanding of purchasers' likely perceptions of tenants' financial status. We have, in addition, discussed with the Borrower any bad debts or material arrears of rent and have considered this information in arriving at our valuations.

When considering occupational leases, we have not been able to establish the liability of original lessees or the liability of existing lessees to disclaim leases. This should be referred to your Solicitors. We have, however, relied on the information provided and are of the opinion that these matters are dealt with in accordance with good estate management procedures.

**(i) Local Authority information & Statutory Enquiries**

In the preparation of this Report we made verbal inquiries of the appropriate local authority regarding town planning, highways and rating. We believe that the information we have been given is correct but we cannot accept liability for either incorrect information or for material omissions in the information supplied to us.

We have assumed that all necessary planning and other permissions have been obtained to enable the properties to be put to the current uses and that, unless otherwise indicated, there are no outstanding works or conditions that remain to be undertaken in order to satisfy such permissions.

We have not made enquiries as to whether the properties meet statutory and local authority requirements regarding such matters as fire prevent, public/environmental health, health and safety at work and building legislation. We have assumed that the buildings do comply with the various requirements.

**(j) Repair & Condition**

In the preparation of this Report, we inspected the properties but did not carry out structural surveys as this was outside the scope of our instructions. We have not, therefore, inspected those parts of the properties that are covered, unexposed or inaccessible and we are unable to report that any parts of the properties are free from defect, including latent defects, rot and inherently dangerous or unsuitable materials and techniques.

We are unable to state whether or not high alumina cement concrete, calcium chloride additive or other deleterious materials have been used as structural materials in the construction, improvement or alteration of the properties. Our valuation is on the assumption that these materials have not been used.

Although we were not instructed to carry out structural surveys of the properties, nor to test the services, we have reflected in our valuations, where necessary, any defects, items of disrepair or outstanding works of alteration or improvement which we noticed during the course of our inspections or of which we have been advised. Our valuations assume the buildings contain no radioactive, chemical or other deleterious materials and that the sites are unaffected by adverse soil conditions, except where we have been notified to the contrary. We cannot offer an opinion as to the likely extent or any settlement or subsidence which may exist now or in the future.

In addition to the above, we have been provided with structural survey reports on the majority of the properties. These have generally been carried out when the properties were occupied. We have had regard to these reports in preparing our valuation.

(k) **Plant & Machinery**

Our open market valuation does not include figures for items which might more appropriately be considered Plant & Machinery. Where buildings have central heating, this has been taken into account, but only insofar as the installation is not connected with any manufacturing process. With regard to electrical services, we have included all wiring and switch gear up to and including the main distribution board in the buildings, together with:

(i) *In Non-Industrial Buildings*

Wiring for lighting and power from the distribution board to wall and ceiling points.

(ii) *In Industrial Buildings*

Wiring for lighting and wall and ceiling points.

(iii) *Externally*

Wiring and associated structures for lighting to roads and yards etc.

(l) **Environmental Considerations**

We have not undertaken, nor are we aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw any attention to any contamination or the possibility of any contamination. We have not carried out any investigation into past or present uses of the properties nor of any neighbouring land to establish whether there is any potential for contamination from these uses or sites adjacent to the subject properties and have, as instructed, therefore assumed that none exists. However, we have considered environmental reports where they have been made available to us.

We have not carried out any investigation into past or present uses of either the properties or any neighbouring land to establish whether there is any potential for contamination from these uses or sites to the subject properties. We understand that the Issuer has established procedures for the inspection of newly acquired properties to be carried out with particular reference to environmental matters, and that any such matters identified receive appropriate attention. Unless we have been provided with information to the contrary, we have assumed that the properties are not, nor are likely to be, affected by land contamination and that there are no ground conditions which would affect the present or future uses of the properties.

(m) **Services**

We have assumed that mains gas, water, electricity and sewerage services are provided to the sites and there are no services on, or crossing, the sites in a position which would inhibit development or make it unduly expensive.

No specialist tests have been carried out on any of the service systems and for the purposes of this valuation, we have assumed that all are in reasonable working order and in compliance with any relevant statutory or bye law regulations.

(n) **Statutory Requirements**

We have not seen Fire Certificates for the properties. We have assumed that such Certificates (if required) have been granted and that they do not restrict the use of the properties in a manner which affects the value and which is not apparent on an inspection of the property.

We have not taken account of any rights, liabilities and obligations under the Defective Premises Act 1972. Also, unless specifically advised, we have assumed the properties currently comply, and will continue to comply, with current Health and Safety and Disability legislation.

(o) **Insurance**

Our valuations assume that the properties would, in all respects, be insurable against all usual risks including terrorism, flooding and rising water table at normal, commercially acceptable premiums.

(p) **Asset Management**

In providing our opinion, we have made the following assumptions:

- (i) In providing Market Values, we have assumed that any vacant space is let on similar terms to those we consider would be the norm in the market place at the valuation date.
- (ii) Appropriate estate management procedures are in place to ensure that the buildings are maintained.

(q) **Development & Refurbished Properties**

For properties in the course of development and for refurbishment, we have reflected the stage reached in construction and the costs remaining to be spent at the date of valuation. We have had regard to the contractual liabilities of the parties involved in the developments and any cost estimates that have been provided by professional advisors to the projects. For recently completed developments we have taken no account of any retentions, nor made allowances for any outstanding development costs, fees, or other expenditure for which there may be a liability.

#### 4. NET ANNUAL RENT

4.1 In providing Net Annual Rent receivable, we have had regard to the definition contained in paragraph 18.2(d) of the Listing Rules. This defines "Net Annual Rent" as the current income or income estimated by the valuer:

- (a) ignoring any special receipts or deductions arising from the property;
- (b) excluding Value Added Tax and before taxation (including tax on profits and any allowances for interest on capital or loans); and
- (c) after making deductions for superior rents (but not for amortisation), and any disbursements including, if appropriate, expenses of managing the property and allowances to maintain it in a condition to command its rent.

4.2 The aggregate current Net Annual Rent of the subject properties in accordance with the above, as at 30 November 2006, is £21,044,826 per annum exclusive.

4.3 The Individual Net Annual Rent for each property is summarised in the Schedule below.

#### 5. MARKET RENTAL VALUE

In our opinion the Aggregate Market Rental Value for the properties as at 30 November 2006 is £26,548,349 per annum excluding the individual market rents for each property is summarised in the schedule below.

#### 6. MARKET VALUE

6.1 On the bases and assumptions contained within this report, we are of the opinion that the aggregate Market Value of the freehold and long leasehold interests in the subject properties owned by the Bruntwood 2000 Alpha Portfolio Limited, set out in the Schedule, subject to the tenancies as detailed herein, as at 30 November 2006, is:

**£358,930,000**

**(Three Hundred and Fifty Eight Million, Nine Hundred and Thirty Thousand Pounds)**

The property investment values are summarised in the following table:

#### 7. SCHEDULE OF BREAKDOWN OF INVESTMENT VALUES

<b>Tenure</b>	<b>Number of Properties</b>	<b>Net Annual Rent (£)</b>	<b>Market Value (£)</b>
Freehold	12	£9,475,273	£157,835,000
Freehold Long Leasehold	5	£5,728,543	£112,775,000
Long Leasehold	6	£5,841,010	£88,320,000
Total	23	£21,044,826	£358,930,000



The above figures represent simple mathematical apportionments provided for indicative purposes only and do not represent a valuation of the Issuer's shares.

## 8. ECONOMIC OVERVIEW

	Quarterly Q3 (%)		Annual (%)	
<b>GDP</b>	0.7	↑	2.8	↑
<b>Service Sector Output</b>	0.8	↓	3.0	↑
<b>Manufacturing Output</b>	0.7	→	-0.6	↑
<b>Inflation (CPI)</b>	~		2.5	↓
<b>Unemployment</b>	~		5.5	↑
<b>Retail Sales</b>	0.8	↓	3.2	↓
<b>Housing: Halifax</b>	0.7	↓	8.0	↓
<b>Housing: Nationwide</b>	2.2	↑	8.2	↑

- Provisional estimates of GDP output in Q3 proved stronger than many commentators had expected totalling 0.7%. The latest provisional output figures have boosted annual GDP up to 2.8% although with the stronger activity it is more likely that there will be further interest rate rises.
- Growth in the service sector fell slightly during Q3 2006 from 0.9% in Q2 to 0.8%. The fall was largely due to a decline in the growth of the distribution sector which fell from 0.9% to 0.2% in line with recent data releases suggesting weak retail performance.
- The modest downturn in the services sector was off-set by a stronger than expected rise in industrial production from 0.0% to 0.3%. The increase was principally a result of improvement in the energy-related sectors while manufacturing output remained steady at 0.7%.
- Both house price indices showed positive annual growth, with the Halifax index running at 8.0% over the 12 months to September and Nationwide at 8.2%. For the Halifax the annual rate eased for the third successive month, the lowest rate since April. However the Nationwide house price index for September recorded its largest monthly rise since January which proved sufficient to boost the annual rate to 8.2%, its highest level since February 2005.
- Inflation (CPI) decreased in September from 2.5% to 2.4% broadly in line with market expectations. Most significantly there was a sharp rise in core inflation from 1.1% to 1.4% which provides the MPC with further evidence that another interest rate rise may be necessary in November. The latest data reflects the MPC lasting view that the falling effects of energy price rises will be offset by a rise in core inflation.
- Although the MPC voted to maintain the base rate at 4.75% in October the latest data would suggest that a further interest rate increase is likely in November. The stronger than

expected economic activity within the UK during Q3 combined with further gains in the core inflation rate would suggest that the MPC could justify the rate increase despite recent weak retail sales figures.

- Having moderated following the August interest rate rise, five year swap rates have started to rise again, up from 5.08% at the close of September to 5.28% in mid-October. This reflects the tone of the recent economic data releases and would suggest that market expectations are that interest rates may not peak at 5.0% in the present cycle.
- While swap rates have risen since the beginning of the year, property yields have continued on their downward shift, undermining the historic relationship between swap rates and yields. At the end of September, the initial yield on property stood 41 basis points below the five year swap rate.
- Overall it remains a very strong market with yields hardening, particularly in the office sector.
- Bank lending to commercial property continues to rise with the latest figures revealing an increase of £6.2bn during Q2 2006 to £151.4bn, representing an annual growth rate of 18.4%.
- A substantial weight of money remains available for commercial property with institutional demand remaining strong. According to Property Data, in Q3 2006 total investment in commercial property was £10.4bn, with net investment by UK institutions equating to £498m.
- Some investors have been taking profits although there is no shortage of demand to take up the slack.
- The yield range between primary and secondary continues to narrow.

### Offices

	Quarterly (%)	Monthly (%)	Year to date (%)	12 months to August (%)	12 months to September (%)
Income Return	1.3	0.4	4.2	5.9	5.8
Capital Growth	4.7	1.3	12.7	17.3	17.5
Rental Growth	1.5	0.9	3.9	3.5	4.2
Equivalent Yield	5.7	5.7	~	5.8	5.7
<b>Total Return</b>	<b>6.1</b>	<b>1.7</b>	<b>17.3</b>	<b>24.1</b>	<b>24.2</b>

Source: All figures from September IPD Monthly Index, except Quarterly, from IPD Quarterly Digest Q2 2006

**The office sector has performed strongly over the past 12 months generating the highest total return of any sector. The experienced and forecast strengthening of rental growth continues to impact positively upon the sector.**

- The resurgence of the office sector is most clearly reflected by total returns in excess of 24%.
- Total returns for offices over the 12 months to September rose slightly and now stand at 24.2% compared to 24.1% the previous month.

- According to the IPD Quarterly Digest, quarterly total returns climbed back in Q2 2006 to reach 6.1%.
- Capital growth improved over the last month to total 17.5%. The strengthening of capital growth reflects the intense investment activity which has led to a considerable hardening of yields to just 5.7% and would suggest that yields may harden further in the remainder of 2006.
- This is largely based on the strong rental growth achieved in some key locations e.g. West End, City and some South East locations (e.g. Uxbridge). There are also expectations within the market that rental growth will improve across the broader market moving forwards.
- Rental growth has continued to improve month-on-month during 2006 and now totals 4.2%, the highest level in five years, predominantly driven by the City where rental growth has reached 5.5% and Mid Town, where rental growth has reached 9.3%.
- Both prime and secondary investment markets within the South East have strengthened during Q3 with a significant weight of money chasing both well let and prime speculative opportunities across the sector. Due to the limited supply of investment opportunities, certain investors are considering more risk by acquiring vacant and development sites.
- Demand is strong for bond type investments which are secured by long leases let to strong covenants.
- Demand is also good for secondary stock with short income (2 to 4 years) and active management potential.

#### All Retail

	Quarterly (%)	Monthly (%)	Year to date (%)	12 months to August (%)	12 months to September (%)
Income Return	1.1	0.4	3.6	4.9	4.9
Capital Growth	3.1	0.7	8.5	15.0	14.2
Rental Growth	0.7	0.3	2.3	3.5	3.5
Equivalent Yield	5.1	5.1	~	5.1	5.1
<b>Total Return</b>	<b>4.3</b>	<b>1.1</b>	<b>12.3</b>	<b>20.5</b>	<b>19.7</b>

Source: All figures from September IPD Monthly Index, except Quarterly, from IPD Quarterly Digest Q2 2006

**Total returns for all retail have continued to fall over the last six months although remain very strong and in the 12 months to September totalled 19.7%.**

- Retail no longer offers the highest total returns of any property sector, over the 12 months to September total returns stood at 19.7%, notably only 9bp above industrial returns.
- There is growing evidence within the market to suggest that the retail market is cooling with total returns having fallen each month since the end of March. Quarterly returns appear to have stabilised at 4.3% in Q2.
- Capital growth within the sector is also declining at a faster rate having fallen 76bp on the previous month to total 14.2%. For the 12 months to September. Capital growth remains driven principally by sustained demand for prime product. Following a slight easing in the

rate of capital growth during Q1 2006, Q2 represented a slight improvement with growth of 3.2%.

- The rate of rental growth for all retail has continued to slow and currently stands at 3.5% for the 12 months to September. In part this reflects the lack of quality accommodation reaching the market, although given the interest rate cut in August and with another widely expected in November, weakened consumer spending may also impact upon the market.
- Retail sales growth decreased during Q3 with sales rising by only 0.8% during the whole of Q3 compared to the 1.9% rise recorded in Q2. The slowdown in sales may reflect the recent upturn in inflation on the high street with the retail sales deflator rose from -0.1% in August to 0.6% in September marking the first year-on-year rise in prices in five years. This would suggest that consumers are not willing to accept higher prices and that if the retail sales recovery is to continue prices will have to fall back.
- Mainstream market is still the province of funds, but strong demand from private investors, particularly Irish.

### High Street Retail

	Quarterly (%)	Monthly (%)	Year to date (%)	12 months to August (%)	12 months to September (%)
Income Return	1.2	0.4	3.8	5.2	5.2
Capital Growth	2.7	0.5	6.9	11.2	10.3
Rental Growth	0.4	0.2	1.4	2.3	2.3
Equivalent Yield	5.1	~	~	5.2	5.2
<b>Total Return</b>	<b>3.9</b>	<b>0.9</b>	<b>10.9</b>	<b>17.0</b>	<b>16</b>

Source: All figures from September IPD Monthly Index, except Quarterly, from IPD Quarterly Digest Q2 2006

- Total returns for the sector have continued to fall since March and stand at 16.0% over the 12 months to September. Growth within the sub-sector continues to be driven by prime accommodation, although there remains interest in the market there has been a marked decline over the last 12 months.
- Capital growth has also fallen in recent months to stand at 10.3%, with the sub-sector's equivalent yield hardening to just 5.15%. However, the rate of rental growth remains subdued in comparison with the other retail sectors, standing at 2.3% over the year to September.
- Depth of demand for prime high street investments has also declined, with fewer underbidders. Although the prime end of the market continues to perform well there has been a notable decline in the demand for secondary stock which in turn is placing greater pressure on yields to soften.

## Property Market Forecasts

		Office	Industrial	High Street	Shopping Centres	Retail Warehouses	All Property
<b>Rental Value Growth (%)</b>	2006	5.0	1.3	1.9	3.2	3.4	<b>3.3</b>
	2007	5.5	1.8	1.5	2.4	3.1	<b>3.3</b>
	2008	4.9	2.3	1.5	2.1	3.3	<b>3.1</b>
	2006/10	4.5	1.9	1.7	2.4	3.4	<b>3.1</b>
<b>Capital Growth (%)</b>	2006	15.1	9.1	8.0	10.3	10.1	<b>11.2</b>
	2007	5.0	1.4	0.6	1.4	2.2	<b>2.5</b>
	2008	1.8	-0.3	-1.2	-1.0	0.5	<b>0.2</b>
	2006/10	4.6	2.2	1.5	2.2	3.4	<b>3.1</b>
<b>Total Return (%)</b>	2006	20.7	15.3	12.8	15.4	14.7	<b>16.5</b>
	2007	10.2	7.2	5.2	6.2	6.5	<b>7.5</b>
	2008	6.9	5.5	3.5	3.9	4.9	<b>5.2</b>
	2006/10	<b>9.9</b>	<b>8.0</b>	<b>6.3</b>	<b>7.1</b>	<b>7.9</b>	<b>8.2</b>

Source: IPF Consensus Forecasts, August 2006

- Total return forecasts for 2006 have been revised upwards again, rising from 13.4% in the May IPF Consensus to 16.5% in August.
- The forecasts demonstrate expectations of a strong recovery in the office sector with annual rental growth of 4.5% p.a. projected between 2006 to 2010.
- Over the medium-term, the office sector is still expected to produce the best performance, with forecast returns of 9.9% p.a. to 2010. Retail is forecast to be the poorest performer and high street retail in particular, with average returns of 6.3% p.a. over the next five years.
- Most sectors are forecast to experience negative capital growth in 2008, and for those sectors showing positive growth the rates are below that of projected ERV growth. Therefore, it would appear that the consensus is for yields to move out across all property markets in 2008, and potentially in some sectors as early as 2007.

## 9. MANCHESTER MARKET COMMENTARY

### 9.1 Location

Manchester is the commercial, educational and cultural capital for the North of England having a resident population within Greater Manchester of 2,575,000, with in excess of 11,000,000 persons

within a 50 mile (80 km) radius of the City Centre. 60% of the UK's population can be reached within a 2 hour drive time.

The Greater Manchester conurbation is made up of the two cities of Manchester and Salford and the Metropolitan Boroughs of Bolton, Bury, Oldham, Rochdale, Stockport, Tameside, Trafford and Wigan. These boroughs still retain a strong industrial and manufacturing base although, Manchester City itself has now become largely serviced sector orientated being the North West regional administrative, retail and financial centre. However, of the primary employment sectors, over 20.5% are still employed within manufacturing industry, 25.1% in construction and distribution and 32.0% in the service sector.

Over the past decade there has been considerable diversity in the sectors of employment in the Greater Manchester conurbation with the headquarters and research and development offices, of amongst others, Brother International (European head office), Cussons International Ltd (World headquarters), Kelloggs (European headquarters), T & N Plc (World headquarters), Heinz European Research and Development Centre, Sharp (UK Marketing headquarters) and Siemens (UK Energy and Automation headquarters) within the region.

80 of the Financial Times top 100 companies operate in Manchester and 800 foreign owned companies have a base in the North West.

In excess of 70 US companies are located in Manchester including Colgate Palmolive, Bank of New York, Goodyear Tyres, Procter & Gamble and over 30 Japanese and numerous European organisations such as BSF, Bayer, Elf Aquintine, Olivetti, Phillips, Shell and Unilever.

Of the Greater Manchester population, the work force is approximately 1.2m; the present unemployment rate within the travel to work area being 2.6%, which is less than the Great Britain average of 2.7%, as at July 2006.

As previously mentioned, Manchester's service sector has grown rapidly over the last two decades and is now the City's most significant source of employment. The City has more banks than any other city in the United Kingdom outside London including over 60 domestic, merchant, international and foreign banks.

Manchester is an international insurance centre being second to London in non-life insurance and specialist sectors like marine insurance. The City is the home of the Co-Operative Insurance Society and the five largest non-life insurance groups all have regional offices in the City.

The City has good road communications with over 169 km of motorway within the conurbation. The M62 motorway provides a link to Liverpool, Leeds and the West and East coast ports and the M6 links with Birmingham and London in the South and Glasgow in the North. The M60 Manchester Orbital Motorway completes the link to the inner city relief road around the City Centre and motorway links to the M6 to the M56 and M62.

Driving distances to other major conurbation's are:

Leeds	40 miles	(64 km)
Birmingham	80 miles	(128 km)
Bristol	160 miles	(256 km)
London	181 miles	(290 km)

Glasgow	209 miles	(334 km)
Edinburgh	210 miles	(336 km)

The City has two main line railway stations – Piccadilly and Victoria – linked by Shuttle Bus and the Metrolink (tram). There are local line stations in the City at Oxford Road, Deansgate, and Salford.

Inter city trains link to all major cities with an hourly service to London Euston (2 hours). The journey time has recently been reduced by the upgrading of the west coast route between London and Manchester.

The influence of Manchester International Airport has also helped the international profile of the city. The airport has extensive airline links with the largest coverage of any regional airport outside London. The domestic terminal caters for 2 million passengers a year with 110 flights daily to 20 destinations. The London Heathrow Shuttle takes 45 minutes with 69 flights per week together with a regular service to Glasgow, Edinburgh, Belfast and Dublin. There are scheduled services to all major European cities and New York, Chicago, Atlanta, Bangkok, Singapore and Sydney.

The airport lies 10 miles (16 km), South West of the City Centre, 20 minute drive time. In addition, there is an electrified rail link between the airport and the surrounding regional centres, trains running between the airport and Manchester Piccadilly every 15 minutes.

The North West is the largest generator of rail traffic in the UK and it is estimated this will continue to grow with links from the rail freight terminus to 17 European destinations.

Phase I of Manchester's Metrolink (tram) opened in spring 1992 running between Bury and Altrincham and already an estimated 50,000 people use this facility per day, equating to 19 million per year. Trams run every 6 minutes at peak times utilising existing railway lines and a 1½ mile (2.5 km) track on the City Centre streets. This has been extended to Eccles and it is hoped further expansion will be possible, subject to government funding. The G-Mex tram stop is only a short walk from the subject property.

As well as the established commercial infrastructure, the region and the city itself also offer the diversity of entertainment and leisure facilities which are commensurate with a regional centre including the Palace Theatre, the Royal Exchange Theatre, the Manchester City Art Gallery, the Whitworth Gallery, the BBC Philharmonic Orchestra, Halle Orchestra, the Opera House, the Northern Ballet and the Royal Northern College of Music. Furthermore, the City's international profile has been enhanced through Manchester's successful hosting of the 2002 Commonwealth Games.

Greater Manchester has the largest concentration of newspaper, offices, radio, and television stations within any regional centre including Granada Television, local Radio BBC North West and BBC Radio. The recent announcement by the BBC to move a number of departments to the City has further enforced the City's profile as a media centre.

The Guardian, Express, Daily Mail, Daily Mirror, Sun, Financial Times, Daily Telegraph and Star are produced at six printing presses within the region together with Manchester Evening News, Britain's largest selling regional newspaper.

Manchester also has the largest university campus in Europe comprising the University of Manchester, City Campus (formerly UMIIST), the Manchester Metropolitan University, Manchester Business School and the University of Salford.

The key economic assets across Greater Manchester are:

- The city is the strongest regional centre in the UK, employing approximately 160,000 people and is the largest and fastest growing employment area in the North-West.
- Approximately 1,200,000 people are employed within Greater Manchester.
- The city is home to the largest university in the UK (Manchester University/UMIST merger).
- The largest and fastest growing financial, professional and legal services centre outside of London.
- Manchester's infrastructure is excellent. Manchester Airport is the UK's third largest airport; the City is surrounded by an orbital motorway with superb access to the national motorway network and has excellent rail links to the rest of the UK.

## 9.2 Office Market

The total office stock in Manchester City Centre currently stands at around 1.58 million sq m (17 million sq ft) with about 836,000 sq m (9 million sq ft) contained within the recognised prime core area.

The extent of the City Centre office market stretches from the River Irwell to the west, Piccadilly Station to the east, Victoria Station to the north and the Mancunian Way to the south. The traditional prime core area is centred around Cross Street, Mosley Street and Market Street. However, due to the increasing number of requirements within the City from professional firms with requirements of between 7,432 sq m and 11,148 sq m (80,000 sq ft and 120,000 sq ft), schemes such as Spinningfields, which offers large flexible floor-plates, have been widely coveted.

Take-up of Grade A office space in the prime core which was built in 1996/1997 has stagnated in recent years between £188.37 to £215.28 per sq m (£17.50 to £20.00 per sq ft). However, since 2001 headline rents for Grade A space have risen due to the alarming shortage of supply and steady level of demand. For instance, at 82 King Street £199.13 per sq m (£18.50 per sq ft) was achieved in 1998, £234.12 per sq m (£21.75 per sq ft) was achieved in 1999 and a rental of £301.39 per sq m (£28.00 per sq ft) is now being quoted for a sub-lease in the building for half of a floor. In 2002, Chubb Insurance acquired the 13th floor at £290.63 per sq m (£27.00 per sq ft), plus car parking at £3,000 per space. At the refurbished 55 King Street, Orbit Developments have achieved £247.57 per sq m (£23.00 per sq ft) on recent lettings and is now fully let. The Pinnacle, located on King Street, is currently achieving rents of between £301.39 per sq m to £322.92 per sq m (£28.00 per sq ft to £30.00 per sq ft), with £3,500 per car parking space. Investec have taken the top floor of The Pinnacle Building at a rent equating to £371.90 per sq m (£34.55 per sq ft).

Office development in the prime core has been on relatively small constrained sites offering floor-plates below 650 sq m (7,000 sq ft). Indeed, the majority of new schemes in the past ten years have delivered total floor space from 4,645 sq m to 7,432 sq m (50,000 sq ft to 80,000 sq ft). The majority of these schemes have been viewed as having small floor-plates over a large number of floors and therefore not particularly attractive for single occupation.

Whilst King Street represents the traditional prime core within Manchester, over the past five years its boundaries have been stretched somewhat, following the developments at Allied London's Spinningfields and Argent's One Piccadilly Gardens. The Argent development provides 13,006 sq m (140,000 sq ft) of Category A office accommodation over 6 upper floors, with floor plates of



2,508.38 sq m (27,000 sq ft). The building was completed in 2003 and its specification includes four 21 person passenger lifts, air conditioning, raised floors and a car parking ratio of 1:785 sq ft. Initially the scheme was slow to attract tenants, possibly due to its perceived secondary location. However, in 2005 there was significant interest and all the office accommodation has been let. Tenants of the building include Bank of New York, Alliance Cornhill, The Housing Corporation and King Sturge, who are paying rents of between £242.19 per sq m (£22.50 per sq ft) and £252.95 per sq m (£23.50 per sq ft). This development indicates that tenants are prepared to pay full rents in areas such as Piccadilly which is seen as an emerging location.

Throughout the past five years, there has been significant growth in the secondary office market. Property owners who seek to expend capital on refurbishment projects will benefit from the reduction in letting voids whilst maintaining rental growth.

The availability for good quality Grade B accommodation is restricted and as a consequence, rental levels have begun to rise faster in the past 12 to 18 months than at any time during the past ten years. Lease terms, however, remain relatively flexible, particularly where there is still good occupier choice in either the size range or quality of specification available.

Achievable rental levels for Grade B accommodation, located outside the financial core have witnessed significant growth in recent years. The majority of this type of accommodation, two to three years ago were achieving rentals of circa £107.64 per sq m (£10.00 per sq ft). In contrast in today's market £161.46 to £182.99 per sq m (£15.00 to £17.00 per sq ft) is often being achieved. Better quality refurbished buildings which contain raised floors and air conditioning have also achieved impressive rental growth in recent years rising from £129.17 to £215.28 per sq m (£12.00 per sq ft to £20.00 per sq ft) for accommodation located outside the financial core.

Due to the shortage of Grade A accommodation, it is anticipated that occupiers will focus on good quality refurbished buildings. As a result, it is anticipated rental levels will continue to catch up to Grade A office buildings.

Car spaces are now at a premium, particularly within the financial core. In recent years a large number of car parks have been acquired for residential developments thus reducing the number of available contract car spaces and forcing up the cost of secure on-site car parking. Typically, car spaces outside the financial core can achieve £1,500 to £3,000 per car space, per annum. Car spaces located in buildings within the financial core can achieve up to £3,500 per car space.

There is currently approximately 88,255 sq m (950,000 sq ft) of total office space available in the City Centre. The immediate Grade A supply is relatively limited to Aurora 5,295 sq m (57,000 sq ft) on Princess Street and Bauhaus 4,738 sq m (51,000 sq ft) on Quay Street.

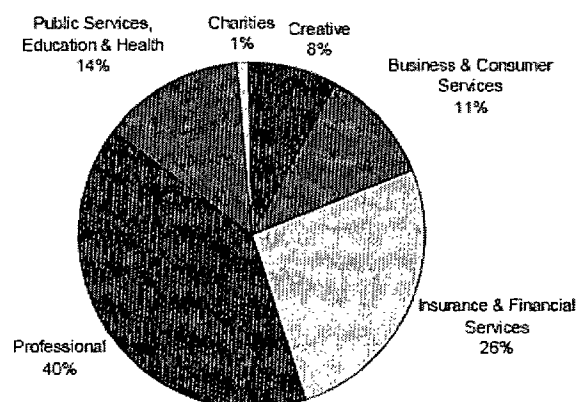
### 9.3 Letting Market

Supply currently stands at 117,058 sq m (1.26 million sq ft) with a vacancy rate of 11.1% (up from 10% at the end of 2005). Average annual take-up for the Manchester office market has been 72,549 sq m (780,936 sq ft) per annum over the last five years, although prelets at Spinningfields over this period has skewed the figure somewhat. 2005 was average at 78,968 sq m (850,000 sq ft). By mid-2006 the figures are reaching almost 37,160 sq m (400,000 sq ft). Lack of speculative development due in 2004 and 2005 meant Grade A supply was at an all time low. Currently just 25% of ready to occupy space is Grade A. This compares with 30% in Birmingham and 35% in Central London, both of which are currently being considered as competitive markets for top quality units. Grade A supply now stands at 64,662.30 sq m (696,042 sq ft), although this is up from 39,960 sq m (430,140 sq ft) at the end of 2005. The average Grade A take-up is approximately 36,540 sq m (393,329 sq ft) over a five year average resulting in just under two years Grade A supply currently on the market. The shortage of speculative space coming onto the market in the next 12 months is only likely to encourage further preletting. Approximately 2,601.2 sq m (280,000 sq ft) over the last five year average were prelets. This has continued in 2006 when HBOS took a 4,366.30 sq m (47,000 sq ft) prelet at 40 Spring Gardens and Barclays Bank plc took a 9,290 sq m (100,000 sq ft) prelet at 3 Hardman Street. We consider that as the supply of Grade A space increases in the short to medium term the take-up levels will increase to reflect the historical shortage of supply.

The professional sector continues to be the main driving force behind the market accounting for 40% of take-up in the last 12 months. Deals to Deolittes of 5,574 sq m (60,000 sq ft) and Haliwells of 16,257.5 sq m (175,000 sq ft) at Spinningfields in 2005 contributed to these figures.

The pie chart below shows an analysis of this demand.

*The Professional sector has dominated the market in the last 12 months.*



The table below compiled by Knight Frank Research highlights the key Manchester City Centre requirements as at the end of Quarter 3 2006.

Tenant	Search Area	Size sq m (sq ft)
Chubb Insurance	Manchester City Centre	929 – 1,393.5 sq m (10,000 – 15,000 sq ft)
Allied Irish Bank	Manchester City Centre	1,858 sq m (20,000 sq ft)
HSBC	Manchester City Centre	2,787 sq m (30,000 sq ft)
Weightmans	Manchester City Centre	2,322.50 (25,000 sq ft)
The Highways Agency	Manchester City Centre	4,645 sq m (50,000 sq ft)

Tenant	Search Area	Size sq m (sq ft)
Begbie Traynor	Manchester City Centre	1,858 sq m (20,000 sq ft)
Pinsent Mason	Manchester City Centre	2,787 sq m (30,000 sq ft)
Regus	Manchester City Centre	2,787 sq m (30,000 sq ft)
Berryman Lace Mawer	Manchester City Centre	2,787 sq m (30,000 sq ft)
Training and Development Agency for Schools	Manchester City Centre	4,645 sq m (50,000 sq ft)
Home Office Requirement	Manchester City Centre	2,322.50 sq m (25,000 sq ft)
Serious Organised Crime Agency	Manchester City Centre	7,432 sq m – 8,361 sq m (80,000 – 90,000 sq ft)
MIDAS	Manchester City Centre	2,787 – 4,645 sq m (30,000 – 50,000 sq ft)
<b>TOTAL</b>		<b>39,947 sq m – 43.198.50 sq m (430,000 sq ft – 465,000 sq ft)</b>

Due to the tight relationship between supply and demand, the tone for rents in 2006 is beginning to improve with prelets commanding rents of approximately £301.39 per sq m (£28.00 per sq ft). Lack of upward rental growth has arguably been down to lack of quality space on the market, as opposed to lack of demand. As development completion starts to filter into the market and begins to soak up current demand, it is expected that rental levels could reach £322.93 per sq m (£30.00 per sq ft) by 2008.

When considering the office market within Manchester we have also had due consideration of schemes that are currently under construction and will increase the level of supply in the market. There is currently a total of 135,740.76 sq m (1,461,100 sq ft) currently under construction which will provide the supply for the next 12 to 18 months.

#### Office Supply Pipeline – Schemes Under Construction

Scheme	Developer	Completion Date	Sq M	Sq ft	Notes
Beetham Tower, 297 Deansgate	Beetham Group	Aug 06	5,852.90	63,000	Spec; offices plus hotel and flats
Bauhaus, Quay Street	Crosby Homes North/ASK/Castlefield Properties/Summerise	Sept 06	4,645.16	50,000	Spec; office plus resi and hotel.
Aurora, 50 (41/55) Princess St	CTP/LNC Property Group	Sept 06	5,258.32	56,600	Spec 7 storey office building.
80 Mosley Street	Bilsdale Properties	Oct 06	2,787.09	30,000	Spec; refurb & 5k extension.
Two Piccadilly Place, London Rd	Argent	Oct 06	5,109.67	55,000	Pre-let
Cobbetts House, 58 Mosley Street	Maple Grove	Dec 06	9,290.31	100,000	Pre-let to Cobbetts
4 Hardman Sq, Spinningfields	Allied London Properties	Dec 06	4,645.16	50,000	Spec.
Civil Justice Centre, Spinningfields	Allied London Properties/Hansard 2027	Dec 06	26,003.59	279,900	Pre-let to Department of Constitutional Affairs

Scheme	Developer	Completion Date	Sq M	Sq ft	Notes
City Tower, York Street	Bruntwood Estates	Dec 06	20,113.53	216,500	Part-spec; office refurbishment plus retail.
2 Hardman Sq, Spinningfields	Allied London Properties/Matrix Securities	Jan 07	13,842.57	149,000	Part-spec; Let to Gurardian Media and Deloitte
340 Deansgate	Property Alliance Group	Jan 07	3,056.51	32,900	Office building.
Royal Mills, Henry Street	ING Real Estate/Matila Investments	Feb 07	2,805.67	30,200	Spec relevel of mill building
Forty Spring Gardens, 28 Spring Gardens	Langtree Group	Feb 07	9,383.22	101,000	Spec; plus ground floor retail space.
Zenith, Spring Gardens	The Wrather Group	Feb 07	6,224.51	67,000	Spec; new build
3 Hardman Sq, Spinningfields	Allied London Properties/Matrix Securities	Sep 07	16,722.56	180,000	Part-spec; 120K let to Halliwells.
<b>Total</b>			<b>135,740.76</b>	<b>1,461,100</b>	

#### 9.4 Rental Growth Forecasts

Knight Frank Research have prepared the following rental growth forecasts for the City based on Experian Business Strategy's office rental growth forecasts. This is based upon prime Grade A space let on a 15 year term certain at a rent of £301.39 per sq m (£28.00 per sq ft).

##### Rental Growth Forecasts

Year (End)	Rent £per sq m (£ per sq ft)	Percentage Growth
2006	£301.39 (£28.00)	0.4%
2007	£310.76 (£28.87)	3.1%
2008	£330.46 (£30.70)	4.5%
2009	£341.33 (£31.71)	5.1%
2010	£358.82 (£33.26)	4.9%

Whilst the table above indicates forecasted figures, the table below illustrates actual office rental growth over the past six years in Manchester, prepared by IPD. The annualised figure for rental growth between 2000 – 2006 was 3.7%.

##### Past Rental Growth Performance

Year (End)	Percentage Growth (actual)
2000	2.4%
2001	6.0%

<b>Year (End)</b>	<b>Percentage Growth (actual)</b>
2002	3.5%
2003	2.1%
2004	5.1%
2005	1.3%

## 9.5 Future Demand

Manchester is looking to compete on a global stage to secure new occupiers to the city centre. Following the Bank of New York taking 8,495 sq m (91,440 sq ft) of space at 1 Piccadilly Gardens in December 2004 and Kleinwort Benson, Investec and Brit Insurance all opening new offices there is considerable interest in the city as a global location. As a result of this interest, MIDAS was created to market Manchester on a global scale. MIDAS are Manchester's investment agency and offer an extensive and free package of advice and assistance for companies that want to do business in Greater Manchester. Their aim is to secure significant levels of new investment and employment for the area. They have achieved this through the global marketing of the Manchester conurbation and by offering a comprehensive service to their clients and enquirers.

The table below provides an indication of the success of MIDAS over the past twelve months:

### MIDAS Results 2005/2006

<b>Objective</b>	<b>Target</b>	<b>Achieved</b>
<b>Enquiries Received</b>	600	1,009
<b>Companies Investing</b>	40	90
<b>Investment Value</b>	£50,000,000	£128,980,000
<b>Square Metres Occupied</b>	50,000	56,382
<b>Jobs Created</b>	2,400	2,447

As part of MIDAS, The Manchester Links initiative is a strategic partnership programme that works to develop links with companies and investment agencies in key cities in North America. Through its targeted partnership network, Manchester International Links provides a wide range of advice and support for businesses who chose to locate in Manchester. Manchester International Links has successful partnerships with US City regions including Atlanta, Pittsburgh, Minneapolis – St Paul and Tucson.

MIDAS also enjoys very strong partnership links with China, a major developing economy that is rapidly turning into one of the commercial and industrial powerhouses of the twenty first century. Through the SinoVentures Programme run by MIDAS in partnership with Manchester City Council and Manchester Science Park Ltd, Chinese companies are offered specialist advice and assistance to help them establish and expand their business within the UK and Europe.

MIDAS have offices and associated offices in Manchester – England, Taipei – Taiwan and St Louis – Missouri – USA.

MIDAS work in close partnership with Manchester City Council, the North West Development Agency, The North of England Inward Investment Agency and The University of Manchester to secure new investment into the city.

## 9.6 Out of Town Market

The out-of-town office market in Manchester is broadly divided between the North Manchester, South Manchester and Salford Quays areas. The out-of-town market as a whole is currently being driven by demand for freeholds which represent about 75% of enquiries predominantly for self contained units offering between 232.26 sq m to 929.03 sq m (2,500 sq ft to 10,000 sq ft).

Letting activity in South Manchester has continued to slow over the last 12 months. There is currently available approximately 46,451 sq m (500,000 sq ft) of Grade A space in 14 buildings in South Manchester over 1,858 sq m (20,000 sq ft). A notable exception has been Orbits letting of Sandfield House, Wilmslow and in North Manchester the lettings of 5,203 sq m (56,000 sq ft) to EON and 6,503 sq m (70,000 sq ft) to AXA at Middlebrook, Bolton. The development pipeline for large speculatively built office buildings has reduced dramatically, with one exception being the Countryside & Liberty Properties named ICO totalling 4,645 sq m (50,000 sq ft) at Princess Parkway which is scheduled to complete in early 2007. Despite low letting activity overall headline rents have held firm within South Manchester during 2006 standing at £215.28 per sq m (£20.00 per sq ft) and in North Manchester at £172.22 per sq m (£16.00 per sq ft).

It is the demand and provision in the market for freeholds that has maintained activity in the out-of-town business parks. There is an extensive development pipeline of small units of accommodation between 232.26 sq m to 929.03 sq m (2,500 sq ft to 10,000 sq ft) to meet this market. These schemes include Business Homes; Christie Fields, Seddon's Oak Green at Handforth, and AMEC's Oakfield scheme at Cheadle Royal. Freehold values in South Manchester are now in the region of £2,421.88 per sq m (£225 per sq ft) and rising.

The Salford Quays market has performed steadily during 2006 with take-up levels remaining robust currently standing at 13,935 sq m (150,000 sq ft) and with an annual average of 18,581 sq m (200,000 sq ft) take up over the past five years there is confidence that this figure will be exceeded. Benmores Wharfside (3,901.93 sq m (42,000 sq ft)) has just been completed where £215.28 per sq m (£20 per sq ft) is being quoted. HBG's Metro Building (6,596 sq m (71,000 sq ft)) is the only other speculative building under construction and is scheduled to complete at the end of 2007.

Rents achieved in Salford Quays have exceeded 199.13 per sq m (£18.50 per sq ft) for new space whilst secondary accommodation has achieved £188.37 per sq m (£17.50 per sq ft) at Exchange Quay. Encouragingly although many of the larger requirements have now been fulfilled there are fresh enquiries in the market and other new developments being planned on a speculative basis are on the horizon. Most notably Salford Quays has been identified as the BBC's preferred location as part of its decentralisation policy, although to date no firm decision has been made.

## 9.7 Investment Market

Investment transactions in Manchester reached record levels of £439 million in 2005 compared to approximately £250 million in 2004. In line with all investment sectors at present there is a chronic lack of supply of good quality well let product and this has continued to maintain the downward pressure on investment yields irrespective of increases in borrowing rates.

The large amount of money available from investors has created an imbalance between supply and demand which has seen prime yields fall to below 5% on new buildings let to investment Grade covenants on 15 year plus leases. The strong performance of Manchester City offices and a significant amount of money focussed on limited stock will continue to drive yields down in the short term and we anticipate that prime yields are likely to fall below 4.5% by the end of the year, although the recent rise in interest rates may temper this compression in the short term.

## 9.8 Retail Market

City Centre retail floor space in Manchester is estimated at 229,470.73 sq m (2.47 million sq ft), ranking the City fourth of the PROMIS centres. There are three managed centres within the City Centre, the largest being the Arndale, currently at 116,128.91 sq m (1.25 million sq ft), followed by The Triangle at 13,935 sq m (150,000 sq ft) and then the Royal Exchange at 6,503.22 sq m (70,000 sq ft). There has been considerable rebuilding within Central Manchester following bomb damage in 1996 and as a consequence, the shopping core has changed and reconfigured. The prime pitch remains focussed on Market Street, fronted on its northern side largely by the Arndale Shopping Centre and to the south by large stores/units.

There is currently 200,000 sq ft of additional city centre, retail floor space under construction, representing a potential increase of 8.1% of total volume of retail provision. In October 2005 a survey conducted by PMA showed 5.2% of retail units to be vacant, below the retail average and improving on the figures provided by the previous years report. Take up levels between 2004 and 2005 were above national averages. In July 2006 there were 133 city centre reported requirements for Manchester, against an average of 49, ranking the city fourth of the PROMIS Centres. Despite these figures Manchester has a slightly low level of retailer demand for a city of its size and status

Within a retail context, Manchester's primary catchment area is large, from Burnley in the north to Mid-Cheshire in the south, to the west there are large centres such as Bolton and Warrington and Stockport lies to the south east. The estimated primary catchment population is 1.432 million, above the Major City average and ranking the city of Manchester second out of the PROMIS centres, of this figure the estimated shopping population stands at 675,000 ranking the city 4th of the PROMIS centres.

The Manchester catchment population is not particularly affluent, ranking 175th of the PROMIS centres on the PMA Affluence Indicator. This primary catchment area contains a below average proportion of adults of working age, categorised within the most affluent social group AB, but an over representation of the unskilled manual D group. There are however considerable pockets of affluence in the catchment, such as the outer parts of Greater Manchester and in the south, in Cheshire. The level of car ownership in Manchester is significantly below average overall as is the level of home owner occupation. In June 2006, 3.9% of the workforce was unemployed, compared to the national unemployed rate of 2.6%.

Manchester also ranks second on the basis of its PMA Retail Score, second on the PMA Fashion Score and third on the PMA Anchor Score. The city centre has wide ranging retail provision, including upmarket fashion and quality 'lifestyle' stores, mainstream multiples and discount stores, as well as independent 'cutting edge' fashion and youth-oriented shops. Recent in-movers attracted by the new developments have boosted the upmarket fashion and 'lifestyle' provision in particular. The expected volume and quality of retail provision, given the size and affluence of the shopping population, has been realised.

City Living is on the increase in Manchester with the Spinningfields development alone providing 391, one, two and three bedroom apartments. The area is also one with a high concentration of workers in the area with approximately 17,000 anticipated to be within Spinningfields during a typical weekday. This mix of footfall creates 24 hour usage of the site.

Manchester ranks second in terms of the volume of comparison retail spend available in the catchment area and is forecast to see below average percentage growth in the available pool of comparison spending over the forecast period, 2004-09. While there will be some leakage of spending from within the primary catchment area to competing centres like the Trafford Centre and

smaller towns like Oldham and Ashton, Manchester is an important destination for visitors and will also attract a significant volume of spending from outside its catchment.

Retailing in Manchester City Centre has been quite dynamic over the last five years. The rebuilding of much of the old prime areas around Market Street/Cross Street has been completed with the flagship Marks & Spencer store, Selfridges store, together with units newly created along New Cathedral Street with its anchor of Harvey Nichols, Heals and the Corn Exchange has seen a dramatic upturn in its fortunes since conversion to a full shopping centre. The extension of the Arndale has involved some relocation and consolidation by stores such as Next, River Island, Top Shop/Top Man, but otherwise many taking space here are new entrants to the Manchester market and are of an international calibre. Market Street continues to be the prime shopping street with the large bulk of the Arndale Centre dominating its northern frontage and the retailing strength continues along High Street to Piccadilly.

Prime rentals in Manchester have a 'tone' reflecting 3,230 – 3,390 per sq m ITZA (£300 – £315 per sq ft ITZA) where these levels have been sustained over the last two years to traders such as Orange, Footlocker, Ann Summers, Vodafone and Clarks, together with an Expert's Determination at rent review upon the unit occupied by Phones 4U. Within the Arndale extension, the headline rental 'tone' has been at around £2,475 per sq m ITZA (£230 per sq ft ITZA), generally on leases of a 10 to 15 year length with up to 12 months rent free to occupiers such as Monsoon, Jane Norman, Bank and Bershka. The traditional niche areas of St Ann's Square and King Street comprise generally small units and the rental range here is at £2,152 – £2,314 per sq m ITZA (£200.00 – £215.00 per sq ft ITZA). Deansgate has retained its dominance as a good secondary street due to the presence of the House of Fraser store (renamed from Kendals), Waterstones and Daisy & Tom, plus its close proximity to King Street. Progressing south along Deansgate from the Bridge Street/John Dalton junction, the frontages are a mixture of retailers, food stores (two Sainsburys, one Tesco Extra) and restaurants/bars/café bars. Rental levels have been difficult to identify, although the Sainsburys' acquisition of Halifax House at Bridge Street/Deansgate reflects around £457 per sq m (£42.50 per sq ft) overall, compared to the Sainsburys and Tesco units in Overseas House at Quay Street/Deansgate at £172.00 – £194.00 per sq m (£16.00 – 18.00 per sq ft) overall. The southern end of Deansgate is supported by a strong mix of leisure units at Peter Street, the remodelled Great Northern with AMC Cinema, health club and a recent letting to a casino plus other leisure restaurants.

Leisure units for restaurants, bar and café bars have tended to level out at a maximum of circa £215.00 – £269.00 per sq m (£20.00 – £25.00 per sq ft) overall, although many units come in below these levels due to configuration space, fit out costs and lease terms.

## **10. LEEDS MARKET COMMENTARY**

### **10.1 Office Market**

Leeds is the major office market in the North East of England and has become, over recent years a regional centre on a par with Manchester and Birmingham.

Part of this growth has been due to the emergence of back office and call centre operations in Leeds, which have become more prominent since the late 1980's. Financial and business service sector occupiers have also increased within the Leeds market place, and have grown as the city has reduced its dependence on the manufacturing sector. The city's highly skilled professional workforce coupled with its excellent rail communications have contributed to it becoming the second largest banking, accountancy and legal centre outside London.



Take-up of Leeds city centre office floorspace during 2005 totalled 53,882 sq m (580,000 sq ft), which was significantly above the year-end level most commentators had been forecasting at the mid-way point last year. Total take-up was significantly boosted by the letting of 9,104 sq m (98,000 sq ft) at Lateral to the Office of the Deputy Prime Minister and the Highways Agency.

After the first six months of this year, take-up stood at 25,547 sq m (275,000 sq ft) and overall projections for 2006 suggest total annual take-up will be circa 48,308 sq m (520,000 sq ft), in line with the city's long-term average. In contrast to last year, take-up in 2006 to date has not been distorted by any individual large transactions and instead most letting activity has remained focused on units of less than 2,787 sq m (30,000 sq ft).

Prime office rents in the city core have reached £269.10 sq m (£25.00 per sq ft), as confirmed by two recent lettings at City Point, whereas headline rental levels for the wider city centre stand at £247.57 to £258.33 sq m (£23.00 to £24.00 per sq ft). New build rental levels in more peripheral locations have become established at circa £215.28 sq m £20.00 per sq ft), as demonstrated through transactions at Brewery Wharf, City Walk and Leeds City Office Park.

## 10.2 Demand

Demand for office space from occupiers seeking accommodation in the city centre has remained fairly consistent over the past ten years. A summary of take up has been set out below showing an average of 48,308 sq m (520,000 sq ft) per annum of which 51% has been Grade A.

Year	Accommodation (sq m)	Accommodation (sq ft)	Grade A
2005	53,882	580,000	45%
2004	57,598	620,000	70%
2003	52,024	560,000	68%
2002	27,870	300,000	22%
2001	49,887	537,000	54%
2000	66,888	720,000	55%
1999	46,450	500,000	47%
1998	53,882	580,000	53%
1997	42,548	458,000	49%
1996	34,197	368,000	57%

## 10.3 Supply

City Centre Grade A space has been extremely restricted over recent years. Quarter 4 2005 and Quarter 1 2006 has seen an increase in Grade A space availability with the following buildings now at or nearing completion:

Development	Total Size (Sq M)	Total Size (Sq Ft)	Available Accommodation (Sq M)	Available Accommodation (Sq Ft)
City Point	5,760	62,000	2,787	30,000
2 City Walk	5,946	64,000	3,437	37,000
2 Wellington Place	11,139	119,900	9,290	100,000
Leeds City Office Park	6,450	69,434	6,450	69,434
Bridgewater Place	10,498	113,000	10,498	113,000
<b>Total</b>	<b>34,033</b>	<b>366,334</b>	<b>32,462</b>	<b>349,434</b>

With the exception of City Point, all of the above buildings are situated in what would historically have been classed as fringe locations.

#### 10.4 Key Transactions

Office rental levels within Leeds City Centre have seen steady growth over the course of 2005 and 2006 and headline rental levels have now been established at £247.57psm to £269.10 per sq m (£23.00 psf to £25.00 psf). The key transactions over the past 12 to 18 months have included:

- **City Point, King Street** – This building is located in the heart of the traditional office core and has almost reached practical completion. Two pre-lets have been agreed to GVA Grimley and King Sturge at commencing rents of £269.10 psm (£25.00 psf). We understand both leases are 15 years with five yearly upward only rent reviews and benefit from a break clause at year ten.
- **2 Wellington Place, Wellington Street, Leeds** – Bentley Jennison have recently leased approximately 1,858 sq m (20,000 sq ft) within this newly completed Grade A specification office building. We understand the commencing rent equated to £258.33psm (£24.00 psf) and the lease is for a term of 15 years.

#### 10.5 Existing Grade A/B Refurbishments

There are a number of existing grade A/B refurbishments either currently undergoing refurbishment or completed and available to let within Leeds city centre. These properties are located throughout the city centre which highlights the demand for such accommodation.

Quality refurbishments remain popular and largely successful. This has in part been due to the constrained nature of the city centre combined with a slowing residential market. Refurbishments are increasingly regarded as the most viable means of maximising value on redevelopment, in contrast to five years ago when several city centre buildings were converted from commercial to residential use. The success of refurbishments in the market is reflected in the headline rents being achieved on this type of accommodation: currently circa £215.28psm to £231.42psm (£20.00psf to £21.50 per sq ft). We set out below a number of schemes:

Address	Developer, Fund, Landlord	Overall size (sq m)	Overall size (sq ft)	Rent (per sq m)	Rent (per sq ft)	Comments
9 Bond Court	F & C Asset Management	1,447 remaining	15,570 remaining	£231 £2,500 per car	£21.50 £2,500 per car	Refurbished multi-storey building.
Jubilee House, Park Place	Morley FM	1,549 remaining	16,580 remaining	£213	£19.75	Located in traditional office core.
Bank House	Talisman Properties	Up to 766	Up to 8,246 sq ft	£199	£18.50	Refurbished, air conditioned and raised floors.
Tower North Central	La Salle	Up to 4,645 on floors of 381	Up to 50,000 sq ft on floors of 4,100	£194 £1,750 per car space	£18.00 £1,750 per car space	Fringe location. Comfort cooled.
Leeds Interchange	AXA	1,626	17,500	£199 including parking	£18.50 including parking	Fringe location. Comfort cooled.

Address	Developer. Fund. Landlord	Overall size (sq m)	Overall size (sq ft)	Rent (per sq m)	Rent (per sq ft)	Comments
FH1, South Parade	Burford Park Estates	Up to 3,275	Up to 35,253	£248	£23.00	Currently undergoing extensive refurbishment
City Xchange	Tops Estates Plc	Up to 1,436 remaining	Up to 16,000 remaining	£226	£21.00	Comprehensively refurbished to high specification.
West Riding	Howard Holdings	1,858 remaining	20,000 remaining	£202	£18.75	Located on fringe of traditional office core and within prime retail area.

## 11. LIVERPOOL MARKET COMMENTARY

### 11.1 Office Market

The City Centre office market is very compact with the majority of traditional office space situated on Castle Street, Water Street, North John Street and Brunswick Street, extending north as far as Tithebarn Street and south as far as James Street and westwards towards the Royal Liver Building, Port of Liverpool Building and the Cunard Building (The Three Graces). Going forward the focus is going to grow taking in new schemes in Pall Mall and Old Hall Street and it is widely anticipated that the business district will shift, focusing in and around Old Hall Street.

The rapid expansion of the city centre office market has continued, with the core around Castle Street being overshadowed by the new development and refurbishment that is occurring around Old Hall Street. Current take up and ongoing demand has led to restricted availability of good quality city centre office space, an escalating issue in the city centre during recent years. The lack of speculative development has held back office market growth in the past, and consequently the City's ability to compete with other major regional centres in attracting occupiers. Take-up over the past five years has bucked the trends set in the 1980's and 90's by averaging around 42,735 sq m (460,000 sq ft) with a consistency of figures in the range of 39,018 to 45,057sq m (420,000 to 485,000 sq ft).

Prime rents in Liverpool currently stand at £192.75 per sq m (£18.00 per sq ft), a level which has been achieved at St Paul's Square, Old Hall Street, on a pre-let to Hill Dickinson for 12, 204 sq m (131,372 sq ft) together with 26 car parking spaces, on a 15 year term. The total initial rent will be £2,490,576 per annum reflecting £192.75 per sq m (£18.00 per sq ft) on the office accommodation, £64.58 (£6.00 per sq ft) on basement areas and £1,500 per car parking space. The scheme will be completed and ready for occupation by the end of 2007.

In addition, the Lord Chancellors Department have taken 9,847 sq m (106,000 sq ft) at £177.60 per sq m (£16.50 per sq ft) for a term of 15 years at City Square, Moorfields. There is an expectation that rental growth will see prime rents reaching close to £215.28 per sq m (£20.00 per sq ft) in the next six months as suggested by the quoting rents on the Unity development.

Away from the core of city centre all three office buildings completed so far at Princes Dock have been fully let. The Charity Commission took 3,418 sq m (36,800 sq ft) at 12 Princes Dock on a 15 year lease at £172.22 per sq m (£16.00 per sq ft) in 2005, while shipping company CMA CGM

has signed for 2,554 sq m (27,500 sq ft) equating to £172.22 per sq m (£16.00 per sq ft). Both occupiers are paying £177.60 per sq m (£16.50 per sq ft) on ten-year leases. 12 Princes Dock was the third office building to be completed by Princes Dock Development Company, a subsidiary of Mersey Docks & Harbour Company. Other tenants in the 9,197sq m (99,000 sq ft) building include the Bank of Scotland who let 1,393 sq m (15,000 sq ft) at an equated £177.60 per sq m (£16.50 per sq ft), Cargill and the Mersey Partnership letting 334.44 sq m (3,600 sq ft) at £177.60 per sq m (£16.50 per sq ft).

## 11.2 Demand

Occupation of Liverpool's office market is heavily weighted towards the public sector where jobs have been located in Liverpool as a form of regional aid to arrest its long term economic decline. Key public sector employers include H M Customs and Excise, the Inland Revenue and the Child Support Agency. The Criminal Bureau Records Agency, the Lord Chancellors Department and Unysis have also recently moved to the City. However, a combination of a much improved economic climate in the city and provision of new high quality Grade A office buildings, albeit limited, has enabled the city centre to attract new corporate occupiers from outside Liverpool and the market is now, along with Manchester City Centre, the most vibrant office market in the North West.

For 2005 office take up was reported at 46,301 sq m (498,391 sq ft). There are currently requirements totalling approximately 148,643 sq m (1.6 million sq ft) of office space in the city predominantly from the financial, public and professional sectors.

For Q1 of 2006 city centre office take up stood at 8,361 sq m (90,000 sq ft) and the general consensus from agents is the levels of 2005 are not going to be repeated in 2006 and there are no large requirements on the horizon along the lines of the Hill Dickinson pre let of 12,077 sq m (130,000 sq ft) St Paul's Square. That said Brabners Chaffe Street (Solicitors) have recently signed up for 3,809 sq m (41,000 sq ft) of accommodation in the soon to be refurbished Horton House, Exchange Flags.

In recent years, there has been a shortage of quality refurbished office space available in the city centre prompting further speculative refurbishment of existing buildings. Limited development opportunities within the traditional office core, much of which has conservation area status and comprises listed buildings, alongside the growth of Liverpool's Commercial market has led to a number of tall office buildings being developed and proposals for such developments in the Old Hall Street area. Given the restrictions on the city centre, quality refurbishment and new office developments are playing a vital role in the market.

Some of the most significant developments have been that of Unity, The Plaza, The Capital and St Paul's Square. Since January 2006 Bruntwood's The Plaza has let 4,292 sq m (46,202 sq ft) of refurbished space and is now achieving headline rentals of £161.46 per sq m (£15.00 per sq ft). These are examples of new or comprehensively refurbished tall office schemes, with the future development of 60 Old Hall Street offering the potential to become the tallest office building in the City Centre.

Good quality re-furbished space is now consistently achieving headline rentals in the region of £129.16 – £161.46 per sq m (£12.00 – £15.00 per sq ft). Currently on the market and vacant to let is 36 Exchange Street East at a quoting rental of £161.46 per sq m (£15.00 per sq ft) for 3,483 sq m (37,500 sq ft) including 25 car parking spaces; and a suite in Norwich House, Water Street of 621.50 sq m (6,690 sq ft) is currently on the market at £145.31 per sq m (£13.50 per sq ft), whilst a first floor suite of 696.76 sq m (7,500 sq ft) at Merchants Court at Derby Square recently re-furbished has a quoting rental of 158.76 per sq m (£14.75 per sq ft). Furthermore, the £2.5 million refurbishment of 30

Exchange Street has been completed by Morley Fund Management and offers 3,530 sq m (38,000 sq ft) over 7 floors at quoting rentals of £166.84 (£15.50 per sq ft).

Until new office developments come stream, the demand for good quality office accommodation will remain strong, yet with the consequence of little available floorspace. Demand has led to the remaining 3,948 sq m (42,500 sq ft) at City Square being the only new Grade A floorspace available; the majority of which is under offer. City Square has pre-let 9,847sq m (106,000 sq ft) on a 15 year term with five year rent reviews and a rent free to the Department of Constitutional Affairs, equating to £177.60 per sq m (£16.50 per sq ft). Remaining space stands at 2,276 sq m (24,500 sq ft) on the 4th and 1,625 sq m (17,500 sq ft) on the 5th floor.

### Key City Centre Office Transactions

Property	Tenant	Size (sq m)	Size (sq ft)
Horton House, Exchange Flags	Brabners Chaffe Street	16.00	41,000
Martins Building	Kirwans – Assignment	12.50	28,729
The Plaza, Old Hall St	Maersk	14.00	20,633
The Plaza, Old Hall St	Intrum Justitia	14.00	16,650
Corn Exchange	Hill Dickinson	13.24	9,060

### 11.3 Supply

Once all available space at City Square is fully let, the only new Grade A office stock available until the 13,935 sq m (150,000 sq ft) office tower at Unity, which has just become available. Unity was built speculatively by Rumford Investments and demand is such that this scheme is expected to set a new headline rent for the city of £215.28 per sq m (£20.00 per sq ft). The current headline rent was set by the pre-let to Hill Dickinson of 12,077sq m (130,000 sq ft) at St Paul's Square in August 2005.

The refurbishment of The Capital, the former Sun & Alliance Building, is anticipated to set a new headline rent for refurbished Grade A accommodation at approximately £193.75 per sq m (£18.00 per sq ft).

In the Exchange flags complex, which will act as the gateway between Castle Street and the Old Hall Street office areas, is the 14,864 sq m (160,000 sq ft) Horton House which was recently acquired by UK Land and Property. A comprehensive redevelopment of the building is planned following a pre-let to legal firm Brabners Chaffe Street of 3,809 sq m (41,000 sq ft).

### City Centre Development Pipeline

Scheme	Size (sq ft)	Developer	Estimated Completion Date
The Plaza	195,000	Bruntwood	October 2006
Unity	150,000	Rumford Investments	Late 2006
Exchange Flags	160,000	UK Land & Property	Spring 2007
The Capital	120,000	Downing Developments	Summer 2007
Pall Mall	350,000	English Cities Fund	First Phase 2008
St Paul's Square	130,000		April 2008
PSDA Liverpool 1	60,000	Grosvenor	2008
Mann Island Site	109,000	Neptune/Countrywide	2010

To date, indigenous professional firms have been the main driver of the city's occupational market, as is the trend in most regional cities. More recently, however, a number of high profile

requirements have emerged, from, major banks including RBS, HBOS and Allied Irish BANK, and business support providers such as Regus and Stonemartin.

At St Paul Square, Phase II work has started on site to provide 12,077 sq m (130,000 sq ft) within an eight storey office building due for completion April 2008. The development will create a new link from Pall Mall through to Old Hall Street. Pall Mall will additionally comprise a significant mixed use development incorporating around 32,515 sq m (350,000 sq ft) of offices. However, construction on these phases is not anticipated until late 2007 or Early 2008.

Other major regional cities are currently experiencing a similar shortage of supply combined with rising rents up to levels of around £322.92 per sq m (£30.00 per sq ft). Liverpool's newly emerging office core, new retail offer, healthy development pipeline and comparatively affordable rents are expected to result in a significant improvement in inward investment into the city over the medium-term.

#### **11.4 Investment Market**

Despite the dip in office space take up figures witnessed in 2004, the investment market remained buoyant throughout 2005 and this has carried on into the early part of 2006. The relatively low cost of borrowing, coupled with the comparatively poor performance of other investment media such as gilts and shares, continue to make property an attractive investment. Liverpool certainly exudes definitive signs of increased demand from large fund and institutional investors for investments in Liverpool. Consequently demand far outstrips supply and yields continue to harden.

In January 2005 Liverpool saw the sale of India Buildings to the Pacific Group Company based in London for £45,000,000 equating to a yield of 7.5%. India Buildings is one of the largest office buildings in the City and it is rumoured that the building is in the process of being sold for in excess of £50 million.

The investment deal of the City Square development was completed in September 2004. Shepborough Developments a joint venture between Scarborough Development Group PLC and Shepherd Developments sold the investment to Fixed Uplift Properties Ltd, a Close Brothers managed fund, for £36,400,000 at an initial yield of 6.48%.

Several recent investment opportunities have been marketed including the first phase of St Paul's Square, let to Hill Dickinson on a 15 year lease in the office core which is under offer at 5.70%.

In the early part of 2006 Bruntwood purchased the Grade I listed Oriel Chambers building on Water Street for £5 million.

Several recent investment opportunities have been marketed including the first phase of St Paul's Square, let to Hill Dickinson on a 15 year lease in the office core which is under offer at 5.74%. In addition, Atlantic Pavilion, Albert Dock, is under offer at 5.40% and comprises secondary accommodation let to Littlewoods with 17.5 years remaining.

Whilst both of these investments have not yet completed, the level of interest generated and offer figures illustrate the strength of the Liverpool market.

In addition, the RSA Building (The Sandcastle) Old Hall Street, was recently marketed which comprises part vacant secondary accommodation. We understand the investment was aggressively pursued by a number of investors and a purchase price of £51 million was achieved reflecting an initial yield of 6.14%. The building has since been re-launched as the Capital Building.

The Lyceum Building Bold Street Liverpool also recently sold for £7.3 million. The building is a multi let office & retail investment of 1,825 sq m (19,650 sq ft) producing a rental of £498,430 per annum. The deal reflects a yield of 6.25%.

Consequently, Knight Frank Research Department has forecast a continuing hardening of office yields to below 5.50% for multi let offices investments in the CBD of the city centre.

This Report and our valuations therein have been prepared on the basis that there has been full disclosure of all relevant information and facts which may affect them.

## **12. SUITABILITY AS SECURITY FOR A LOAN**

You have asked us to comment on the suitability of the properties and portfolio for loan security purposes.

The use of real estate as security against a loan facility represents a standard basis for lenders to secure debt finance. The level of commercial risk to the funder is usually reflected in the interest rates and the extent of the loan to value ratio. Under current market conditions, it is unusual for debt to equity ratios to exceed 75% of the value of the asset taken as security.

Security of the property as banking security must therefore be assessed in the context of the amount of the loan required against the marketability of the property in the event that the Bank is required to realise this asset.

We consider the market to be strong for this type of property. This is evidence by the level of bids on a number of other sales that have occurred in the market normally 10 – 20 bidders. The occupier market is also good for the correct type of investment property.

The Bruntwood 2000 Alpha Limited Portfolio comprises office and business accommodation mainly in the Centre and South Manchester area with two developments at Leeds and Liverpool.

The majority of the properties have been bought by Bruntwood over the last 15 years. They have been acquired with the aim of refurbishing the accommodation and providing readily lettable space.

Occupancy levels are presently high and in the majority of cases in the order of 95%.

Significant additional value has been achieved principally due to the pro-active management and quality of the refurbishment program.

There is increasingly a demand for flexibility within leases and as such leases are usually for a term of five to ten years incorporating break clauses. The market for investments in the North West is highly active and current yields have hardened in prime transactions.

We are of the opinion that Bruntwood 2000 Alpha Portfolio Limited are experienced in the purchase, refurbishment and reletting of property as evidenced by their Portfolio.

We understand that it is the intention of Bruntwood 2000 Alpha Portfolio Limited to retain the properties in their Portfolio with a view to further expansion and development. There has been considerable activity in the market, particularly in Manchester offices and Bruntwood 2000 Alpha Portfolio Limited have been significant performers principally in refurbishment, particularly on the fringe of the prime core. They are able to provide a product which is acceptable to tenants and this has led to a majority of similar buildings within the portfolio having good occupancy rates.

We would recommend that the Bank should monitor regularly the progress of the portfolio to ensure that schemes are progressed in accordance with appropriate timescales and costings.

We consider that the freehold and long leasehold properties within the portfolio are suitable for Bank loan security purposes and the geographical spread across a number of sectors to offer good prospects for rental growth, a good level of security of income and good opportunities for increased value from intensive management and new lettings.

We have not been provided with accounts or other financial information on your customer and are unable to comment on their financial strength. We would recommend that you satisfy yourselves that the borrower has the necessary capacity to meet repayments and to continue to manage and maintain income levels.

Subject to the comments in this report, we consider the portfolio offers good security for loan purposes, although you should satisfy yourselves on the adequacy of capital or income cover afforded by the property portfolio as security to your own loan arrangements.

### **13. DISCLOSURE**

The Beneficiaries may disclose the report (without reliance): (a) where disclosure is required by law or in respect of legal proceedings in connection with the report; (b) to their respective agents or advisers, or any of them, in connection with the loan and hedging transactions under the Loan Documents or any securitisation; (c) to any financial institution or other entity in connection with the loan and hedging transactions under the Loan Documents, and their respective advisers; (d) to future owners, or prospective purchasers, of any property financed under the Loan Documents; and (e) to the rating agencies in connection with any securitisation of the Loan Documents and to investors or prospective investors in such securitisation. The Beneficiaries may also make reference to the report, and include all or part of the report, in any offering materials or ongoing investor reporting materials related to such securitisation. In addition, if any lead manager or co-manager is appointed in addition to The Royal Bank of Scotland plc in connection with any such securitisation, each such lead manager or co-manager will be permitted to rely upon this report as though an original addressee hereof.

Yours faithfully

D L Roper BSc FRICS  
Partner, Commercial Valuations  
For and on behalf of Knight Frank LLP

R J S Johnson BSc FRICS  
Partner, Commercial Valuations  
For and on behalf of Knight Frank LLP



This schedule forms part of the Valuation Report

**Properties Held by Bruntwood 2000 Alpha Portfolio Limited**

			Estimated Current Net Annual Rent Receivable	Estimated Current Net Annual Rental Value	Market Value as at 30 November 2006
Address	Description, Age and Tenure	Terms of Main Tenancies			
1. Alberton House St Mary's Parsonage Manchester	Alberton House is a multi-storey office building built in the 1970's having a total floor area of 5,792 sq m (62,344 sq ft). The site area is 0.19 ha (0.46 acres). Leasehold for 150 years from 21 May 2006 at a peppercorn rent.	Multi let on 26 internal repairing and insuring leases and licenses with Service Charge. Expiring between 2004 and 2019. 13 leases have breaks between 2007 and 2014.	£906,656	£984,222	£13,960,000
2. Bank Chambers/Leisure, Faulkner Street, Manchester	Multi-storey office building consisting basement, ground and four upper floors. Constructed in the late 1960's. Total net internal area 4,650 sq m (50,058 sq ft). Site area 0.36 ha (0.89 acres). Leasehold 200 years from 1966 at £30,000 per annum with review in 2067.	Multi let on 17 internal repairing and insuring lease and licences with Service Charge. Expiring between 2006 and 2024. 10 Vacant Car Spaces. 5 leases have breaks between 2007 and 2014.	£623,063	£704,822	£9,820,000
3. Centurion House 129 Queen Street Deansgate Manchester	The property comprises of a 12 storey office building constructed in the mid-1970's. The total net internal area is 5,558 sq m (59,821 sq ft). The total site area is	Multi let 22 internal repairing and insuring leases and licences with Service Charge. Expiring between 2006 and 2025. Part GF and F vacant. Breaks on 7 leases between	£724,186	£1,136,752	£17,340,000

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**Properties Held by Bruntwood 2000 Alpha Portfolio Limited**

	<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Net Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
		0.23 ha (0.55 acres). Freehold.	2007 and 2015.			
4.	Fairbairn House Ashton Lane Sale Cheshire	The property comprises three adjoining interconnecting office buildings. The main building, Fairbairn House, comprises 8 floors whilst the two adjoining buildings comprise of three floors. The total net internal area is 4,796.24 sq m (50,551 sq ft). The total site 0.57 ha (1.421 acres). Freehold.	Let on a full repairing and insuring lease expiring 2008.	£242,000	£454,959	£5,365,000
5.	Furness House Furness Quay Salford Quays Manchester	The property comprises three office buildings constructed in the mid-1960's. The three principle buildings are known as Furness House, Custom House and The Annexe. The total net internal area of all three buildings is 8,279 sq m (89,117 sq ft). The total site area is 1.61 ha (3.97 acres). Freehold.	Multi let on 41 internal repairing and insuring leases and licences with Service Charge. Expiring 2006 to 2016. One suite vacant. Breaks on 15 leases between 2006 and 2011.	£932,217	£1,065,140	£13,670,000
6.	Hepworth House, Clay Pitt Lane,	A multi-storey office building built	Let on 2 internal repairing and	£463,084	£746,228	£9,050,000

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**Properties Held by Bruntwood 2000 Alpha Portfolio Limited**

Address	Description, Age and Tenure	Terms of Main Tenancies	Estimated Current Net Annual Rent Receivable	Estimated Current Net Annual Rental Value	Market Value as at 30 November 2006
Leeds	in the 1970's. Total floor area 4,417 sq m (44,638 sq ft). The site covers an area of 0.05 hectares (0.13 acres). Long leasehold for 999 years at a peppercorn rent.	insuring leases with Service Charges. Expiring between 2006 and 2010. 6 floors vacant.			
7. Lancastrian Office Buildings Talbot Road Old Trafford Manchester	Comprises four main office buildings with ground floor car parking and five upper floors to each building under major refurbishment. Total office accommodation provided is some 9,125 sq m (98,219 sq ft). Freehold.	Multi let on 40 internal repairing and insuring leases and licences with Service Charge. Expiring between 2005 and 2018. 12 Suites Vacant. 34 vacant car spaces. 15 leases have breaks between 2006 and 2011.	£871,433	£1,077,776	£13,120,000
8. Manchester Technology Centre (Oxford House) Oxford Road Manchester	A multi-storey office building built between 1966 and 1989. Total floor area 6,634 sq m (71,413 sq ft). Site area 0.54 ha (1.34 acres). Leasehold for a term of 200 years from July 1989 at a peppercorn rent.	Let on 9 internal, repairing and insuring leases and licences with service charge. Expiry between 2007 to 2027. 1 vacant car space. 4 leases have breaks between 2007 and 2012.	£822,610	£1,217,650	£14,750,000
9. Marsland House Marsland Road Sale	A 5 storey office building, circa 1972 construction. Total	Multi let on 23 internal repairing and insuring leases	£454,517	£607,104	£7,265,000

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**Properties Held by Bruntwood 2000 Alpha Portfolio Limited**

<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Net Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
	net internal area 3,416 sq m (36,772 sq ft). Site area 0.336 ha (0.830 acres). Freehold	and licences with Service Charge. Expiring between 2006 and 2018. 2 vacant suites. 5 leases have breaks between 2006 and 2013.			
10. Millennium House Wellington Road South Stockport	A new four storey office building built in 2001 4,065 sq m (43,754 sq ft). Site area 0.67 ha (1.65 acres). Part freehold, part leasehold.	Let on a 17 year Full Repairing and Insuring lease with five yearly rent reviews. Expiring 2018.	£565,000	£621,307	£10,220,000
11. Orleans House Edmund Street Liverpool	The property is a Grade II Listed, 7 storey (including basement), office block, built in 1907. The total net internal area is 4,798 sq m (51,644 sq ft). The total site area is 0.13 ha (0.32 acres). Freehold.	Let on 27 internal repairing and insuring leases and licences with service charge. Expiring between 2005 and 2018. 2 suites and a basement vacant. 19 leases have breaks between 2007 and 2014.	£493,424	£599,393	£7,850,000
12. Overseas House Quay Street Manchester	The property comprises a 7 storey office building construction in the mid-1970's. The total net internal area is 5,756 sq m (61,958 sq ft). The total site area is 0.23 ha (0.55	Multi let on 11 internal repairing and insuring leases with Service Charge. Expiring between 2004 and 2025. 2 Vacant Car spaces. 6 leases have breaks between 2006 and 2016.	£494,995	£956,670	£15,220,000

This schedule forms part of the Valuation Report

**Properties Held by Bruntwood 2000 Alpha Portfolio Limited**

	<b>Address</b>	<b>Description, Age and Tenure</b> (acres). Freehold.	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Net Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
13.	Paragon House Seymour Grove Trafford Manchester	The property comprises a detached 8 storey office block, constructed in the mid 1970's and was internally refurbished 18 months ago. The total net internal area is 4,447 sq m (47,868 sq ft). The total site area is 0.28 ha (0.68 acres). Freehold and leasehold for 999 years from 8 July 2002 at a peppercorn rent.	Multi let on 19 internal repairing and insuring leases and licences with Service Charge. Expiring between 2005 and 2016. 10 leases have breaks between 2007 and 2010.	£460,444	£528,075	£6,295,000
14.	1 Portland Street Piccadilly Manchester	Multi-storey office building consisting basement, ground and six upper floors. Constructed about 1979 and totally refurbished in 2005. Total net internal area 5,607 sq m (60,355 sq ft). Site area 0.14 ha (0.35 acres). Freehold.	Multi let on 16 internal repairing and insuring leases and licences with Service Charge. Expiring between 2007 and 2021. 9 suites vacant. 7 leases with Breaks between 2008 and 2016.	£623,390	£1,280,365	£20,190,000
15.	Square One Travis Street Manchester	A former sorting office being refurbished as offices on four	3 leases on Masts and 2 leases on internal repairing and insuring terms	-£23,200	£1,977,165	£21,400,000

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<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Net Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
	upper floors with car parking. There is additional storage under arches with car parking. Total floor area 12,651 sq m (136,177 sq ft) total site area 2.06 ha (5.09 acres). Part freehold and part leasehold on 125 year lease at £55,700 per annum, subject to rent review.	with Service Charge. Expiring between 2017 and 2020. Car park let on short term licences. 2.5 vacant floors of offices. 3 leases have breaks between 2007 and 2013.			
16. Station House Altrincham	A multi-storey office building constructed in 1970's on ground and seven upper floors with 2 level car parking. Total net internal area. 7,273 sq m (78,292 sq ft). Site area 0.4ha (0.998 acres). Leasehold 200 years from January 1991 at a ground rent geared to 4% of net surplus (£40,000 per annum).	Multi let on 26 internal repairing and insuring leases and licences with Service Charge. Expiring between 2005 and 2019. 3 vacant suites. 9 leases have breaks between 2007 and 2014.	£1,160,478	£1,292,954	£15,100,000
17. St James Building Oxford Road Manchester	A multi storey office and retail building construction in six interlinking blocks built between 1911 and 1920. Total	Multi let on 100 Internal Repairing and Insuring leases and licences with Service Charge. Expiring between 2006 and 2024. 8	£3,454,117	£3,906,932	£57,320,000

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<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Net Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
18. Trafford House Chester Road Stretford Manchester	A 12 storey office building with 3 level detached car park. Constructed in 1972. Total net internal area 12,424 sq m (133,731 sq ft). Site area 0.96 ha (2.36acres). Freehold	Multi let on 49 Internal repairing and insuring leases and licences with Service Charge. Expiring between 2004 and 2018. One suite vacant. 26 leases have break clauses between 2006 and 2013.	£1,412,346	£1,493,162	£19,050,000
19. Trafford Plaza Seymour Grove Old Trafford Manchester	A 9 storey office building, constructed in 1973. Total net internal area 5,711 sq m (61,478 sq ft). Site area 0.89 ha (2.2 acres). Freehold	Let on 31 internal repairing and insuring leases and licences with service charge. Expiring between 2006 and 2019. 18 leases have breaks between 2006 and 2014.	£718,059	£756,334	£9,775,000
20. West One Wellington Street Leeds LS1 1BA	An 11 storey building originally developed in the 1980's and currently being refurbished to provide office and retail space having a total floor area of 8,464 sq m (91,106 sq ft) on a site of 0.232 ha (0.56	Multi let on 60 Internal repairing and insuring leases and licences with Service Charge. Expiring between 2006 and 2017. 13 vacant suites. 97 vacant car spaces. 15 leases have breaks between	£1,865,119	£1,987,498	£25,640,000

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<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Net Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
21. Westgate Grace Street Leeds	acre). Leasehold, 135 years from 9 October 1984 at a peppercorn rent.  A 7 storey office building, originally developed in the 1980's currently being refurbished to provide office space. Total net internal area of 7,397 sq m (79,622 sq ft) site area 0.218ha (0.52 acre). Freehold	2007 and 2013.  Multi let on 11 internal repairing and insuring leases and licences with Service Charge. Expiring between 2006 and 2030. 1 suite vacant. 5 car spaces vacant. 4 leases have breaks between 2010 and 2020.	£1,918,776	£1,193,344	£17,490,000
22. Wilderspool Park Warrington	A property comprising four detached office buildings built between 1850 and 1998. The majority have been extensively refurbished in the last five years. Total floor area 8,341 sq m (89,790 sq ft). Total site area 9.48 ha (23.42 acres). Part freehold and part leasehold at peppercorn rents.	Multi let on 25 internal repairing and insuring leases and licences with Service Charge. Expiring between 2005 and 2017. 2 car spaces vacant. 14 leases have breaks between 2007 and 2012.	£1,272,182	£1,310,796	£17,540,000
23. 26 York Street Manchester	A former telephone exchange built 1909 but converted to offices in 1988 and recently refurbished	Multi let on 13 internal repairing and insuring leases and licences with Service Charge.	£589,930	£649,701	£11,500,000



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<b>Address</b>	<b>Description, Age and Tenure</b>	<b>Terms of Main Tenancies</b>	<b>Estimated Current Net Annual Rent Receivable</b>	<b>Estimated Current Net Annual Rental Value</b>	<b>Market Value as at 30 November 2006</b>
	providing car parking in the basement, ground floor and three upper floors and offices. Total floor area 3,364 sq m (36,208 sq ft). Site area 0.13 ha (0.32 acres). Freehold	Expiring between 2006 and 2019. 4 vacant car spaces. 9 leases have breaks between 2009 and 2014.			

## BORROWER TRANSACTION DOCUMENTS

### The Loan Agreements

The BE Loan will be advanced under the terms of a loan agreement to be entered into on or about the Closing Date between, among others, the Issuer, the BE Borrower and the Borrower Security Trustee (the **BE Loan Agreement**). The B2000 Loan will be advanced under the terms of a separate loan agreement to be entered into on or about the Closing Date between, among others, the Issuer, the B2000 Borrower and the Borrower Security Trustee (the **B2000 Loan Agreement**). The BE Loan Agreement and the B2000 Loan Agreement are together referred to as the **Loan Agreements** and, each, a **Loan Agreement**.

Each Borrower will, on the Closing Date, use the proceeds advanced by the Issuer under the relevant Loan Agreement to acquire various properties (the **BE Properties** and the **B2000 Properties**, as appropriate, and, together, the **Properties**) from certain of its affiliates. The Properties to be acquired by the BE Borrower are together referred to as **BE Portfolio** and the Properties to be acquired by the B2000 Borrower are together referred to as the **B2000 Portfolio** and, together with the BE Portfolio, the **Portfolios**. The obligations of each Borrower to the Issuer will be jointly and severally guaranteed by the relevant Guarantors.

### Loan Protection Advances

Each Loan Agreement will permit the Issuer to pay sums payable by the relevant Borrower (or, as the case may be, Guarantor) to certain third parties (such as an insurer or a landlord in respect of leasehold property held) if that Borrower fails to do so. The Issuer will be entitled to do this only with the consent of the Servicer (or the Special Servicer, as applicable). Any such amount paid will be treated as a further advance (a **Loan Protection Advance**) to the relevant Borrower and will form part of the relevant Loan. Any Loan Protection Advance will be paid directly to the relevant third parties in accordance with the terms of each Loan Agreement and the Servicing Agreement

### Payment of Interest and Repayment of Principal

Interest in respect of each Loan will be payable by the relevant Borrower during the term of the Loan on each Interest Payment Date commencing with the Interest Payment Date falling in April 2007. The Loan Agreements contain provisions for determining the amount of interest payable on each Interest Payment Date in respect of each Loan. Interest on each loan will accrue at a fixed rate (by reference to the swap rate set at Issuer level and the cost of funds of the Issuer under the Notes) and is calculated on the principal of the relevant Loan outstanding at the end of each Interest Period.

Each Borrower will pay its *pro rata* share by loan value of the Issuer's costs, expenses and an amount of the Issuer's retained profit, on each Interest Payment Date. In the event of a failure by one Borrower to pay, for any reason, its *pro rata* share of the Issuer's expenses, the other Borrower will be liable to pay all such expenses itself.

All payments due under the Loan Agreements will be made free and clear of, and without withholding or deduction for, any tax unless such withholding or deduction is required by law. If any such withholding or deduction is so required, the amount of the payment due to the Issuer will be increased to the extent necessary to ensure that, after any withholding or deduction has been made, the amount received by the Issuer is equal to the amount that it would have received had that withholding or deduction not been required to be made.

Each Loan is repayable in full on the Interest Payment Date falling in January 2014.

## Borrower Accounts

Each Borrower will undertake to open a number of bank accounts (the **Borrower Accounts**) into which Net Rental Income and other monies received in connection with the Properties are required to be paid. Following a Loan Event of Default, the Borrower Security Trustee will be able to assume sole signing rights and control over those Borrower Accounts in respect of which it does not already have sole signing rights (see below for further details).

As at the date of this Prospectus, all of the Borrower Accounts are held with The Royal Bank of Scotland plc (as Borrower Account Bank).

### (a) Receipts Accounts

The relevant Borrower and the Borrower Security Trustee will each have individual signing rights in relation to the relevant **Receipts Account**. In the event of a Loan Event of Default by a Borrower, the Borrower Security Trustee may operate the account. Each Borrower will deposit all Net Rental Income, including any Break Option Amounts and any Surrender Premiums into the relevant Receipts Account. Where a Break Option Amount or Surrender Premium paid by a tenant is, or represents compensation for, Net Rental Income payable more than one quarter in advance, the Cash Administrator, (on behalf of the Borrower Security Trustee), will transfer that amount to the relevant Borrower's Holding Account.

On any day on which an amount is due under a lease under which a Borrower holds title to a Property (a **Headlease**), the Cash Administrator may withdraw from the Receipts Account an amount necessary to pay that due amount.

On each Cash Sweep Date, the Cash Administrator (on behalf of the Issuer and Borrower Security Trustee) will withdraw the Required Quarterly Debt Service Amount from the Receipts Account and transfer that amount to the Debt Service Account.

**Cash Sweep Date** means the Business Day following the earlier to occur of:

- (i) the date (not earlier than the first Business Day after the Rent Payment Date) on which the balance of the Receipts Account is equal to or greater than the Required Quarterly Debt Service Amount for that Interest Period; and
- (ii) the date falling four Business Days prior to each Interest Payment Date.

**Required Quarterly Debt Service Amount** means, in respect of an Interest Period, the aggregate of all amounts (other than principal) payable by the Relevant Borrower to the Issuer under the relevant Loan Agreement.

### (b) General Accounts

The relevant Borrower and the Borrower Security Trustee will each have individual signing rights in relation to the relevant **General Account**. In the event of a Loan Event of Default by a Borrower, the Borrower Security Trustee may operate the account. Each Borrower must ensure that any amount received by it must be paid into the General Account, unless required pursuant to the terms of the relevant Loan Agreement to be paid into any other Account. Subject to any restriction in a Subordination Deed and if no Default is outstanding, each Borrower may withdraw any amount from its General Account for any purpose.

**Default** means:

- (i) a Loan Event of Default; or
- (ii) an event which would be (with the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) a Loan Event of Default.

(c) **Holding Accounts**

The Borrower Security Trustee has sole signing rights in relation to each Borrower's **Holding Account**.

The Borrower Security Trustee will, from time to time, be required to transfer portions of Surrender Premiums or Break Option Amounts from the relevant Receipts Account to the relevant Holding Account as provided in the relevant Loan Agreement (respectively, the **Set Aside Premium** and the **Set Aside Amount**).

Additionally, each Borrower must pay into its Holding Account any amount payable by such Borrower as a **Required Surrender Premium Amount Deficiency Payment** which is the difference between (i) in respect of a Lease Document, an amount equal to the net present value (**NPV**) (discounted at 10%) of the **Net Rental Income** payable by the relevant tenant to the Borrower up to the contracted end of the relevant lease term or (if earlier) the first time at which the tenant is entitled to exercise a break option in respect of that Lease Document (the **Required Surrender Premium Amount**) and (ii) the amount received by the Borrower from the relevant tenant as a **Surrender Premium**.

The Borrower Security Trustee must, at the request of the relevant Borrower and on evidence satisfactory to the Borrower Security Trustee, transfer the Set Aside Amount, the Set Aside Premium and any remaining Required Surrender Premium Amount Deficiency Payment from the Holding Account to the General Account:

- (i) when replacement quarterly rental income, matching or exceeding the amount of quarterly rental income for which the Break Option Amount, the Surrender Premium and/or the Required Surrender Premium Amount Deficiency Payment was paid, is received pursuant to a binding Lease Document;
- (ii) when the Occupational Lease, in relation to which the Break Option Amount, the Surrender Premium and/or the Required Surrender Premium Amount Deficiency payment was paid, expires or would have expired; or
- (iii) where the Projected Interest Cover on a Test Date can be demonstrated to be greater than 130%.

Where the Set Aside Amount, the Set Aside Premium or the Required Surrender Premium Amount Deficiency Payment has not been released, the Borrower Security Trustee must, at the request of the relevant Borrower transfer to the Receipts Account a portion of such Set Aside Amount, Set Aside Premium and/or Required Surrender Premium Amount Deficiency Payment equal to the relevant tenant's quarterly rent due and payable (but for the relevant Break Option Amount or Surrender Premium) at that time.

(d) Disposal Proceeds Accounts

The Borrower Security Trustee has sole signing rights in relation to each Borrower's **Disposal Proceeds Account** which are accounts maintained in the names of the Borrowers into which: (i) the Net Disposal Proceeds from the disposal of a Property or Properties made in accordance with the Loan Agreement (described in *Disposals and substitutions*, below), (ii) any Compulsory Purchase Proceeds derived from the disposal of all or part of a Property as a result of a Compulsory Purchase and (iii) any insurance proceeds required to be used to prepay the relevant Loan must be paid. If no Loan Event of Default is outstanding, the Borrower Security Trustee may apply amounts standing to the credit of the Disposal Proceeds Account in the manner more particularly described in *Disposals and substitutions* below.

**Net Disposal Proceeds** means the gross proceeds of the disposal permitted under the Disposals and Substitutions provisions of the relevant Loan Agreement, less an amount equal to the reasonable costs and expenses of third parties (excluding those of the relevant Borrower and its Affiliates) and excluding any VAT in connection with the disposal which are incurred by the relevant Borrower, full details of which are notified to the Borrower Secured Creditors.

**Compulsory Purchase Proceeds** means the amount received by a Borrower, excluding any VAT and reasonable third party costs, as a result of Property being compulsorily purchased or where the applicable local authority has made an order for the Compulsory Purchase of all or any part of that Property (a **Compulsory Purchase**).

(e) Tenant Deposit Accounts

Each Borrower has signing rights in relation to its **Tenant Deposit Account**. In the event of a Loan Default by a Borrower, the Borrower Security Trustee may operate the account. Each Borrower must ensure that any tenant deposit received by it must be paid into the Tenant Deposit Account unless required pursuant to the terms of the relevant Occupational Lease to be paid into a solicitor's account. Provided no Default is outstanding, each Borrower may withdraw any amount from its Tenant Deposit Account to repay the amount to the Tenant or use the amount as prescribed by the relevant Occupational Lease.

(f) Debt Service Accounts

The Borrower Security Trustee has sole signing rights in relation to the **Debt Service Account**. Subject to the terms of the relevant Loan Agreement, any sum standing to the credit of the Debt Service Account must be applied towards the next payable payment under the relevant Loan Agreement.

Disposals and substitutions

Except as provided in the relevant Loan Agreement, the Borrower may not, either in a single transaction or in a series of transactions, and whether related or not, dispose of a Property (or any interest therein) or all or any part of its assets, with the exception of a disposal:

- (a) made with the consent of the Issuer;
- (b) made by way of the grant, renewal or extension of an Occupational Lease pursuant to the terms of the Loan Agreement;
- (c) of cash by way of a payment out of an Account in accordance with the relevant Loan Agreement;

- (d) made in the ordinary course of trading of any asset that is subject to a floating charge and is not expressed to be subject to a fixed charge under the relevant Borrower Security Agreement;
- (e) that is a Compulsory Purchase; or
- (f) of a Property made in accordance with the requirements set out below.

The Borrower may request that the Borrower Security Trustee release a Property (the **Released Property**) from the Security and that as alternative security the Borrower Security Trustee is given Security over a new property (the **Additional Property**) if, among other things: (I) no Default is outstanding or would result from such disposal and substitution, (II) no Note Event of Default is outstanding, (III) Actual Interest Cover being no less than 120% on the most recent Test Date the (**Actual Interest Cover Test**), (IV) the LTV being no greater than 80% on the most recent Test Date, and the requirements set out below.

Following receipt of such a request from the Borrower, the Borrower Security Trustee may (acting on the instructions of the Issuer) consent to the release of a Property and its substitution with an Additional Property and confirm the Allocated Loan Amount for the Additional Property. Such consent must be given if, among other things:

- (i) the aggregate value of those Properties already released from the Security together with the value of the Property which the Borrower proposes to release does not exceed an amount equal to 25%, of the value of the relevant Borrower Portfolio at the Closing Date (with two exceptions: (A) the release of the City Tower property will not be included in this calculation for the BE Portfolio and will be subject to a separate ratings affirmation test; and (B) the value of released property in either Portfolio may be reset to nil with the consent of the Rating Agencies and after obtaining rating affirmations on this basis);
- (ii) the Additional Property is located in the United Kingdom and is not within the administrative area of Greater London;
- (iii) the Additional Property, if a leasehold, has a headlease of greater than 75 years;
- (iv) the Borrower supplies such information and details concerning any offered Additional Property as reasonably requested;
- (v) the conditions precedent set out in the Loan Agreement are complied with and the Borrower Security Trustee (acting on the instructions of the Issuer) confirms the Allocated Loan Amount for the additional property;
- (vi) the Additional Property has greater or equal rental income and Market Value, and is similar in nature and quality (including the financial strength of the tenants) to the Released Property;
- (vii) the acquisition of the Additional Property does not result in any single tenant of the Borrower, with the exception of a Secretary of State entity, accounting for 10% or more of the Borrower's rental income or in the Borrower having fewer than 200 tenants subject to binding Lease Documents;
- (viii) the Additional Property has no less than 85% office use by lettable area;
- (ix) the Additional Property does not represent more than 25% of the relevant Portfolio by market value;
- (x) the acquisition of the Additional Property does not shorten the weighted average lease length to the first break (the **WALL**) of the relevant Borrower's Portfolio, as determined immediately before the substitution date, by more than 10%;

- (xi) the net present value (discounted at 5%) of the Borrower's Net Rental Income (to the first Break Option) from investment grade tenants is not more than 25% less than before the substitution date of the Additional Property; and
- (xii) any such substitution will not cause the Borrower to be in breach of its obligations under the relevant Loan Agreement including maintaining the required Actual Interest Cover and LTV.

The reasonable costs of the Borrower Security Trustee incurred in connection with any of the above matters must also be paid before such consent may be given. The Borrower Security Trustee will, at the request and cost of the Borrower, release the Security insofar as it relates to the relevant Property to be released but not further or otherwise.

**Market Value** has the meaning given to it in the then current Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors.

The Borrower is also entitled to dispose of a Property with at least 10 business days' notice if no Default is outstanding or would result from that disposal and the Net Disposal Proceeds of the Released Property less any taxes payable amounts to at least equal to the aggregate of the Minimum Prepayment Amount and the Issuer's estimate of the losses and liabilities for which the Borrower would be liable pursuant to the Loan Agreement (the **Required Amount**).

**Minimum Prepayment Amount** means, in respect of a Property or an Additional Property, an amount equal to 115% of the Allocated Loan Amount in respect of that Property.

On the disposal of a Released Property or upon receipt of Compulsory Purchase Proceeds, the Borrower shall immediately deposit the Net Disposal Proceeds or the Compulsory Purchase Proceeds, as the case may be, into the Disposal Proceeds Account. If, in the case of a voluntary disposal, the Net Disposal Proceeds (less any taxes payable) are less than the Required Amount, the Borrower must be permitted to sell the Released Property if it procures that an after-tax amount equal to such shortfall is deposited into the Disposal Proceeds Account immediately prior to the sale of that Released Property. If the Required Amount or the Compulsory Purchase Proceeds have been deposited into the Disposal Proceeds Account pending the acquisition of an Additional Property, the Borrower may request that the amount so deposited (or any part of it) is applied to acquire an Additional Property subject to the consent of the Borrower Security Trustee (acting on the instructions of the Issuer) and the conditions above being satisfied in respect of that Additional Property.

#### Prepayment of the Loans

The Borrowers are each obliged to make a prepayment of principal under the Loan Agreements in the following circumstances:

- (a) if it is or becomes unlawful in any jurisdiction for the Issuer to perform any of its obligations under a Finance Document or fund or maintain the Loans, the Loans must be repaid in full;
- (b) if the Borrower Security Trustee so requires, to the extent moneys received by the Borrower or by the relevant Guarantor under any insurance policy in respect of a Property are not applied towards replacing, restoring or reinstating that Property, such proceeds must go to prepayment of the Loan;
- (c) if there is any sum standing to the credit of the Disposal Proceeds Account and a period of twelve months has elapsed since the payment of that sum into the Disposal Proceeds Account, the Borrower must make a prepayment equal to the Minimum Prepayment Amount;
- (d) if any part of a Property is destroyed or damaged and, in the opinion of the Issuer, taking into account the amount and timing of receipt of the proceeds of insurance, the destruction or damage has

or would be reasonably likely to have a Material Adverse Effect, the relevant Borrower must repay the Loan by an amount equal to the Major Damage or Loss Amount; or

- (e) if required by the Issuer following a change of control of the Borrowers' ultimate parent.

**Major Damage or Loss Amount** is the aggregate of:

- (a) the Minimum Prepayment Amount; and
- (b) the Issuer's estimate of the losses and liabilities for which the Borrower would be liable pursuant to the Break Costs provisions of the relevant Loan Agreement.

A Borrower may prepay if the relevant Borrower is, or will be, required to pay to the Issuer a Tax Payment or an Increased Cost. A **Tax Payment** means a payment made by the Borrower to the Issuer in any way relating to a Tax Deduction or under any indemnity given by the Borrower in respect of Tax.

**Increased Cost** means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return from the relevant Loan or on its overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by a Borrower Secured Creditor or any of its Affiliates but only to the extent attributable to the Issuer having entered into any Finance Document or a Borrower Secured Creditor funding or performing its obligations under any Finance Document.

Each Borrower may also voluntarily prepay the relevant Loan in whole, but not in part, on any Interest Payment Date provided that such Borrower gives not less than 20 Business Days' prior written notice to the Issuer.

Additionally, if there is any sum standing to the credit of a Borrower's Disposal Proceeds Account, a Borrower may request that this amount be used to prepay its Loan on the next Interest Payment Date or at any time after the Borrower has given 10 Business Days' prior notification to the Issuer of its intention to make a prepayment from the Disposal Proceeds Account. The Borrower Security Trustee may, after giving notice to the Borrower, apply any sum remaining standing to the credit of a Borrower's Disposal Proceeds account after 12 months as a prepayment of the relevant Borrower's Loan.

### Representations and Covenants

For the purposes of each Loan Agreement, the term Obligor means each relevant Borrower, the relevant Guarantors and, in respect of the B2000 Loan Agreement, the Nominees.

The Loan Agreements contain several representations and covenants to be made by the Obligors. There follows a summary of the representations and covenants to be given by the Obligors, each of which is subject to the qualifications and disclosure set out in the relevant Loan Agreement, certain of which will also be given by the Share Mortgagors under the Mortgage of Shares.

#### *Representations*

No independent investigation with respect to the representations in the Loan Agreements will be made by the Issuer, the Trustee or the Borrower Security Trustee, other than searches made on or about the Closing Date against the Obligors in the relevant file held, in respect of the Obligors and the Share Mortgagors at the



Companies Registry, and an oral enquiry made to the Central Registry of Winding-Up Petitions and searches against the Properties at H.M. Land Registry. Apart from such searches, in relation to such matters, the Issuer, the Trustee and the Borrower Security Trustee will rely entirely on the representations to be given by the Obligors and the Share Mortgagors in each Loan Agreement and each Mortgage of Shares (as applicable).

These will include representations all of which will be given by the Obligors and certain of which will also be given by the Share Mortgagors, each subject to grace periods and certain materiality thresholds, including as to the following:

- (a) each Obligor having the necessary status, power and authority to enter into the Borrower Transaction Documents;
- (b) each Obligor having its tax residence and centre of main interests in the United Kingdom;
- (c) no Loan Event of Default has occurred and is continuing;
- (d) the basis of preparation of financial statements;
- (e) no litigation, arbitration or administrative proceedings likely to have a Material Adverse Effect;
- (f) on and from the Closing Date, the Obligors (as applicable) being the sole legal and beneficial owners of their interest in each Property and having good and marketable title to that interest;
- (g) all material environmental laws having been complied with, and any relevant environmental licences having been obtained in relation to each Property;
- (h) no conflict with applicable laws and regulations;
- (i) the Obligors not having carried on any business or engaged in any activities other than as described in the Borrower Transaction Documents;
- (j) on and from the Closing Date, any security granted by the Obligors pursuant to the Borrower Security Documents constitutes a security interest of the type described therein over the assets that are the subject of the Borrower Security Documents and those assets are not subject to any prior *pari passu* security interest;
- (k) all written information supplied by it or on its behalf to the Issuer, the Borrower Security Trustee, the valuers and the lawyers who prepared the Report on Title in connection with the Borrower Transaction Documents, the Valuation and the Report on Title (as applicable) was true and accurate as at its date; and
- (l) the Borrower not being required to make any deduction or withholding in respect of tax from any payment under the Borrower Transaction Documents.

Each representation is deemed to be repeated on the Closing Date, every Test Date, each Interest Payment Date and each time a Borrower withdraws an amount from its Receipts Account.

#### *Covenants*

The Borrowers have covenanted not to dispose of any of their assets except as permitted under the Loan Agreements. Additional covenants include (subject to agreed exceptions), no material amendment, waiver or surrender of any Agreement for Lease, Occupational Lease, Serviced Offices Licences or car parking licence (each a **Lease Document**, and together the **Lease Documents** (subject to agreed exceptions)), procuring that

insurance is maintained in relation to the Properties, the provision of information and accounts, notification of default, provision of compliance certificates, maintenance of authorisations and consents, compliance with environmental law and approvals, compliance with headlease covenants, not to change business, not to effect mergers and acquisitions, lending and borrowing (other than inter-company amounts), entering into other contracts, issuance of shares or declaration of dividends, granting new Occupational Leases or subleases, entering into licence arrangements not to carry out alterations to the Property or carry out any planning or development.

### General Property Covenants

Pursuant to the Loan Agreements, each Borrower covenants: (i) to operate and manage the Properties to the standard of a prudent landlord and manager of property (including assessing whether to forfeit or enforce); (ii) to manage the Properties with a view to maximising the long-term rental income and the long-term capital value of the property; and (iii) not to appoint any property manager of any Property without the prior written consent of, and on terms approved by, the Issuer.

### Occupational Leases

Pursuant to the Loan Agreements, the Borrowers must not enter into any new lease or agree to any amendment, waiver or surrender in respect of any Lease Document except as permitted by the relevant Loan Agreement.

Any and all new leases or amendments must be substantially in the form of the Bruntwood Group's long-form or short-form pro forma leases and each new lease or amendment must meet the specific leasing parameters including upwards-only rent reviews, no-assignment clauses and no-alteration covenants.

Any new lease of less than £200,000 per annum indexed on each anniversary date to the RPI up to a total value of £2,000,000 per annum can be entered into at the Borrower's discretion. Where the Borrower will exceed the £2,000,000 per annum limit, the Borrower must obtain the consent of the Borrower Security Trustee for such leases.

Leases in respect of which the ERV is greater than £200,000 per annum must obtain consent from the Borrower Security Trustee unless the lease meets the leasing parameters and either the present value of the rental income from such lease exceeds that of the previous lease or the unit is let for more than 80% ERV.

With respect to amending Occupational Lease Documents, if the current rental income for such Occupational Lease is greater than £100,000 per annum indexed on each anniversary date to the RPI and an amendment of such Occupational Lease will result in either a reduction in rental income or an increase the Borrower's obligations under any Occupational Lease, the Borrower must first obtain consent from the Borrower Security Trustee.

The Borrowers may accept the surrender of an Occupational Lease if the total annual Net Rental Income otherwise payable under that Occupational Leases does not represent more than 10% of the relevant Borrower's annual Net Rental Income, the surrender is on arm's length terms and Occupational tenant pays the Borrower an amount equal to the net present value (discounted at 10%) of the Net Rental Income otherwise receivable by the relevant Borrower in respect of that Occupational Lease.

A Borrower may accept surrender of an Occupational Lease without this payment by the tenant in limited circumstances including, among others, where the tenant enters into a new Occupational Lease or the Borrower deposits an amount equal to the net present value (discounted at 10%) of the Net Rental Income otherwise receivable by the relevant Borrower in respect of that Occupational Lease.

Each Borrower's leasing is managed by BMSL. BMSL will covenant in the Property Management Agreements to not unfairly discriminate against either Borrower's Portfolio properties in any marketing of properties owned directly or indirectly by Bruntwood Limited or Bruntwood 2000 Limited or their affiliates.

#### Licences

The Loan Agreements restrict the Borrowers from entering into licence arrangements. A Borrower may enter into a licence arrangement provided the licence will be substantially in the form of the Bruntwood Group's pro forma licence and the aggregate of the Borrower's and the Borrower's affiliates' licence arrangements account for no more than 10% of the total lettable area in the relevant Borrower's Portfolio.

#### The Interest Cover

The minimum Actual Interest Cover at each Test Date is 120%. Each Borrower must maintain the Actual Interest Cover and confirm this on each Interest Payment Date. Additionally, each Borrower must satisfy the Borrower Security Trustee that it has an Actual Interest cover of 120% before it may dispose of a Property.

**Test Date** means each Rent Payment Date.

**Actual Interest Cover** is, as at each Test Date, Quarterly Rental expressed as a percentage of Quarterly Finance Costs. For the purposes of this definition:

- (a) **Quarterly Finance Costs** as at any Interest Payment Date means the aggregate amount payable to the Borrower Secured Creditors under the Finance Documents (other than the requirement to repay the then outstanding amount of the relevant Loan, together with all other amounts outstanding under the Finance Documents, in full to the relevant Finance Parties on the relevant Loan Maturity Date) on the next Interest Payment Date.
- (b) **Quarterly Rental** as at any Test Date means the passing Net Rental Income received since the immediately preceding Test Date. In determining Quarterly Rental, the Issuer will exclude:
  - (i) any Rental Income attributable to lettable area occupied by the Borrower or any affiliate of the Borrower, excluding lettable area occupied by Bruntwood Business Centres Limited, in excess of 5% of the relevant Borrower's total lettable area;
  - (ii) any Break Option Amount or Surrender Premium that is Net Rental Income payable more than one quarter in advance and/or Required Surrender Premium Amount Deficiency payment that has not been transferred to the Receipts Account;
  - (iii) any service charge shortfalls the Borrower is obliged to discharge in respect of service charge caps;
  - (iv) any amounts or shortfall the relevant Borrower is obliged to discharge in respect of any part of the relevant Borrowers Portfolio available for letting being unlet; and
  - (v) any rent or other monies payable in respect of any Headlease.

**Net Rental Income** means rental income other than Tenant Contributions and VAT payable by the tenant.

**Break Option Amount** means any sum paid or payable, or the value of any consideration given, for the surrender or variation of a Lease Document pursuant to that Lease Document.

**Surrender Premium** means any amount payable by the tenant, and agreed between the tenant and the Borrower, but which is not permitted pursuant to the terms of the relevant Lease Document, on a surrender or variation of the Lease Document as payment that is, or represents compensation for, Net Rental Income.

**Rent Payment Dates** means 25 March, 24 June, 29 September and 25 December.

#### Insurance

The Borrowers shall procure that insurance is maintained in respect of:

- (a) each Property and the plant and machinery on each Property insured on a full reinstatement basis for (i) all normally insurable risks of loss or damage, (ii) site clearance, professional fees and VAT (with allowance for inflation), (iii) three years of lost rent (including provision for rental increases), and (iv) acts of sabotage and terrorism (including third party liability arising from such acts).
- (b) property owners' insurance with public liability and products' liability coverage; and
- (c) such other insurance that a reasonable and prudent property owner of similar properties would accept.

All insurance must be in a form acceptable to the Issuer and the Borrower Security Trustee (acting reasonably) and must be with insurance companies or underwriters having a financial strength rating, if rated by S&P, of at least A by S&P and, if rated by Fitch, at least A by Fitch.

The Borrowers will procure that all such insurances name the Borrower Security Trustee as co-insured and first loss payee.

#### Capital Expenditure Requirements

Under each Loan Agreement, the Borrower is restricted in entering into any development, refurbishment, improvement or other capital works in respect of a Property. Development may only be undertaken in accordance with the terms of the relevant Loan Agreement.

To limit the risk that the Borrowers will incur liabilities or engage in work that will negatively impact on their ability to earn rental income the Loan Agreements prevent the Borrowers from, except under limited conditions, engaging in work of a structural nature where the work will result in a rent abatement, reduction or other non-payment of rent of more than 50% of the current passing rent for the Property; or the projected cost of the work represents more than 5% of relevant Portfolio value or 15% of value of the relevant Property (the **Major Work**).

To engage in Major Work, another member of the Borrower's group that is not an Obligor must enter into all agreements in respect of the Major Work and, before work has commenced, the Borrower must either obtain permission from the Borrower Security Trustee, or post a performance bond or cash equal to 110% of the projected cost of the Major Work or satisfy the Borrower Security Trustee that it can afford to pay for 110% of the projected cost of the Major Work from excess Net Rental Income or any combination of bond, cash or excess Net Rental Income.

With respect to posting a performance bond or cash, the Borrower must ensure that, at all times, the bond or cash is equal to 110% of the cost of the Major work and, in the case of a performance bond, that the bond issuer is and remains an institution that has a financial strength rating, if rated by S&P, of at least A by S&P and, if rated by Fitch, at least A by Fitch or, in the case of a cash, on deposit with an Eligible Bank.

Where the Borrower satisfies the Borrower Security Trustee that it can afford to pay for the Major Work with excess Net Rental Income, it must do so on the basis that it has 110% of the projected cost of the Major

Work anticipated to be incurred each quarter and will be able to pay for that work in the quarter in which the cost is incurred.

**Projected Interest Cover** is, as at any Test Date, Projected Rental expressed as a percentage of Projected Finance Costs, where:

- (a) **Projected Finance Costs** on any Test Date means the Issuer's estimate (acting reasonably) of the aggregate amount payable by the Borrower to the Finance Parties under the Finance Documents for each quarterly period ending on the four Interest Payment Dates immediately following the next Interest Payment Date; and
- (b) **Projected Rental** on any Test Date means the Issuer's estimate of the Relevant Borrower's Net Rental Income for each quarterly period ending on the following four Test Dates. For the purposes of making this estimate:
  - (i) the Issuer will assume that a break clause under any Lease Document will be deemed to be exercised at the earliest date available to the relevant tenant;
  - (ii) Net Rental Income will be ignored unless payable under an unconditional and binding Lease Document;
  - (iii) potential Net Rental Income increases as a result of rent reviews will be ignored other than where there are fixed rental increases under the relevant Lease Documents;
  - (iv) Net Rental Income payable by a tenant that is in arrears on its rental payments will be ignored;
  - (v) any Set Aside Amount, Set Aside Premium and/or Surrender Premium Required Amount Deficiency Request not attributable to rent payable in the quarterly periods ending on the following four Test Dates will be ignored;
  - (vi) Net Rental Income will be reduced by the amounts (together with any related VAT or similar taxes) of ground rent, rates, service charges, insurance premia, maintenance and other outgoings with respect to each Property to the extent that any of those items are not fully funded by the tenants under the Lease Documents; and
  - (vii) any Net Rental Income attributable to occupation by an Affiliate of a Borrower in excess of 5% of the relevant Borrower's total lettable area will be ignored.

#### Relationship between Loan Agreement and the Notes

The occurrence of a Loan Event of Default will not automatically constitute a Note Event of Default (as defined in **Condition 10**) under the Notes.

#### Security for the Loan Agreement

The Loan Agreements are secured over the assets, property and undertakings of the relevant Borrower, the relevant Guarantors and the relevant Nominees as described in the relevant Borrower Security Agreement.

#### Loan Events of Default

The Loan Agreements contain a number of events of default (each, a **Loan Event of Default**) which include non-payment or insolvency of an Obligor, breach of certain Warranties, cessation of business or change of ownership of the Borrowers, and any series of events which causes a Material Adverse Effect.

The occurrence of a Loan Event of Default will, upon notice being given by the Borrower Security Trustee, result in the floating charge granted by the Obligors crystallising so as to become a fixed charge.

The Loan Agreements will be governed by English law.

## **Borrower Security Documents**

### **(a) *Borrower Security Agreements***

Each of the BE Borrower and the B2000 Borrower will enter into a security agreement on or about the Closing Date with, among others, the relevant Guarantors, the Relevant Nominees and the Borrower Security Trustee (the **Borrower Security Agreements** and each a **Borrower Security Agreement**). Each Borrower Security Agreement will secure, among other things, all the obligations of the relevant Borrower to the Issuer pursuant to the relevant Loan Agreement, and will be drafted on a security trust basis, so that the Borrower Security Trustee will hold the security created pursuant to the Borrower Security Agreement on trust for the Borrower Secured Creditors.

#### **(i) Creation of security**

Each Borrower Security Agreement will grant in favour of the Borrower Security Trustee a first ranking fixed legal charge mortgage over each relevant Property and any other properties belonging to the Obligors (or, in the case of the lease of Paragon House, a charge over the beneficial interest) and a first fixed charge over, among other things, any plant and machinery belonging to each Obligor, each Obligor's interest in any Occupational Leases and any shares held by it in another Obligor, as applicable, and a legal assignment by way of security of the Obligor's interest in any insurance policy relating to a Property, the rights of each Borrower in respect of the relevant Property Management Agreement, the rights of each Borrower in respect of the Borrower Accounts and any other account of the relevant Borrower relevant Guarantor and/or Nominees, interests in any trusts over any relevant collection accounts, the relevant Borrower's rights under its Loan Agreement and any other agreements it is a party to, and book and other debts of each Obligor.

In addition, each Obligor, as applicable, will assign absolutely to the Borrower Security Trustee by way of security its interests in all rental income and any guarantee of rental income contained in or relating to any Occupational Lease in respect of the Properties in the relevant Portfolio.

Each Obligor will also grant a first floating charge in favour of the Borrower Security Trustee over all of its assets not otherwise mortgaged, charged or assigned by way of fixed mortgage or charge or assignment under the Borrower Security Agreement.

#### **(ii) Enforceability and Governing Law**

The security to be created by the relevant Borrower Security Agreement will only be enforceable once a Loan Event of Default under the relevant Loan Agreement has occurred. The charge will confer upon the Borrower Security Trustee and any receiver appointed by it a wide range of powers in connection with the sale or disposal of the relevant Property and its management, and each of them will be granted a power of attorney on behalf of the relevant Obligor in connection with the enforcement of its security.

Each Borrower Security Agreement will be governed by English law.

(b) *Mortgages of Shares*

A mortgage of shares will be entered into on or before the Closing Date between Bruntwood Estates Holdings Limited and the Borrower Security Trustee, and between Bruntwood 2000 Holdings Limited and the Borrower Security Trustee (respectively the **BE Mortgage of Shares** and the **B2000 Mortgage of Shares**).

The BE Mortgage of Shares and the B2000 Mortgage of Shares will create a first fixed legal mortgage over all shares in Bruntwood Estates Alpha Portfolio Limited and Bruntwood 2000 Alpha Portfolio Limited respectively and a first floating charge (capable of being subordinated to other lenders) in all other assets of the relevant Share Mortgagor as security in respect of the obligations of the Obligors under the Tax Deed of Covenant. Under the BE Mortgage of Shares and the B2000 Mortgage of Shares, each of Bruntwood Estates Holdings Limited and Bruntwood 2000 Holdings Limited will give the usual representations as to, among other things, its incorporation and due authority and also undertake in the usual manner, among other things, not to further charge, sell, transfer or otherwise dispose of the relevant shares in the relevant Borrower.

The BE Mortgage of Shares and the B2000 Mortgage of Shares will be governed by English law.

**Property Management Agreements**

Each Borrower will enter into a property management arrangement with Bruntwood Management Services Limited (the **Property Manager**) and the Borrower Security Trustee, pursuant to the terms of separate property management agreements to be entered into on or around the Closing Date (each, a **Property Management Agreement**).

Under each Property Management Agreement, the Property Manager will be required to manage the relevant Properties on behalf of the relevant Borrower in accordance with the standard of care required under the Loan Agreements.

Each Borrower will be obliged to pay the Property Manager a property management fee (payable quarterly in arrears) and to reimburse the Property Manager for its reasonable and properly incurred out-of-pocket expenses on a quarterly basis.

The Property Management Agreements will be governed by English law.

**Borrower Account Bank Agreements**

Each Borrower will enter into a separate agreement with the Borrower Account Bank and the Borrower Security Trustee (the **Borrower Account Bank Agreements** and, each, a **Borrower Account Bank Agreement**) on or before the Closing Date pursuant to which the relevant BE Borrower Accounts or B2000 Borrower Accounts will be established, as applicable.

Payments will be made into and out of the relevant Borrower Accounts in accordance with the provisions of the relevant Loan Agreement as described under *The Loan Agreements*, above.

Under each Loan Agreement, all accounts established and maintained pursuant to that Loan Agreement must be maintained with an **Eligible Bank** (being a UK bank or a UK branch of a bank) with ratings of at least F1 by Fitch and A-1+ by S&P in respect of short-term instruments and ratings of at least A by Fitch in respect of long term instruments. Each Borrower will be required to arrange for the transfer (within a reasonable time, having obtained the consent of the Borrower Security Trustee) of the relevant Borrower Accounts to an Eligible Bank on terms acceptable to the Borrower Security Trustee.

If the Borrower Account Bank ceases to be an Eligible Bank, each Borrower will be required to arrange for the transfer (within a reasonable time, having obtained the consent of the Borrower Security Trustee) of the relevant Borrower Accounts to an Eligible Bank on terms acceptable to the Borrower Security Trustee.

If, other than in the circumstances specified above, the Borrower Security Trustee wishes the bank or branch, at which any account of the Borrower is maintained, to be changed, the relevant Borrower will be required to obtain the prior written consent of the Borrower Security Trustee, such consent not to be unreasonably withheld, and the transfer of such account will be subject to the same directions and arrangements as are provided for above.

The Borrower Account Bank Agreements will be governed by English law.

### **Tax Deed of Covenant**

The ability of each Borrower to make payments under the Loans, and consequently for the Issuer to make payment in respect of the Notes, will be affected by the manner in which each is taxed and the potential UK tax liabilities each is required to discharge. Pursuant to a tax deed of covenant (the **Tax Deed of Covenant**) to be entered into on or around the Closing Date, each Share Mortgagor will covenant, *among other things*, not to do anything which would result in certain primary and secondary liabilities arising in relation to each Borrower or the Issuer. Further, each Share Mortgagor has undertaken to indemnify the relevant Borrower and the Issuer against certain specified primary and secondary liabilities for corporation tax on chargeable gains and stamp duty land tax.

The Tax Deed of Covenant will be governed by English law.

### **Subordination Deeds**

Each Borrower, the Borrower Security Trustee and all intra-group creditors (the **Subordinated Creditors**) will enter into a separate subordination deed on or about the Closing Date (each a **Subordination Deed**, and, together, the **Subordination Deeds**). Each Subordination Deed will subordinate all intra-group debts owed by the relevant Borrower to the relevant Subordinated Creditors (including, in particular, the balance of the consideration for the acquisition of the Properties which was not funded by the Loans). The intra-group debts between the relevant Borrower and the relevant Subordinated Creditors will remain outstanding, but will be subordinated to the relevant Borrower's Loan. Any new creditor will be required to enter into a Subordination Deed pursuant to the terms of the Credit Agreements.

The Subordination Deeds will prevent the Subordinated Creditors from making any claim in relation to the subordinated debt, and from receiving any payment or discharge in relation to the subordinated debt (including by way of set-off). Payments are only permitted to be made in relation to subordinated debt in accordance with the terms of the Loan Agreements. Each Loan Agreement will provide that payment of subordinated debt may only be made out of amounts standing to the credit of the General Account when there is no breach of the Actual Interest Cover Test, and the LTV as at the Interest Payment Date immediately preceding the date on which the payment is to be made is no greater than 80% and no Loan Event of Default is outstanding.



## ISSUER TRANSACTION DOCUMENTS AND CASHFLOWS

### Trust Deed

On or before the Closing Date, the Issuer and the Trustee will enter into a trust deed (the **Trust Deed**) pursuant to which the Notes will be constituted. The Trust Deed will include the form of the Notes and contain a covenant from the Issuer to the Trustee to pay all amounts due under the Notes. The Trustee will hold the benefit of that covenant (and certain other covenants of the Issuer) on trust for the Noteholders.

The Trust Deed 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 equally (except where expressly provided otherwise), but where there is, in the Trustee's opinion, a conflict between any such interests, the Trust Deed will require the Trustee to have regard to the interests of only the Class A Noteholders. If there are no Class A Notes outstanding and, in the Trustee's opinion, there is a conflict between the interests of the Class B Noteholders and the Class C Noteholders, the Trust Deed will require the Trustee to have regard to the interests of the Class B Noteholders only. Only the holders of the Most Senior Class of Notes then outstanding may request or direct the Trustee to take any action under the Trust Deed.

The Trust Deed will contain provisions which, subject to the previous paragraph, limit the powers of: (a) the Class B Noteholders, among other things, to pass any Extraordinary Resolution which might adversely affect the interests of the Class A Noteholders; and (b) the Class C Noteholders, among other things, to pass any Extraordinary Resolution which might adversely affect the interests of the Class A Noteholders and/or the Class B Noteholders.

The Trust Deed will be governed by English law.

### Issuer Deed of Charge

#### General

On or before the Closing Date, the Issuer will enter into a deed of charge (the **Issuer Deed of Charge**) with each of the Trustee, the Liquidity Bank, the Agent Bank, the Cash Administrator, the Paying Agents, the Issuer Account Bank, the Independent Director Provider, the Servicer, the Special Servicer and the Swap Counterparty (together with the Noteholders and any appointee of the Trustee, the **Issuer Secured Creditors**) pursuant to which the Issuer will grant security in respect of its obligations to the Issuer Secured Creditors, including the Notes (the **Issuer Secured Obligations**).

#### Security

Under the Issuer Deed of Charge, the Issuer will grant the following security in respect of the Issuer Secured Obligations in favour of the Trustee who holds or will hold such security on trust for the benefit of itself and the other Issuer Secured Creditors:

- (a) an assignment by way of first fixed security of its right, title, interest and benefit, present and future, in, to and under the Issuer Transaction Documents to which it is a party including:
  - (i) the Servicing Agreement;
  - (ii) the Subscription Agreement;
  - (iii) the Liquidity Facility Agreement;
  - (iv) the Swap Agreement;

- (v) the Trust Deed;
  - (vi) the Agency Agreement;
  - (vii) the Independent Director Agreement;
  - (viii) the Issuer Account Bank Agreement; and
  - (ix) the Cash Administration Agreement;
- (b) an assignment by way of first fixed security over all of its right, title, interest and benefit, present and future, under the Finance Documents;
  - (c) excluding amounts standing to the credit of the Liquidity Standby Account, which are secured in favour of the Liquidity Bank only, a charge by way of first fixed security over all of its right, title, interest and benefit, present and future, in and to the amounts from time to time standing to the credit of each Issuer Account;
  - (d) a first fixed charge of its rights to all monies standing to the credit of the Issuer Accounts;
  - (e) an assignment by way of first fixed security over all of its right, title, interest and benefit, present and future, in and to all investments (including Eligible Investments) made by or on behalf of the Issuer; and
  - (f) a first floating charge over all of the property, assets and undertaking of the Issuer not already subject to fixed security including the Issuer's uncalled capital,

(together, the **Issuer Security**), all as more particularly set out in the Issuer Deed of Charge.

The Trustee shall not be bound to enforce the security constituted by the Issuer Deed of Charge or take any proceedings against the Issuer or any other person to enforce the provisions of the Issuer Deed of Charge or any of the other Transaction Documents or any other action thereunder unless:

- (i) it shall have been directed or requested to do so by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or in writing by the holders of at least 25% in aggregate of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding; and
- (ii) it shall have been indemnified and/or secured to its satisfaction against all liabilities, proceedings, claims and demands to which it may be or become liable and all costs, charges and expenses which may be incurred by it in connection therewith.

The Notes will be limited recourse obligations of the Issuer. On enforcement of the Issuer Security, recourse in respect of the Issuer's obligations (including the obligation to pay principal and interest on the Notes) will be limited to the proceeds of realisation of the Issuer Security and to the extent the proceeds of enforcement are insufficient to satisfy the obligations of the Issuer in respect of the Issuer Secured Obligations (including amounts due in respect of the Notes) such obligations shall be extinguished.

#### Non-Petition

Each of the Issuer Secured Creditors which is a party to the Issuer Deed of Charge (other than the Trustee) will agree in the Issuer Deed of Charge that, unless the Issuer Security has become enforceable and the Trustee, having become bound to serve an Acceleration Notice or to enforce the Issuer Security, fails to do so within a reasonable period and such failure is continuing, it will not take any steps for the purpose of recovering any debts due or owing to it by the Issuer or to petition or procure the petitioning for the winding-

up or administration of the Issuer or to file documents with the court or serve a notice of intention to appoint an administrator in relation to the Issuer.

The Issuer Deed of Charge will be governed by English law.

### **The Cash Administration Agreement**

The Cash Administration Agreement will be made between, among others, the Issuer, the Borrowers, the Guarantors, the Trustee, the Borrower Security Trustee and the Cash Administrator on or about the Closing Date.

Pursuant to the Cash Administration Agreement, the Cash Administrator has agreed that it will undertake the day-to-day cash administration requirements of the Issuer, the Borrowers and the Guarantors.

The Cash Administrator will, acting as agent of the Issuer, the Borrowers and the Guarantors, as applicable, arrange for payments to be made to and from the relevant Borrowers' Accounts, the Guarantors' Accounts and the Issuer Accounts in accordance with the Issuer Transaction Documents and invest monies standing to the credit from time to time of the relevant Borrowers' Accounts and the Issuer Accounts in Eligible Investments.

The Borrower and the Guarantors may not withdraw any money from any Account otherwise than in accordance with the provisions of the Loan Agreements, the Subordination Deed, the Borrower Account Bank Agreements, the Borrower Security Agreements and the Cash Administration Agreement.

The Issuer may not withdraw any money from the Issuer Accounts otherwise than in accordance with the provisions of the Issuer Account Bank Agreement, the Issuer Deed of Charge and the Cash Administration Agreement and, in respect of the Standby Account, the Liquidity Facility Agreement.

The appointment of the Cash Administrator may be terminated by the Issuer and the Borrowers (acting jointly) with the written approval of the Borrower Security Trustee and the Trustee (acting jointly) or (following a Loan Acceleration Notice or a Note Acceleration Notice) by the Trustee and the Borrower Security Trustee (acting jointly) or following the occurrence of certain events including a failure by the Cash Administrator to perform its duties under the Cash Administration Agreement or an insolvency related event in relation to the Cash Administrator. However, the appointment of the Cash Administrator shall not be terminated until a replacement cash administrator has been appointed.

The Borrowers, the Guarantors and the Issuer (acting jointly) shall appoint a replacement Cash Administrator approved by the Trustee and the Borrower Security Trustee (acting jointly) in the event that the appointment of the Cash Administrator is terminated.

#### *Eligible Investments*

Pursuant to the Cash Administration Agreement, amounts held in the Transaction Accounts and the relevant Borrowers' Accounts may be invested from time to time in Eligible Investments at the direction of the Cash Administrator.

#### **Eligible Investments** means:

- (i) sterling-denominated government securities; or
- (ii) sterling demand or time deposits, certificates of deposit, money market funds and short-term debt obligations (including commercial paper); provided that in all cases such investments will mature at least one Business Day prior to the next Interest Payment Date, the short-term unsecured, unsubordinated and unguaranteed debt obligations rating of the issuing or guaranteeing entity or the

entity with which the demand or time deposits are made (being a bank or licenced EU credit institution) are rated at least "F1" by Fitch and at least "A-1+" by S&P or are otherwise acceptable to the Rating Agencies and, where such investments will mature in three months or more, the Rating Agencies have affirmed that the making of the proposed investments would not adversely affect the then current ratings of the Notes.

The Issuer, the Borrowers and the Guarantors will each pay to the Cash Administrator an agreed annual fee (inclusive of VAT). Payment of the Cash Administrator's fee by the Issuer ranks senior to payments to the Noteholders.

The Cash Administration Agreement will be governed by English law.

### **Servicing Agreement**

The Issuer will appoint The Royal Bank of Scotland plc as the Servicer and the Special Servicer pursuant to a servicing agreement between the Issuer, the Trustee, the Borrower Security Trustee, the Servicer and the Special Servicer dated on or about the Closing Date (the **Servicing Agreement**). Pursuant to the Servicing Agreement, the Servicer and Special Servicer will provide services to the Issuer and the Trustee in relation to the Loans and the relevant Loan Security and the Borrower Security Trustee will delegate its duties and discretions under the relevant Finance Documents to the Servicer and Special Servicer. The duties and obligations of the Servicer and Special Servicer under the Servicing Agreement are further described in *Servicing*, below.

The Servicing Agreement will be governed by English law.

### **Swap Agreement**

The Issuer has entered into a 1992 ISDA Master Agreement (Multicurrency – Cross Border) with the Swap Counterparty in respect of interest rate swap transaction pursuant to which, on each Interest Payment Date, the Swap Counterparty will pay to the Issuer a sum determined by reference to LIBOR and the Issuer will pay to the Swap Counterparty a sum determined by reference to a fixed rate, both calculated on the notional amount which is intended to correspond to the aggregate Principal Amount Outstanding of the Notes at the relevant time (the **Swap Transaction** and together with the 1992 ISDA Master Agreement (Multicurrency – Cross Border, the **Swap Agreement**). The Issuer and the Swap Counterparty have also entered into an English Law 1995 ISDA Credit Support Annex (Bilateral Form-Transfer) on the same date as the Swap Agreement (the **Credit Support Annex**).

The Swap Counterparty and, if applicable, any Credit Support Provider (as defined in the Swap Agreement) of the Swap Counterparty will, on the Closing Date, be required to have the Swap Counterparty Requisite Rating (as defined below), or must take one of the measures set out below pursuant to a Rating Event.

If at any time the Swap Counterparty and, if applicable, any Credit Support Provider ceases to have the Swap Counterparty Requisite Rating and/or following such a cessation experiences a further ratings downgrade specifically described in the Swap Agreement (a **Rating Event**), it will be required to take certain measures specified by the relevant Rating Agency and set out in the Swap Agreement to address any impact of any such Rating Event on the Notes. The required measures will vary depending upon the nature of the Rating Event and will include the Swap Counterparty:

- (a) transferring collateral under the Credit Support Annex in support of its obligations under the Swap Agreement;
- (b) transferring all of its rights and obligations with respect to the Swap Agreement to a replacement third party;

- (c) procuring a third party to become a co-obligor or guarantor in respect of its obligations under the Swap Agreement; and/or
- (d) taking such action as may be agreed with the relevant Rating Agencies,

as described in more detail in the Swap Agreement.

**Swap Counterparty Requisite Rating** means:

- (a) with respect to Fitch:
  - (i) an "F1" (or its equivalent) rating (or better) by Fitch for its short-term, unsecured and unsubordinated debt obligations;
  - (ii) an "A" (or its equivalent) rating (or better) by Fitch for its long-term, unsecured and unsubordinated debt obligations; and
- (b) with respect to S&P an "A-1" rating (or better) by S&P for its short-term unsecured and unsubordinated debt obligations.

Under the Swap Agreement, to the extent that any withholding or deduction for or on account of tax is imposed on payments by the Issuer to the Swap Counterparty, the Issuer will not be obliged to gross up such payments. To the extent that any withholding for or on account of tax is imposed on payments by the Swap Counterparty to the Issuer, the Swap Counterparty will be obliged to gross up such payments so that the amount received by the Issuer is equal to the amount that the Issuer would have received had that reduction or withholding not been required to be made. Although see further the Swap Counterparty's right to terminate the Swap Transaction pursuant to tax event below.

Under the Swap Agreement, to the extent that any withholding or deduction for or on account of tax is required to be made by the Swap Counterparty and the sum paid by the Swap Counterparty is increased to the extent necessary to ensure that, after the deduction or withholding is made, the amount received by the Issuer is equal to the amount which the Issuer would have received had that deduction or withholding not been required to be made, where the Issuer has received, and used or retained a tax credit attributable to the amount of the deduction or withholding, the Issuer shall be required to pay an amount to the Swap Counterparty which will leave the Issuer in the same position had the withholding or deduction not been required to have been made.

The Issuer is entitled to terminate the Swap Transaction under the Swap Agreement if a failure to pay, breach of agreement, misrepresentation, credit support default, bankruptcy or merger without assumption event of default occurs with respect to the Swap Counterparty, if a Rating Event occurs with respect to the Swap Counterparty and is not remedied, or if an illegality or tax event termination event occurs, each as described in more detail in the Swap Agreement.

The Swap Counterparty is entitled to terminate the Swap Transaction under the Swap Agreement if a failure to pay event of default or certain elements of the bankruptcy event of default occurs with respect to the Issuer or if an illegality or tax event termination event occurs, each as described in more detail in the Swap Agreement.

The Swap Transaction under the Swap Agreement will terminate if:

- (a) an Acceleration Notice is served by the Trustee pursuant to **Condition 10 (Events of Default)**, on the date the Acceleration Notice is served; and

- (b) if the Notes have been unconditionally and irrevocably redeemed in full and cancelled in accordance with **Condition 6.2 (Redemption for Taxation or Other Reasons)** or **6.3 (Mandatory Redemption in Whole or in Part)**, on the earliest date on which all of the Notes have been unconditionally and irrevocably redeemed in full and cancelled,

each as described in more detail in the Swap Agreement.

If the Notes are partially redeemed pursuant to **Condition 6.3 (Mandatory Redemption in Whole or in Part)** of the Conditions, the Swap Agreement will provide for the notional amounts under the Swap Transaction to be reduced in line with such partial redemption. Upon such a reduction, a breakage cost will be determined using the close-out methodology in the 1992 ISDA Master Agreement and will be payable by the Issuer or the Swap Counterparty as appropriate.

The Swap Agreement will be governed by English law.

### **Liquidity Facility Agreement**

To mitigate the risk that Available Issuer Income (as defined below) will be insufficient to enable the Issuer to meet its interest payment obligations in respect of the Notes, the Issuer will enter into a liquidity facility agreement dated on or before the Closing Date with the Liquidity Bank and the Trustee (the **Liquidity Facility Agreement**). Under this agreement, the Liquidity Bank will provide a 364-day committed liquidity facility of up to an initial maximum principal amount of £28,600,000 to the Issuer which will be renewable with the agreement of the Liquidity Bank until the Final Maturity Date. Investors should note that the purpose of the Liquidity Facility Agreement will be to provide liquidity, not credit support, and that the Liquidity Bank will be entitled to receive a commitment fee, interest and repayments of principal on drawings made under the Liquidity Facility Agreement (other than Liquidity Subordinated Amounts) in priority to payments to be made to Noteholders (which would ultimately reduce the amount available for distribution to Noteholders).

- (a) Income Deficiency Drawings

The Cash Administrator is required to calculate Available Issuer Income on each **Calculation Date** (being the second Business Day prior to the relevant Interest Payment Date) in accordance with the terms of the Cash Administration Agreement.

**Available Issuer Income** will comprise, in respect of a Calculation Date:

- (i) all monies (other than principal) to be paid to the Issuer under or in respect of the relevant Loan Agreement on the following Interest Payment Date less the amount of any expected shortfall as notified by the Cash Administrator;
- (ii) any interest accrued upon the Issuer Accounts and paid into the Transaction Accounts together with the yield element of the proceeds of any Eligible Investments, in each case receivable on or before the next Interest Payment Date;
- (iii) the proceeds of the enforcement of any Loan Security determined by the Servicer or the Special Servicer (as applicable) to constitute income receipts; and
- (iv) amounts expected to be received from the Swap Counterparty under the Swap Transaction on the following Interest Payment Date (other than in respect of any termination payment).

On each Calculation Date, the Cash Administrator will determine whether Available Issuer Income will be sufficient to make the payments set out under paragraphs (i) to (viii) of the Pre-Enforcement

Income Priority of Payments or paragraphs (i) to (viii) of the Post-Enforcement Pre-Acceleration Income Priority of Payments (as applicable) on the next Interest Payment Date.

If the Available Issuer Income is insufficient to make such payments, the Cash Administrator will make a drawing on behalf of the Issuer (an **Income Deficiency Drawing**) on the following Interest Payment Date under the Liquidity Facility Agreement in an amount equal to the deficiency (an **Income Deficiency**). The proceeds of any Income Deficiency Drawing will be credited to the Transaction Account and will be applied by the Issuer in making payments to Noteholders and the other relevant Issuer Secured Creditors on such Interest Payment Date.

The Liquidity Facility Agreement will initially permit drawings to be made by or on behalf of the Issuer of up to an aggregate amount of £28,600,000 (the **Liquidity Facility Commitment**). The Liquidity Facility Commitment will automatically reduce on the Interest Payment Date after:

- (i) a partial redemption of the Notes in accordance with **Condition 6.3 (Mandatory Redemption in Whole or in Part)** in an amount proportionate to the reduction in the aggregate Principal Amount Outstanding of the Notes;
- (ii) the occurrence of an Appraisal Reduction Event (as defined below), to an amount equal to the New Commitment Amount (as defined below); or
- (iii) the receipt of confirmation from the Rating Agencies that the proposed reduction in the amount of the Liquidity Facility Commitment will not adversely affect the then current ratings of the Notes.

(b) Appraisal Reductions

Not later than the earliest to occur of:

- (i) the date 120 days after the occurrence of any Loan Event of Default as a result of breach of the Actual Interest Cover Test or payment default; and
- (ii) the date 90 days after the occurrence of a Loan Event of Default as a result of the occurrence of any prescribed insolvency event of a Borrower in respect of the relevant Loan Agreement,

and, in each case, provided that such Loan Event of Default is continuing, the Servicer is required, under the terms of the Servicing Agreement, to obtain a valuation in respect of the Portfolio (unless, at the Servicer's discretion, a valuation has been obtained during the immediately preceding 12 months and the Servicer has confirmed to the Issuer that, in its view, neither the relevant Portfolio nor its relevant property markets have experienced any material change since the date of such previous valuation).

If the aggregate principal amount of the relevant Loan (together with all other amounts then payable under the relevant Loan Agreement but remaining unpaid) exceeds 90% of the appraised value of the relevant Portfolio (the amount of such excess, a **Relevant Excess**), an **Appraisal Reduction Event** will be deemed to have occurred and the amount of the then Liquidity Facility Commitment will reduce as described in the following paragraphs.

If an Appraisal Reduction Event occurs then the Liquidity Facility Commitment will reduce immediately prior to the next occurring Interest Payment Date to an amount (the **NCA** or **New Commitment Amount**) calculated as follows:

$NCA = \text{Appraisal Reduction Factor multiplied by the LFC}$

*where:*

**Appraisal Reduction Factor** means the amount obtained by dividing (A) (i) the aggregate principal balances of the Loans as at the date of occurrence of the Appraisal Reduction Event (the **Aggregate Loan Balances**) less (ii) the amount of the Relevant Excess by (B) the Aggregate Loan Balances; and

**LFC** means the amount of the Liquidity Facility Commitment immediately prior to the occurrence of the Appraisal Reduction Event.

(c) Liquidity Standby Drawings

The Liquidity Facility Agreement will provide that if:

- (i) the Liquidity Bank declines to renew the commitment period of the Liquidity Facility; and/or
- (ii) the Liquidity Bank's short term unsecured, unsubordinated and unguaranteed debt obligations cease to be rated at least A-1+ by S&P and F1 by Fitch (the **Liquidity Requisite Ratings**),

each such event, a **Liquidity Event**, then, within 30 days, the Liquidity Bank shall assign, novate or transfer its rights and obligations to another liquidity bank that has the Requisite Rating and meets certain other criteria or other arrangements shall be made for the Issuer to enter into a new liquidity facility with a replacement third party that, amongst other things, has the Requisite Rating.

If any one of such steps is not completed within the required time, the Liquidity Bank will advance a drawing (a **Liquidity Standby Drawing**) of the total commitment under the Liquidity Facility Agreement then available for drawing under the Liquidity Facility and the Liquidity Bank shall pay such Liquidity Standby Drawing into a designated bank account of the Issuer (the **Liquidity Standby Account**) maintained with either:

- (a) the Liquidity Bank (for so long as it has the Requisite Rating); or
- (b) where the Liquidity Bank does not have the Requisite Rating, the then Issuer Account Bank or any other bank, the short term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least the Requisite Rating and which is a bank for the purposes of section 349 of the Income and Corporation Taxes Act 1988.

The rate of interest applicable to a Liquidity Standby Drawing will be the same as that applicable to an Income Deficiency Drawing or a Loan Protection Drawing. However, the excess (the **Excess Interest**) of this rate over a rate which is the aggregate of (i) the then commitment fee rate under the Liquidity Facility Agreement and (ii) the interest rate earned on the Liquidity Standby Account will be payable as part of the Liquidity Subordinated Amounts. However, if the Issuer withdraws funds from the Liquidity Standby Account as a deemed Income Deficiency Drawing then the amount so withdrawn will bear interest which is payable in priority to the amounts payable to Noteholders.

If the Liquidity Standby Account is opened with the Liquidity Bank, the Liquidity Bank shall pay interest on the funds standing to the credit of the Liquidity Standby Account (the **Liquidity Standby**



**Deposit**) at the normal commercial rate in the ordinary course of its business. Also, the Liquidity Standby Deposit may be invested in Eligible Investments. If the Liquidity Standby Account is not held with the Liquidity Bank, each of the Issuer and the Cash Administrator is under an obligation to use reasonable endeavours to ensure that the interest rate on the Liquidity Standby Deposit is at an arm's length commercial rate and that any interest which accrues on the Liquidity Standby Deposit and any return on Eligible Investments made in respect of the Liquidity Standby Deposit will be paid into the Liquidity Standby Account (such amounts, and the Liquidity Standby Deposit and the Liquidity Standby Account, will not, in accordance with the terms of the Issuer Deed of Charge be available to the Issuer Secured Creditors).

Amounts standing to the credit of the Liquidity Standby Account which represent a Liquidity Standby Deposit, will, subject to the terms of the Liquidity Facility Agreement (including the conditions described above as to availability of drawings), be available to the Issuer by way of Liquidity Drawings in the event of there being an Income Deficiency. Such a Liquidity Drawing will accrue interest and be repayable as described above, except that, until the Liquidity Bank is replaced or the Liquidity Event that gave rise to the Liquidity Standby Drawing is remedied, repayment will be made into the relevant Liquidity Standby Account. Any costs incurred in obtaining a replacement liquidity facility or in utilising the Liquidity Facility will be borne by the Issuer.

The Liquidity Facility Agreement will contain certain events of defaults, such as insolvency of the Issuer and failure to pay amounts due and payable to the Liquidity Bank. Following the occurrence of any such event of default any undrawn commitment under the Liquidity Facility shall be cancelled and all amounts outstanding may become immediately due and payable.

(d) Loan Protection Drawings

The Issuer may, with the consent of the Servicer or the Special Servicer (as appropriate), make a Loan Protection Advance to a Borrower under the relevant Loan Agreement. If, prior to the service of an Acceleration Notice or the Notes otherwise becoming due and repayable, the Servicer or the Special Servicer, as the case may be, determines in accordance with the Servicing Agreement that the Issuer should make a Loan Protection Advance to a Borrower, the Servicer or the Special Servicer, as the case may be, will notify the Cash Administrator of this determination and the Cash Manager must request, on behalf of the Issuer, a drawing under the Liquidity Facility in an amount equal to the Loan Protection Advance (each such drawing, a **Loan Protection Drawing**). The proceeds of each Loan Protection Drawing will be credited to the Sterling Transaction Account or (at the direction of the Servicer or the Special Servicer) paid directly to the relevant third party in respect of which the Loan Protection Advance is to be made.

(e) Repayment of drawings

Each Income Deficiency Drawing and Loan Protection Drawing will be repayable by the Issuer on the next Interest Payment Date after drawing. If a Liquidity Standby Drawing is then outstanding and not repayable, the Issuer will be required to deposit the relevant repayment amount into the Liquidity Standby Account and this will constitute repayment of the relevant deemed Income Deficiency Drawing or Loan Protection Drawing, as applicable.

Any Liquidity Standby Drawing will be repayable by the Issuer if the event or events giving rise to the making of that drawing cease to exist, or the Liquidity Facility is then to be transferred to a replacement Liquidity Bank with the Liquidity Requisite Ratings.

All payments due to the Liquidity Bank under the Liquidity Facility Agreement (other than in respect of any Liquidity Subordinated Amounts) will rank in priority to payments of interest and principal on the Notes.

The commitment fee may be increased from the initial level of 0.25% per annum as a result of Basel II regulatory requirements under the Framework. **Liquidity Subordinated Amounts** are any amounts in respect of (i) increases in the commitment fee as a result of Basel II regulatory requirements, to the extent that such amounts exceed 0.2% per annum of the commitment provided under the Liquidity Facility Agreement and (ii) increased costs, mandatory costs (to the extent not already covered by the increase referred to in (i) above as a result of Basel II regulatory requirements) and tax gross up amounts payable to the Liquidity Bank, to the extent that such amounts exceed 0.2% per annum of the commitment provided under the Liquidity Facility Agreement and (iii) the amount of any Excess Interest.

The Liquidity Facility Agreement will be governed by English law.

### **Agency Agreement**

Pursuant to an agency agreement to be entered into on or about the Closing Date (the **Agency Agreement**) between the Issuer, the Trustee, the Principal Paying Agent, the Irish Paying Agent and the Agent Bank, provision will be made for, among other things, payment of principal, premium (if any) and interest in respect of the Notes of each Class.

The Agency Agreement will be governed by English law.

### **Issuer Account Bank Agreement**

The Issuer, the Cash Administrator, the Issuer Account Bank and the Trustee will each enter into an agreement (the **Issuer Account Bank Agreement**) on or about the Closing Date pursuant to which the Issuer will establish the following bank accounts:

- (a) a euro account (the **Euro Transaction Account**) and a sterling account (the **Sterling Transaction Account** and together, the **Transaction Accounts**) into which the Debt Service Payments, all drawings under the Liquidity Facility Agreement (other than a Liquidity Standby Drawing), all payments to the Issuer under the Swap Agreement and all other amounts received by the Issuer in connection with the Loans, the Loan Security or otherwise received by the Issuer under the Issuer Transaction Documents are required to be paid; and
- (b) an account (the **Liquidity Standby Account** and, together with the Transaction Accounts and any other accounts maintained by the Issuer in accordance with the terms of the Issuer Transaction Documents from time to time, the **Issuer Accounts**) which will be opened by the Issuer with the Issuer Account Bank when a Liquidity Standby Drawing is made and into which the Liquidity Standby Drawing will be deposited.

A **Debt Service Payment** is, in respect of an Interest Payment Date, the aggregate of the interest and other amounts payable by each Borrower under the relevant Loan Agreement.

The Servicer (acting as agent for the Issuer and the Borrower Security Trustee, as applicable) will be responsible, pursuant to the terms of the Servicing Agreement, for ensuring that the amounts received in connection with the Loans or the Loan Security are paid into the Sterling Transaction Account. Payments out of the Sterling Transaction Account will be made by the Cash Administrator in accordance with the provisions of the Cash Administration Agreement and the relevant Priority of Payments contained therein as described under *Issuer Cashflows* below.

If the Issuer Account Bank ceases to be an Eligible Bank, the Issuer will be required to arrange for the transfer (within 30 days) of the Issuer Accounts to an Eligible Bank on terms acceptable to the Trustee.

If, other than in the circumstances specified above, the Cash Administrator wishes the bank or branch at which any account of the Issuer is maintained to be changed, the Cash Administrator will be required to

obtain the prior written consent of the Issuer and the Trustee, in the case of the Issuer such consent not to be unreasonably withheld, and the transfer of such account will be subject to the same directions and arrangements as are provided for above.

The Issuer Account Bank Agreement will be governed by English law.

### **Other Accounts**

If any collateral in the form of cash is provided by the Swap Counterparty to the Issuer, the Issuer will be required to open a separate account secured in favour of the Trustee in which such cash provided by the Swap Counterparty will be held. If any collateral in the form of securities is provided, the Issuer will be required to open a custody account secured in favour of the Trustee in which such securities provided by the Swap Counterparty will be held. No payments or deliveries may be made in respect of such accounts other than in relation to the provision of collateral or the return of Excess Swap Collateral, unless pursuant to the termination of the Swap Agreement, an amount is owed by the Swap Counterparty to the Issuer, in which case, the collateral may be applied in accordance with the Trust Deed.

**Excess Swap Collateral** means an amount equal to the value of any collateral transferred to the Issuer by the Swap Counterparty under the Swap Agreement that (i) is in excess of such Swap Counterparty's liability to the Issuer thereunder as at the date such Swap Agreement is terminated or (ii) is otherwise due to such Swap Counterparty in accordance with the terms of the Swap Agreement.

### **Independent Director Agreement**

The Issuer, the Issuer Parent, the Independent Director Provider and the Trustee will enter into an independent director agreement (the **Independent Director Agreement**) on or about the Closing Date pursuant to which the Independent Director Provider will agree to provide an Independent Director to the Issuer. Pursuant to the Independent Director Agreement and the terms of a fee letter (the **Independent Director Provider Fee Letter**), the Independent Director Provider will be entitled to receive a fee from the Issuer for the provision of the independent director. Pursuant to the terms of the Independent Director Agreement, the Independent Director Agreement may be terminated by either the Issuer or the Independent Director Provider with three months' notice. In the event of the termination of the Independent Director Agreement, the Issuer and the Issuer Parent are obliged to replace the Independent Director Provider and have covenanted to maintain an Independent Director on the board of the Issuer so long as any Note remains outstanding.

The Independent Director Agreement will be governed by English law.

### **Issuer Cashflows**

#### **(a) Payments Paid out of the Transaction Accounts – Priority Amounts**

The Cash Administrator will, prior to the enforcement of the Issuer Security, out of funds standing to the credit of the Issuer Accounts, pay sums due to third parties (other than the Servicer, the Liquidity Bank, the Special Servicer, Independent Director Provider, the Trustee, the Paying Agents, the Agent Bank, the Cash Administrator or the Issuer Account Bank), including any stock exchange fees where the Notes are listed and the Issuer's liability, if any, to taxation (together, the **Priority Amounts**), on a date other than an Interest Payment Date under obligations incurred, without breach of obligations under the Issuer Transaction Documents, in the course of the Issuer's business.

#### **(b) Payments Paid out of the Transaction Accounts before Enforcement of the Issuer Security**

Prior to the enforcement of the Issuer Security, on each Interest Payment Date, Available Issuer Income standing to the credit of the Transaction Accounts and Income Deficiency Drawings (if any)

in respect of the Liquidity Facility Agreement will be applied in the following order of priority (the **Pre-Enforcement Income Priority of Payments**) (in each case only if and to the extent that the payments and provisions of a higher priority have been made in full), all as more fully set out in the Issuer Deed of Charge:

- (i) **first**, in or towards satisfaction of any costs, expenses, fees, remuneration and indemnity payments (if any) and any other amounts payable by the Issuer to, *pari passu* and *pro rata*, the Trustee and any other person appointed by the Trustee under the Trust Deed, the Issuer Deed of Charge and/or any Transaction Document to which the Trustee is party;
- (ii) **second**, in or towards satisfaction, *pro rata* and *pari passu*, of the amounts due in respect of any amounts due and owing by the Issuer on such Interest Payment Date in respect of:
  - (A) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Paying Agents and the Agent Bank incurred under the Agency Agreement;
  - (B) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Liquidity Bank under the Liquidity Facility Agreement (other than in respect of any Liquidity Subordinated Amounts);
  - (C) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Accounts Bank under the Issuer Accounts Bank Agreement;
  - (D) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Servicer (including any substitute servicer appointed in accordance therewith) and, as the case may be, the Special Servicer (including any substitute special servicer appointed in connection therewith) pursuant to the Servicing Agreement (other than in respect of any Liquidation Fee or Workout Fee);
  - (E) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Cash Administrator under the Cash Administration Agreement;
  - (F) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Independent Director under the Independent Director Agreement; and
  - (G) any Rating Agency monitoring fees;
- (iii) **third**, in or towards satisfaction, *pro rata* and *pari passu*, of:
  - (A) payment of amounts due and payable to any third party creditors of the Issuer, or to become due and payable to any third party creditors of the Issuer during the following Interest Period (other than Priority Amounts or those referred to later in this Pre-Enforcement Income Priority of Payments and in item (iii)(B) below), approved in writing by the Trustee and of which the Cash Administrator has notice prior to the relevant Interest Payment Date, which amounts have been incurred without breach by the Issuer pursuant to the Issuer Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere); and
  - (B) any amounts due and payable by the Issuer and for which the Issuer is primarily liable in respect of all United Kingdom corporation tax and other Tax for which the Issuer is liable under the laws of any jurisdiction;
- (iv) **fourth**, in or towards satisfaction of payment (after application of all amounts in the Liquidity Standby Account (if any) for such purpose) of all amounts of interest, principal

and other amounts due but unpaid to the Liquidity Bank under the Liquidity Facility Agreement (other than amounts referred to in paragraph (ii)(B) above and in respect of any Liquidity Subordinated Amounts);

- (v) **fifth**, in or towards satisfaction of any amounts due and payable by the Issuer to the Swap Counterparty on such Interest Payment Date under and in accordance with the Swap Agreement (other than any Subordinated Swap Amounts);
- (vi) **sixth**, in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class A Notes;
- (vii) **seventh**, in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class B Notes;
- (viii) **eighth**, in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class C Notes;
- (ix) **ninth**, in or towards payments of any Liquidity Subordinated Amounts payable to the Liquidity Bank;
- (x) **tenth**, in or towards payment of any Subordinated Swap Amounts payable by the Issuer to the Swap Counterparty on such Interest Payment Date;
- (xi) **eleventh**, in or towards payment of any amounts payable by the Issuer on such Interest Payment Date to the Special Servicer in respect of the Liquidation Fee or the Workout Fee; and
- (xii) **twelfth**, any surplus to the Issuer.

**Subordinated Swap Amount** means any amount payable by the Issuer to the Swap Counterparty pursuant to the termination of the Swap Transaction under the Swap Agreement as a result of:

- (a) the occurrence of an Event of Default (as defined in the Swap Agreement) in respect of which the Swap Counterparty is the Defaulting Party (as defined in the Swap Agreement); or
  - (b) the occurrence of an Additional Termination Event (as defined in the Swap Agreement) as a result of the failure by the Swap Counterparty to comply with the requirements under the Swap Agreement in relation to the loss of the Swap Counterparty Requisite Rating in relation to the Swap Counterparty (as defined above in the section entitled *Transaction Documents – Swap Agreement*).
- (c) Pre-Acceleration Principal Priority of Payments
- Prior to the service of an Acceleration Notice, the Servicer will, on each Interest Payment Date, apply any receipts of principal from the Transaction Accounts in accordance with **Condition 6.2 (Redemption for Taxation or Other Reasons)** or **6.3 (Mandatory Redemption in Whole or in Part)** of the Terms and Conditions of the Notes (the **Pre-Acceleration Principal Priority of Payments**).
- (d) Payments paid out of the Transaction Accounts after Enforcement of the Issuer Security but Pre-Acceleration of the Notes.

The Issuer Security will become enforceable upon a Note Event of Default. Following enforcement of the Issuer Security, the Trustee or its appointee will be required to apply all funds received or

recovered by it in accordance with the Pre-Enforcement Income Priority of Payments save that paragraph (i) of the Pre-Enforcement Income Priority of Payments will be amended to provide for the payment of fees to the Trustee and any receiver or other person appointed by the Trustee or any receiver under the Trust Deed, the Issuer Deed of Charge and/or any Transaction Document to which the Trustee is a party, paragraph (iii)(A) will be deleted (and the remaining paragraphs will be renumbered accordingly) and any surplus payable to the Issuer under paragraph (xii) above will be retained by the Trustee, or any receiver or appointee (as applicable) (the **Post-Enforcement Pre-Acceleration Income Priority of Payments**).

(e) Payments paid out of the Issuer Accounts Post-Acceleration of the Notes

Following acceleration of the Notes, the Trustee will be required to apply all funds received or recovered by it in accordance with the following order of priority (the **Post-Acceleration Priority of Payments**) (in each case, only if and to the extent that the payments and provisions of a higher priority have been made in full), all as more fully set out in the Issuer Deed of Charge:

- (i) **first**, in or towards satisfaction of any costs, expenses, fees, remuneration and indemnity payments (if any) and any other amounts payable by the Issuer to, *pari passu* and *pro rata*, the Trustee and any receiver or other person appointed by the Trustee or any receiver under the Trust Deed, the Issuer Deed of Charge and/or any Transaction Document to which the Trustee is a party;
- (ii) **second**, in or towards satisfaction, *pro rata* and *pari passu*, of the amounts due in respect of any amounts due and owing by the Issuer on such Interest Payment Date in respect of:
  - (A) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Paying Agents and the Agent Bank incurred under the Agency Agreement;
  - (B) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Liquidity Bank under the Liquidity Facility Agreement (other than in respect of any Liquidity Subordinated Amounts);
  - (C) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Accounts Bank under the Issuer Accounts Bank Agreement;
  - (D) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Servicer (including any substitute servicer appointed in accordance therewith) and, as the case may be, the Special Servicer (including any substitute special servicer appointed in connection therewith) pursuant to the Servicing Agreement (other than in respect of any Liquidation Fee or Workout Fee);
  - (E) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Cash Administrator under the Cash Administration Agreement; and
  - (F) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Independent Director under the Independent Director Agreement;
- (iii) **third**, in or towards satisfaction of any amounts due and payable by the Issuer to the Liquidity Bank under and in accordance with the Liquidity Facility Agreement (other than any Liquidity Subordinated Amounts);
- (iv) **fourth**, in or towards satisfaction of any amounts due and payable by the Issuer to the Swap Counterparties under and in accordance with the Swap Agreement (other than any Subordinated Swap Amounts);

- (v) **fifth**, in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class A Notes;
- (vi) **sixth**, in or towards payment of all amounts of principal due or overdue on the Class A Notes and all other amounts (excluding interest) due in respect of the Class A Notes;
- (vii) **seventh**, in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class B Notes;
- (viii) **eighth**, in or towards payment of all amounts of principal due or overdue on the Class B Notes and all other amounts (excluding interest) due in respect of the Class B Notes;
- (ix) **ninth**, in or towards payment of interest due and interest overdue (and all interest due on such overdue interest) on the Class C Notes;
- (x) **tenth**, in or towards payment of all amounts of principal due or overdue on the Class C Notes and all other amounts (excluding interest) due in respect of the Class C Notes;
- (xi) **eleventh**, in or towards payment of any Liquidity Subordinated Amounts;
- (xii) **twelfth**, in or towards payment of any Subordinated Swap Amounts payable by the Issuer to the Swap Counterparties;
- (xiii) **thirteenth**, in or towards payment of any amounts payable by the Issuer to the Special Servicer in respect of the Liquidation Fee or the Workout Fee; and
- (xiv) **fourteenth**, any surplus to the Issuer.

Upon enforcement of the Issuer Security, the Trustee will have recourse only to the rights of the Issuer in respect of the Issuer's interest in the Loans and the Loan Security and all other assets constituting the Issuer Security.

## SERVICING

### The Servicer

The Issuer and the Trustee will appoint The Royal Bank of Scotland plc as Servicer and Special Servicer under the terms of a servicing agreement to be dated on or about the Closing Date (the **Servicing Agreement**) as the servicer of the Loans. The Servicer will perform the day-to-day servicing of the Loans and will continue to service other commercial mortgage loans in addition to the Loans.

### Servicing of the Loans

Servicing procedures will include monitoring compliance with and administering the options available to the Issuer under the terms and conditions of each Loan Agreement.

The Servicer and (where applicable) the Special Servicer will agree to service the Loans in the best interests of and for the benefit of all of the Noteholders (as determined by the Servicer or the Special Servicer, as the case may be, in good faith and in the reasonable judgment of the Servicer or Special Servicer, as applicable) and in accordance with applicable legal and regulatory requirements and shall take all measures it deems necessary or appropriate in its due professional discretion to administer and collect the Loans:

- (a) provided that the Servicer or the Special Servicer, as the case may be, is The Royal Bank of Scotland plc (**RBS**), in accordance with RBS's usual administrative policies and procedures from time to time and in the same manner as RBS services commercial mortgage loans which remain on the books of and beneficially owned by RBS; and in so doing shall exercise the standard of care of a reasonably prudent commercial mortgage lender; or
- (b) to the extent that the Servicer or the Special Servicer, as the case may be, is not RBS, in accordance with the standard of care as is normal and usual in general commercial mortgage servicing activities with respect to comparable commercial mortgage loans for other third-party lenders or for its own account, whichever is higher, and in so doing shall exercise the standard of care of a reasonably prudent commercial mortgage lender;

and, in either case, in particular, and, on the occurrence of a Loan Event of Default in respect of a Loan, the administration of enforcement procedures with a view to the maximisation of recoveries available to the Noteholders (taking into account the likelihood of recovery of amounts due from the relevant Obligor, the timing of any such recovery and the costs of recovery) as determined by the Servicer or Special Servicer, as the case may be, in its reasonable judgment (together, the **Servicing Standard**).

Each of the Servicer and the Special Servicer or their affiliates may become the owner of or otherwise hold an interest in the Notes with the same rights as each would have if it were not the Servicer or Special Servicer, as the case may be. Any such interest of the Servicer or the Special Servicer or their affiliates in the Notes will not be taken into account by any person when evaluating whether actions of the Servicer or the Special Servicer were consistent with the Servicing Standard. In the event of any conflict arising between the interests of Noteholders and the interests of the Servicer, Special Servicer or their affiliates, the interests of the Noteholders will prevail.

### Consultation with, and appointment of, the Special Servicer

The Servicer will give notice to the Special Servicer and the Trustee and will consult with the Special Servicer in relation to the future servicing or exercise of rights in respect of the relevant Loan and/or its Loan Security promptly upon the occurrence of any of the following events:

- (a) a default arising as a result of the breach of an Actual Interest Cover Test;



- (b) any scheduled payment (including principal payment on maturity of a Loan) which would otherwise be due and payable in respect of the relevant Loan being delinquent for up to 45 days past the relevant due date (a **Non-Cured Scheduled Payment Default**); or
- (c) a Borrower being in breach of any other covenant under the relevant Loan Agreement.

The Servicer or the Special Servicer, as applicable, will promptly give notice to the Borrower Security Trustee, the Trustee, the Rating Agencies and the Special Servicer (where applicable) of the occurrence of any Special Servicing Event in respect of the relevant Loan. Upon the delivery of such notice, the Special Servicer will automatically assume all of its duties, obligations and powers under the Servicing Agreement and the relevant Loan will become **Specially Serviced**. A Loan is only deemed to be Specially Serviced if a Special Servicing Event has occurred in respect of that Loan.

**Special Servicing Event** means each of the following events:

- (a) a payment default occurring with regards to any payment due on the maturity of the relevant Loan (taking into account any extensions to its maturity permitted under the Servicing Agreement);
- (b) any scheduled payment (including principal payment on maturity of a Loan) which would otherwise be due and payable in respect of the relevant Loan being delinquent for up to 60 days past the relevant due date;
- (c) breach of the Actual Interest Cover Test for a period of more than 45 days;
- (d) the Issuer, the Trustee, the Servicer or the Special Servicer receiving notice of the enforcement of any security interest over all or any part of the Loan Security;
- (e) insolvency or bankruptcy proceedings being commenced in respect of an Obligor;
- (f) in the Servicer's opinion a breach of a material covenant (a covenant being material for the purposes of this paragraph (f) if a breach of it materially impairs or could materially impair the use or the marketability of a Property or the value thereof as security for the relevant Loan) under the relevant Loan Agreement occurring or, to the knowledge of the Servicer, being likely to occur, and in the Servicer's opinion such breach is not likely to be cured within 30 days of its occurrence;
- (g) an Obligor notifying the Borrower Security Trustee, the Issuer or the Trustee in writing of its inability to pay its debts generally as they become due, its entering into an assignment for the benefit of its creditors or its voluntary suspension of payment of its obligations;
- (h) any other Loan Event of Default under the relevant Loan occurring that, in the good faith and reasonable judgment of the Servicer, materially impairs or could materially impair the use or the marketability of a Property or the value thereof as security for its Loan; or
- (i) any payment is deferred (without the prior written consent of the Servicer) under the relevant Loan Agreement.

On the appointment of the Special Servicer in respect of the relevant Loan, the Servicer shall cease to be subject to the obligations as Servicer in respect of the relevant Loan under the Servicing Agreement except where otherwise provided.

#### **Arrears and default procedures**

The Servicer or the Special Servicer, as applicable, will on behalf of the Issuer instruct the Borrower Security Trustee to collect all payments due under or in connection with the relevant Loan.

The Cash Administrator will initially be responsible for the supervision and monitoring of payments falling due in respect of the relevant Loan. The Servicer and, as applicable, the Special Servicer will be required to use all reasonable endeavours to recover amounts due from the Borrowers should either of them default. Each of the Servicer and the Special Servicer will agree, in relation to any default under or in connection with the relevant Loan and the Loan Security, to comply with the procedures for enforcement of the relevant Loan and the Loan Security of the Servicer or the Special Servicer, as the case may be, current from time to time.

In the case of a Loan Event of Default in respect of the relevant Loan Agreement which has not been waived, the Servicer or the Special Servicer, as applicable, will consider based on (amongst other things) the nature of the default, the status of the Borrower and the nature and value of the relevant Portfolio, what internal reviews and reporting requirements are needed in respect of the relevant Loan, and which enforcement procedures are appropriate. Such procedures for enforcement include the giving of instructions to the Borrower Security Trustee as to how to enforce the security held by it.

### **Amendments to the terms and conditions of the Finance Documents**

The Servicer or the Special Servicer, as applicable, on behalf of the Issuer and the Trustee may (but will not be obliged to) in accordance with the Servicing Standard agree to any request by the Borrower Security Trustee or the relevant Borrower, as applicable, to vary or amend the terms and conditions of the Finance Documents, or to give any consent in respect thereof provided that:

- (a) the variation, amendment or consent consists of or relates to one or more of the following:
  - (i) any release of the relevant Borrower or any other Obligor, provided that there is always at least one person as Borrower and in respect of any Obligor, such Obligor is only released in accordance with the terms of the relevant Loan Agreement;
  - (ii) the release of the Loan Security in respect of the relevant Loan or any part thereof which may, at the option of the Servicer or the Special Servicer, as applicable, be on the basis that alternative security is provided by an Obligor which is acceptable to the Servicer or the Special Servicer acting in accordance with the Servicing Standard or the proceeds of; or
  - (iii) any other variation, amendment or consent which would be acceptable to a reasonably prudent commercial mortgage lender acting in accordance with the Servicing Standard;
- (b) no Acceleration Notice has been given by the Trustee which remains in effect at the date on which the relevant variation or amendment is agreed;
- (c) the Issuer will not be required to make a further advance;
- (d) the effect of such variation or amendment would not be to extend the Final Maturity Date of the relevant Loan beyond the Interest Payment Date falling in January 2014 or to a date falling less than 20 years before the expiration of any headlease or groundlease unless the Servicer or the Special Servicer, as applicable, shall have first received written confirmation from each of the Rating Agencies that the then current ratings of the Notes will not be adversely affected by such extension;
- (e) the Loan Security in respect of the relevant Loan will continue to include a first ranking legal and beneficial mortgage, where relevant on the interests in the relevant Portfolio (subject to any disposal of a Property in accordance with the relevant Loan Agreement);
- (f) notice of any such amendment or variation is given to Fitch and prior written confirmation shall have been received by the Servicer or the Special Servicer, as applicable, from Fitch that any variation or amendment to any of the terms and conditions of the Finance Documents that is likely, in the

reasonable determination of the Servicer or the Special Servicer, as the case may be, to have a material adverse effect on the Noteholders (it being agreed that a reduction in the interest rate or principal balance of a Loan or any waiver or postponement of the same is likely to have such effect) will not result in the then current ratings of any of the Notes being adversely affected; and

- (g) if RBS is not the Special Servicer, notice of any such amendment or variation is given to the Special Servicer.

With the prior written consent of the Trustee (acting in accordance with the Trust Deed and having regard to the interests of the Noteholders), the Servicer or the Special Servicer, as applicable, may (but will not be obliged to) agree to any request by the Borrower Security Trustee or the Borrower to vary or amend the terms and conditions of its Finance Documents where any of the above conditions (other than the conditions specified in paragraphs (d), (f) and (g) above) are not satisfied in respect of the relevant variation or amendment.

### **Servicer quarterly report**

Pursuant to the Servicing Agreement, the Servicer will agree to deliver to the Issuer, the Trustee, the Special Servicer and the Rating Agencies a report in respect of each Calculation Date in which it will notify the recipients of, among other things, all amounts received in the Issuer Accounts and payments made with respect thereto. The report will contain the quarterly arrears report (based upon information received by the Servicer from the Borrowers and/or the Property Manager) and will also include qualitative and quantitative information on the relevant Loan, including details of any material changes that may affect credit quality and the details of any delegation of any of the Servicer's and/or Special Servicer's obligations or duties.

### **Insurance**

The Servicer will monitor the arrangements for insurance which relate to the each Loan and relevant Loan Security and establish and maintain procedures to ensure that all buildings' insurance policies in respect of the Properties are renewed on a timely basis. To the extent that the Issuer and/or the Trustee has power to do so under a policy of buildings insurance, the Servicer will, as soon as practicable after becoming aware of any occurrence of any event giving rise to a claim under such policy, procure that the Borrower Security Trustee prepares and submits such claim on behalf of the Issuer and/or the Trustee in accordance with the terms and conditions of such policy and complies with any requirements of the relevant insurer.

The Servicer will use reasonable endeavours to procure that each Borrower complies with the obligations in respect of insurance in accordance with the terms of the relevant Loan Agreement. If the Servicer becomes aware that a Borrower has failed to pay premiums due under any policy of buildings insurance, the Servicer will instruct the Borrower Security Trustee to take such action as the Issuer and/or the Trustee shall reasonably direct and in the absence of such direction will, on behalf of the Issuer or the Trustee, instruct the Borrower Security Trustee to pay premiums due and payable under any policy of buildings insurance in order that the cover provided by such policy does not lapse.

Upon receipt of notice that any policy of insurance has lapsed or that a Property is otherwise not insured against fire and other perils (including subsidence) other than as set out in the relevant Loan Agreements under a comprehensive insurance policy or similar policy in accordance with the terms of the relevant Loan Agreement, the Servicer will, at the cost of the Issuer, arrange such insurance in accordance with the terms of the relevant Loan Agreement. Under the terms of the relevant Loan Agreement, the Borrower will be required to reimburse the Issuer, as applicable, for such costs of insurance. See also *Risk Factors – Insurance*.

## Loan Protection Advances

The terms of the Loan Agreements require the Borrowers to comply with their obligation to make certain payments to third parties such as insurers and landlords in respect of leasehold properties. Failure by a Borrower to make such payments when due could result in the arrangements with the third party being terminated, which could jeopardise the interests of the Issuer. If the Servicer or Special Servicer (as the case may be) (the **Relevant Servicer**) determines that it would be in the interests of the Issuer to make the payment, the relevant Servicer may arrange for the payment, directly to the third party, of the amount due.

If the Relevant Servicer determines that a third party payment should be made it will first use any amounts standing to the credit of the relevant Receipts Account, in accordance with the terms of the relevant Loan Agreement. If insufficient funds are available in the relevant Receipts Account to make the third party payment, the Relevant Servicer will notify the Cash Administrator of the amount of such shortfall and the Issuer will make an advance in the amount of such shortfall to the relevant third party (any such payment being a **Loan Protection Advance**). Upon receipt of such notice, the Cash Administrator will make a Loan Protection Drawing in an amount equal to the required Loan Protection Advance in accordance with the terms of the Liquidity Facility Agreement.

To the extent that any Loan Protection Advance cannot be funded from the proceeds of any Loan Protection Drawing the Relevant Servicer may (in its sole discretion), make all or part of the payment to the third party using its own funds in which case such amounts will be repayable by the Issuer to the Relevant Servicer on the Interest Payment Date immediately following the date on which such Loan Protection Drawing is made together with interest thereon at a rate of 1% per annum over the base lending rate, from time to time, of The Royal Bank of Scotland plc (or such other UK clearing bank base rate as the Relevant Servicer and the Trustee may agree).

In determining whether or not the Issuer or the Relevant Servicer should make a Loan Protection Advance, the Relevant Servicer will be required to take into account whether the Loan will generate sufficient income and/or have a sufficiently high value to repay all amounts due under the Loan and any amounts in respect of the Loan Protection Advance (a **Recoverability Determination**). In making a Recoverability Determination the Relevant Servicer must have regard to, among other things, the value of the property, the amount of any proposed Loan Protection Advance, the amount of any costs if the Loan Protection Advance were not made (including swap termination amounts) and the cost and timing of any refinancing or potential refinancing. The Recoverability Determination will not necessarily be the determining factor in whether a Loan Protection Advance is to be made. The Relevant Servicer will be required (in accordance with the Servicing Standard, but subject to the Relevant Servicer determining in its sole discretion if its own funds are to be used) to exercise its discretion in respect of whether to make a Loan Protection Advance having weighed up the Recoverability Determination against the potential cost or loss to the Issuer of not making such an advance.

## Fees

The Servicer will be entitled to receive a fee for servicing each Loan. On each Interest Payment Date the Issuer will pay to the Servicer a servicing fee (the **Servicing Fee**) (exclusive of VAT arising and payable to the Servicer, if any) in such amount as may be agreed between the Issuer and the Servicer but only to the extent that the Issuer has sufficient funds to pay such amount as provided in *Issuer Transaction Documents and Cashflows – Issuer Cashflows*. The unpaid balance (if any) will be carried forward until the next succeeding Interest Payment Date and, if not paid before such time, will be payable on the final Interest Payment Date of the latest maturing Class of Notes or on the earlier redemption in full of the Notes by the Borrower. The Servicing Agreement will also provide for the Servicer to be reimbursed by the Issuer for all reasonable out-of-pocket expenses and charges properly incurred by the Servicer in the performance of its services under the Servicing Agreement.

Pursuant to the Servicing Agreement, if a Loan is designated to be Specially Serviced, the Issuer will be required to pay to the Special Servicer a fee (the **Special Servicing Fee**) (exclusive of VAT arising, if any) equal to 0.25% per annum of the principal balance of the relevant Loan then outstanding but only to the extent that the Issuer has sufficient funds to pay such amount including any VAT arising, if any, as provided in *Issuer Transaction Documents and Cashflows – Issuer Cashflows* for a period commencing on the date the relevant Loan is designated to be Specially Serviced and ending on the date the relevant Properties are sold on enforcement or the date on which the relevant Loan is designated to be corrected.

The relevant Loan will be designated to be **corrected** if any of the following occurs with respect to the circumstances identified as having caused the relevant Loan to be designated Specially Serviced and the relevant Loan has been transferred back to the control of the Servicer (and provided that no other Special Servicing Event then exists):

- (a) with respect to the circumstances described in paragraphs (a), (b) and (i) of Clause 6.1 of the Servicing Agreement in the definition of Special Servicing Event the relevant Borrower has repaid all overdue amounts and has made two consecutive timely quarterly payments in full;
- (b) with respect to the circumstances described in paragraph (c) of Clause 6.1 of the Servicing Agreement the Actual Interest Cover Test has been cured;
- (c) with respect to the circumstances described in paragraphs (d) and (e) of Clause 6.1 of the Servicing Agreement in the definition of Special Servicing Event such proceedings are terminated;
- (d) with respect to the circumstances described in paragraph (f) of Clause 6.1 of the Servicing Agreement in the definition of Special Servicing Event such circumstances cease to exist in the good faith and reasonable judgment of the Special Servicer;
- (e) with respect to the circumstances described in paragraph (g) of Clause 6.1 of the Servicing Agreement in the definition of Special Servicing Event the relevant Obligor ceases to claim an inability to pay its debts or suspend the payment of obligations or the termination of any assignment for the benefit of its creditors; or
- (f) with respect to the circumstances described in paragraph (h) of Clause 6.1 of the Servicing Agreement in the definition of Special Servicing Event such default is cured.

The Special Servicing Fee will accrue on a daily basis over such period and will be payable on each Interest Payment Date commencing with the Interest Payment Date following the date on which such period begins and ending on the Interest Payment Date following the end of such period.

In addition to the Special Servicing Fee, the Special Servicer will be entitled to a fee (the **Liquidation Fee**) (exclusive of VAT, if any) in respect of a Loan equal to an amount of 1% of the proceeds (net of all costs and expenses, including any Swap Agreement breakage costs, incurred as a result of the default of the relevant Loan, enforcement and sale), if any, arising on the sale of a Property or on or out of the proceeds received following the application of any other enforcement procedures or other actions taken by the Special Servicer in respect of the Loan.

In addition to the Special Servicing Fee and the Liquidation Fee (if any) in respect of a Loan, the Special Servicer will be entitled to receive a fee (the **Workout Fee**) in consideration of providing services in relation to the relevant Loan when designated to be corrected. When a Loan is designated to be corrected, the VAT-exclusive amount of Workout Fee shall be equal to 1% of each collection of principal and interest received on the relevant Loan (but only, in relation to collections of principal, if and to the extent that such principal received reduces the amount of principal outstanding under the relevant Loan to below the amount of principal outstanding under the Loan at the date they were first designated to be corrected) for so long as it continues to be designated corrected. The Workout Fee will cease to be payable if the relevant Loan is no

longer designated to be corrected, but the Workout Fee will become payable if and when the relevant Loan is again designated to be Specially Serviced.

Any Liquidation Fee will be paid as enforcement costs by the relevant Borrower whose loan is liquidated.

The Workout Fee will only be payable to the extent that the Issuer has sufficient funds to pay such amount as provided in *Issuer Transaction Documents and Cashflows – Issuer Cashflows*.

### **Removal or resignation of the Servicer or the Special Servicer**

The appointment of the Servicer or the Special Servicer, as applicable, may be terminated by the Trustee and/or by the Issuer (with the consent of the Trustee) upon written notice to the Servicer or the Special Servicer, as the case may be, on the occurrence of certain events (each, a **Servicer Termination Event**), including if:

- (a) the Servicer or the Special Servicer, as applicable, fails to pay or to procure the payment of any amount required to be paid under the Issuer Transaction Documents to which the Servicer or the Special Servicer is party (as the case may be) on its due date by it and either; (i) such payment is not made before the earlier of five Business Days of such time and the day before the next Interest Payment Date; or (ii) if the Servicer's or the Special Servicer's failure to make such payment was due to inadvertent error, such failure is not remedied within ten Business Days after the Servicer or the Special Servicer becomes aware of such error;
- (b) subject as provided further in the Issuer Transaction Documents, the Servicer or the Special Servicer, as applicable, fails to comply with any of its covenants and obligations under the Servicing Agreement which in the opinion of the Trustee is materially prejudicial to the interests of the holders of the Notes and such failure either is not remediable or is not remedied for a period of 30 Business Days after the earlier of the Servicer or the Special Servicer, as the case may be, becoming aware of such default and delivery of a written notice of such default being served on the Servicer or the Special Servicer, as applicable, by the Issuer or the Trustee;
- (c) at any time the Servicer or the Special Servicer, as applicable, fails to obtain or maintain the necessary licences or regulatory approvals enabling it to continue servicing each Loan; or
- (d) the occurrence of an insolvency event in relation to the Servicer or the Special Servicer.

In addition, if a Loan has been designated to be Specially Serviced and the Issuer is so instructed by the Controlling Party, the Borrower will terminate the appointment of the person then acting as Special Servicer and, subject to certain conditions, appoint a qualified successor thereto (such successor to pay any costs incurred by the Borrower in relation to the replacement of the Special Servicer).

**Controlling Party** means, at any time:

- (a) the holders of the most junior Class of Notes then having a Principal Amount Outstanding (as defined below) greater than 25% of its original aggregate Principal Amount Outstanding on the Closing Date; or
- (b) if no Class of Notes then has a Principal Amount Outstanding greater than 25% of its original aggregate Principal Amount Outstanding on the Closing Date, the holders of the then most junior Class of Notes,

excluding, in each case (i) any Class of Notes, the entire Principal Amount Outstanding of which is held by, or for the benefit of or on behalf of either Borrower and/or or any one or more of its affiliates (the **Excluded**

**Class**) and (ii) any Principal Amount Outstanding of any Class of Notes held by or on behalf of either Borrower and/or any one or more of its affiliates.

In the event that the Excluded Class would be (but for the preceding paragraph) determined to be the Controlling Party, the Class of Notes ranking immediately in priority in point of security to the Excluded Class and satisfying the test above will be the Controlling Party.

Prior to or contemporaneously with any termination of the appointment of the Servicer or the Special Servicer, it would first be necessary for the Issuer to appoint a substitute servicer or special servicer approved by the Trustee.

In addition, subject to the fulfilment of certain conditions including, without limitation, that a substitute servicer or special servicer has been appointed, the Servicer or Special Servicer may voluntarily resign by giving not less than three months' notice of termination to the Issuer and the Trustee.

Any such substitute servicer or special servicer (whether appointed upon a termination of the appointment of, or the resignation of, the Servicer or Special Servicer, as the case may be) will be required to, if possible, have experience servicing commercial loans secured on commercial mortgage properties in England and will enter into an agreement on substantially the same terms in all material aspects as the Servicing Agreement, taking into account also what is standard for such agreements in similar transactions at the time. Under the terms of the Servicing Agreement, the appointment of a substitute servicer or special servicer will be subject to the Rating Agencies confirming that the appointment will not adversely affect the then current ratings (if any) of any class of the Notes unless otherwise agreed by Extraordinary Resolution of each Class of Noteholders. Any costs incurred by the Issuer as a result of appointing any such substitute servicer or special servicer shall, save as specified above, be paid by the Servicer or Special Servicer (as the case may be) whose appointment is being terminated. The fee payable to any such substitute servicer or special servicer should not, without the prior written consent of the Trustee, exceed the amount payable to the Servicer or Special Servicer pursuant to the Servicing Agreement and in any event should not exceed the rate then customarily payable to providers of commercial mortgage loan servicing services.

Forthwith upon termination of the appointment of, or the resignation of, the Servicer or Special Servicer, the Servicer or Special Servicer (as the case may be) must deliver any documents and all books of account and other records maintained by the Servicer or Special Servicer relating to the relevant Loan and/or the relevant Loan Security to, or at the direction of, the substitute servicer or substitute special servicer and shall take such further action as the substitute servicer or substitute special servicer, as the case may be, shall reasonably request to enable the substitute servicer or the substitute special servicer, as the case may be, to perform the services due to be performed by the Servicer or the Special Servicer under the Servicing Agreement.

#### **Appointment of the Operating Adviser**

The Controlling Party may elect to appoint an operating adviser (the **Operating Adviser**) to represent its interests and to advise the Special Servicer about the following matters in relation to each Loan:

- (a) appointment of a receiver or administrator or similar actions to be taken in relation to the relevant Loan;
- (b) the amendment, waiver or modification of any term of the Finance Documents relating to the relevant Loan which affects the amount payable by the relevant Borrower or the time at which any amounts are payable, or any other material term of the relevant Finance Documents; and
- (c) the release of any part of the relevant Loan Security, or the acceptance of substitute or additional Loan Security other than in accordance with the terms of the relevant Loan Agreement.

Before taking any action in connection with the matters referred to in paragraphs (a) to (c) above, the Special Servicer must notify the Operating Adviser of its intentions and must take due account of the advice and representations of the Operating Adviser, although if the Special Servicer determines that immediate action is necessary to protect the interests of the Noteholders, the Special Servicer may take whatever action it considers necessary without waiting for the Operating Adviser's response. If the Special Servicer does take such action and the Operating Adviser objects in writing to the actions so taken within ten Business Days after being notified of the action and provided with all reasonably requested information, the Special Servicer must take due account of the advice and representations of the Operating Adviser regarding any further steps the Operating Adviser considers should be taken in the interests of the Controlling Party. The Operating Adviser will be considered to have approved any action taken by the Special Servicer without the prior approval of the Operating Adviser if it does not object within ten Business Days. Furthermore, the Special Servicer will not be obliged to consider the advice of the Operating Adviser for any actions to be taken with respect to a Specially Serviced Loan if the Special Servicer has notified the Operating Adviser in writing of the actions that the Special Servicer proposes to take with respect to the Specially Serviced Loan and, for 60 days following the first such notice, the Operating Adviser has objected to all of those proposed actions and has failed to suggest any alternative actions that the Special Servicer considers to be in accordance with the Servicing Agreement.

In all instances, the Servicer or the Special Servicer, as the case may be, will disregard any advice or representations of the operating adviser where adherence to those may result in the Servicer or Special Servicer violating the Servicing Standard.

#### **Delegation by the Servicer and Special Servicer**

The Servicer or the Special Servicer, as applicable, may and after giving written notice to the Trustee and the Rating Agencies, delegate or subcontract the performance of any of its obligations or duties under the Servicing Agreement. This does not prevent the engagement on a case by case basis by the Servicer or Special Servicer, as applicable, of any solicitor, valuer, surveyor, estate agent, property management agent or other professional adviser in respect of services normally provided by such persons in connection with the performance by the Servicer or the Special Servicer, as applicable, of any of its respective functions or exercise of its powers under the Servicing Agreement. Upon the appointment of any such delegate or subcontractor the Servicer or the Special Servicer, as the case may be, will nevertheless remain responsible for the performance of those duties to the Borrower and the Trustee.

#### **Governing law**

The Servicing Agreement will be governed by English law.



## THE ROYAL BANK OF SCOTLAND PLC

The Royal Bank of Scotland Group plc (the **Group**) is the holding company of one of the world's largest banking and financial services groups, with a market capitalisation of £56.8 billion at 30 June 2006. Headquartered in Edinburgh, the Group operates in the UK, the US and internationally through its two principal subsidiaries, The Royal Bank of Scotland plc (**RBS**) and National Westminster Bank Plc (**NatWest**). Both RBS and NatWest are major UK clearing banks whose origins go back over 275 years. The Group has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

The Group's operations are conducted principally through RBS and its subsidiaries (including NatWest) other than the general insurance business (primarily Direct Line Group and Churchill Insurance).

The Group had total assets of £839.3 billion and shareholders' equity of £37.4 billion at 30 June 2006. The Group is strongly capitalised with a total capital ratio of 11.9% and tier 1 capital ratio of 7.6% as at 30 June 2006.

The short-term unsecured and unguaranteed debt obligations of RBS are currently rated A-1+ by S&P P-1 by Moody's and F1+ by Fitch. The long-term senior unsecured and unguaranteed debt obligations of RBS are currently rated AA by S&P, Aa1 by Moody's and AA+ by Fitch.

In its capacity as Swap Counterparty RBS will be acting through its branch at 135 Bishopsgate, London EC2M 3UR.

In its capacities as Servicer and Special Servicer, RBS will be acting through its branch at 280 Bishopsgate, London EC2M 4RB.

In its capacities as Liquidity Bank, Issuer Account Bank, Borrower Account Bank and Borrower Security Trustee, RBS will be acting through its branch at 6<sup>th</sup> Floor, Spinningfields Square, Manchester M3 3AP.

The information contained herein with respect to RBS and the Group relates to and has been obtained from it. Delivery of this Prospectus shall not create any implication that there has been no change in the affairs of RBS or the Group since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.

## ESTIMATED AVERAGE LIVES OF THE NOTES AND ASSUMPTIONS

*The estimated average lives figures set out herein should not be assumed to be a prediction of future performance. Actual performance is subject to factors largely or, in some cases (for example, general economic conditions), entirely outside the control of the Issuer. Consequently, no assurance can be given that the average life estimates and the assumptions set out herein will prove in any way to be correct or realistic and they must therefore be viewed with considerable caution. No representation is made as to whether any of the matters described in the assumptions set out herein will or will not occur. See also Risk Factors.*

The average lives of the Notes cannot be predicted because the Loans will be prepayable and a number of other relevant factors are unknown.

Calculations of possible average lives of the Notes can be made based on certain assumptions. For example, based on the assumptions that:

- (a) the Loans are not sold by the Issuer;
- (b) the Loans do not default, are not prepaid (in whole or in part), are not enforced and no loss arises; and
- (c) the Closing Date is 6 February 2007,

then the approximate average lives of the Notes would be as follows:

- (d) in respect of the Class A Notes, 6.94 years;
- (e) in respect of the Class B Notes, 6.94 years;
- (f) in respect of the Class C Notes, 6.94 years;

Assumptions (a), (b) and (c) above relate to circumstances which are not predictable.

The average lives of the Notes will be subject to factors outside the control of the Issuer and consequently no assurance can be given that the estimates above will in fact be realised and they must therefore be viewed with considerable caution.

## **USE OF PROCEEDS**

The total gross proceeds from the issue of the Notes will be approximately £440,000,000, and this sum will be applied by the Issuer towards the making of the Loans to the Borrowers on the Closing Date pursuant to the terms of the Loan Agreements. Fees, costs and expenses incurred by the Issuer in connection with the issue of the Notes will be met by the Borrowers.

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the Terms and Conditions of the Notes in the form (subject to modification) in which they will be set out in the Trust Deed and, subject to any contrary provisions thereof, such Terms and Conditions will apply to the Notes in global and in definitive form if issued:*

The issue of the £350,000,000 Class A Commercial Mortgage Backed Floating Rate Notes due 2017 (the **Class A Notes**), the £37,000,000 Class B Commercial Mortgage Backed Floating Rate Notes due 2017 (the **Class B Notes**) and the £53,000,000 Class C Commercial Mortgage Backed Floating Rate Notes due 2017 (the **Class C Notes** and, together with the Class A Notes and the Class B Notes, the **Notes**) by Bruntwood Alpha Plc (the **Issuer**) was authorised by a resolution of the Board of Directors of the Issuer passed on 25 January 2007.

The Notes are constituted by a trust deed (such trust deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated on or about 6 February 2007 (the **Closing Date**) made between the Issuer and HSBC Trustee (C.I.) Limited (the **Trustee**, which expression includes its successors as trustee or any further or other trustee(s) under the Trust Deed) as trustee for the holders of the Notes (the **Noteholders**) and as security trustee for the Issuer Secured Creditors.

The proceeds of the issue of the Notes will be applied in or towards the making of Loans to each of the BE Borrower and the B2000 Borrower.

References herein to the Notes include references to:

- (a) whilst the Notes are represented by a Global Note (as defined in **Condition 1.2(b)**) any unit of £50,000 and higher integral multiples of £1,000 up to and including £99,000 (as reduced by any redemption in part of a Note pursuant to **Condition 6**);
- (b) any Global Note; and
- (c) any Definitive Notes (as defined in **Condition 2.1(a)**) issued in exchange for a Global Note.

References herein to interest include references to Deferred Interest and interest thereon, unless the context otherwise requires.

The Notes are subject to and have the benefit of an agency agreement (as amended and/or supplemented from time to time, the **Agency Agreement**) dated the Closing Date between the Issuer, HSBC Bank plc as **Principal Paying Agent** (in such capacity, the Principal Paying Agent, which expression includes any successor principal paying agent appointed from time to time in respect of the Notes) and as agent bank (in such capacity, the **Agent Bank**, which expression includes any successor agent bank appointed from time to time in connection with the Notes), HSBC Institutional Trust Services (Ireland) Limited as Irish paying agent (the **Irish Paying Agent**, which expression includes any successor Irish paying agent appointed from time to time in connection with the Notes and, together with the Principal Paying Agent and any other paying agent appointed from time to time in connection with the Notes, the **Paying Agents**) and the Trustee.

The security for the Notes is granted or created pursuant to an Issuer Deed of Charge under English law, (the **Issuer Deed of Charge**, which expression includes such Issuer Deed of Charge as from time to time modified in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto as from time to time so modified) dated the Closing Date and made between, among others, the Issuer and the Trustee.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Agency Agreement and the Issuer Deed of Charge applicable to them and

all the provisions of the other Transaction Documents (including the Issuer Account Bank Agreement, the Servicing Agreement, the Liquidity Facility Agreement, the Swap Agreement, the Loan Agreements, the Independent Director Agreement, the Borrower Security Agreements, the Mortgage of Shares, the Property Management Agreements, the Borrower Account Bank Agreements, the Tax Deed of Covenant and the master definitions schedule signed for identification by, among others, the Issuer and the Trustee on or about the Closing Date (the **Master Definitions Schedule**)) applicable to them.

The statements in these Terms and Conditions (these **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement, the Issuer Deed of Charge and the other Transaction Documents. Capitalised terms used in these Conditions but not otherwise defined shall have the meanings set out in the Master Definitions Schedule.

As used in these Conditions:

- (a) a reference to a **Class of Notes** or the respective holders thereof, shall be a reference to the Class A Notes, the Class B Notes and the Class C Notes or the respective Noteholders as applicable, and **Classes**, in a similar context, shall be construed accordingly;
- (b) a reference to **Notes of any Class** shall in these Conditions, unless the context otherwise requires, include any Further Notes (as defined below in **Condition 16.1**) issued pursuant to **Condition 16** and forming a single series with the relevant Class of Notes; and
- (c) **Most Senior Class of Notes** means at any time:
  - (i) the Class A Notes; or
  - (ii) if no Class A Notes are then outstanding (as defined in the Trust Deed), the Class B Notes (if at that time any Class B Notes are then outstanding); or
  - (iii) if no Class A Notes and Class B Notes are then outstanding, the Class C Notes (if at that time any Class C Notes are then outstanding).

Copies of the Transaction Documents (as defined below) are available to Noteholders for inspection at the specified office of the Principal Paying Agent.

## 1. GLOBAL NOTES

### 1.1 Temporary Global Notes

- (a) The Notes of each Class will initially be represented by a temporary global Note of the relevant Class (each, a **Temporary Global Note**).
- (b) The Temporary Global Notes will be deposited on behalf of the subscribers of the Notes with a common depository (the **Common Depository**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**) on the Closing Date. Upon deposit of the Temporary Global Notes, Euroclear or Clearstream, Luxembourg will credit the account of each Accountholder with the principal amount of Notes for which it has subscribed and paid.

### 1.2 Permanent Global Notes

- (a) Interests in each Temporary Global Note will be exchangeable 40 days after the Closing Date (the **Exchange Date**), provided certification of non-U.S. beneficial ownership (**Certification**) by the relevant Noteholder has been received, for interests in a permanent global Note of the relevant Class

(each, a **Permanent Global Note**) which will also be deposited with the Common Depositary unless the interests in the relevant Permanent Global Note have already been exchanged for Notes in definitive form in which event the interests in such Temporary Global Note may only be exchanged (subject to Certification) for Notes of the relevant Class in definitive form.

- (b) The expression **Global Note** shall be read and construed to mean a Temporary Global Note or a Permanent Global Note as the context may require. On the exchange in full of each Temporary Global Note for the relevant Permanent Global Note such Permanent Global Note will remain deposited with the Common Depositary.

### 1.3 **Form and Title**

- (a) Each **Global Note** shall be issued in bearer form without receipts, coupons or talons.
- (b) Title to the Global Notes will pass by delivery. Notes represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.
- (c) For so long as the Notes of a Class are represented by one or both Global Notes in respect of that Class, the Issuer, the Trustee and all other parties shall (to the fullest extent permitted by applicable laws) deem and treat each person who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (an **Accountholder**) (other than Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear, and Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) as the holder of such principal amount of such Notes, in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes or interest in such Notes standing to the account of any person shall be conclusive and binding for all purposes (including for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders), other than for the purposes of payment of principal and interest on such Global Notes, the right to which shall be vested, as against the Issuer, the Paying Agents and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to the terms of the Trust Deed. The expressions **Noteholders**, **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.
- (d) In determining whether a particular person is entitled to a particular principal amount of Notes as aforesaid, and subject to **Condition 1.3(c)**, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall be conclusive and binding on all concerned.

## 2. **DEFINITIVE NOTES**

### 2.1 **Issue of Definitive Notes**

- (a) A Permanent Global Note will be exchanged free of charge (in whole but not in part) for Notes in definitive bearer form (**Definitive Notes**) only if at any time after the Exchange Date any of the following applies:
  - (i) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do in fact do so and no alternative clearing system satisfactory to the Trustee is available; or

- (ii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom or any applicable jurisdiction (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 administration of such laws or regulations, which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will become required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form.
- (b) Thereupon, the whole of such Permanent Global Note will be exchanged for Definitive Notes (in the form referred to in **Condition 2.2** below) in respect of principal and interest which has not already been paid on such Permanent Global Note as provided in such Permanent Global Note.

## 2.2 Title to and Transfer of Definitive Notes

- (a) Each Definitive Note shall be issued in bearer form, serially numbered, in the denomination of £50,000 and integral multiples of £1,000 up to and including £99,000. No Definitive Note will be issued with a denomination above £99,000.
- (b) Title to the Definitive Notes will pass by delivery.
- (c) The Issuer, the Paying Agents and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the holder of any Definitive Note as the absolute owner for all purposes (whether or not the Definitive Note shall be overdue and notwithstanding any notice of ownership, theft or loss, of any trust or other interest therein or of any writing on the Definitive Note) and the Issuer, the Trustee and the Paying Agents shall not be required to obtain any proof thereof or as to the identity of such holder.

## 3. STATUS, SECURITY AND PRIORITY OF PAYMENTS

### 3.1 Status and relationship between Classes of Notes

- (a) The Class A Notes, the Class B Notes and the Class C Notes constitute direct, secured, limited recourse obligations of the Issuer and are secured by assignments, charges and other fixed and floating security interests over all of the assets of the Issuer (as more particularly described in the Issuer Deed of Charge) (the **Issuer Charged Property**) (such assignments, charges and fixed and floating security interests together, the **Issuer Security**). Notes of the same Class rank *pari passu* and rateably without any preference or priority amongst themselves.
- (b) Pursuant to the provisions of this **Condition 3**, the Trust Deed and the Issuer Deed of Charge, the Class A Notes will rank in priority to all other Classes of Notes in point of security and as to the payment of principal and interest, the Class B Notes will be subordinated in point of security and as to right of payment of principal and interest in respect of the Class A Notes but will rank in priority to the Class C Notes in point of security and as to the payment of principal and interest. The Class C Notes will be subordinated in point of security and as to right of payment of principal and interest in respect of the Class A Notes and the Class B Notes.
- (c) In connection with the exercise of the powers, trusts, authorities, duties and discretions vested in it by the Trust Deed and the other Issuer Transaction Documents the Trustee shall:
  - (i) except where expressly provided otherwise, have regard to the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders equally PROVIDED THAT if, in the opinion of the Trustee: (1) (for so long as there are any Class A Notes outstanding) there is a conflict between the interests of the Class A Noteholders on the one hand and the interests of the Class B Noteholders and/or the Class C Noteholders on the

other hand, it shall have regard only to the interests of the Class A Noteholders; and (2) (for so long as there are any Class B Notes outstanding) there is a conflict between the interests of the Class B Noteholders on the one hand and the interests of the Class C Noteholders on the other hand, it shall, subject to (1) above, have regard only to the interests of the Class B Noteholders but so that this proviso shall not apply in the case of powers, trusts, authorities, duties and discretions:

- (A) in relation to which it is expressly stated that they may be exercised by the Trustee only if in its opinion the interests of the Noteholders would not be materially prejudiced thereby; or
  - (B) the exercise of which by the Trustee relates to any Basic Terms Modification (as defined in **Condition 12.7(d)**), in which event the Trustee may exercise such powers, trusts, authorities, duties and discretions only if it is satisfied that to do so will not be materially prejudicial to the interests of the Noteholders of any Class that will be affected thereby;
- (ii) where it is required to have regard to the interests of the Noteholders (or any Class thereof), it shall have regard to the interests of such Noteholders (or such Class) as a class and shall not have regard to any interests arising from circumstances particular to individual Noteholders and in particular, but without prejudice to the generality of the foregoing, shall not be obliged to have regard to the consequences thereof for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to, the jurisdiction of any particular territory and the Trustee shall not be entitled to require, nor shall any Noteholders be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders; and
- (iii) except where expressly provided otherwise, have regard only to the interests of the Noteholders and shall not be required to have regard to the interests of any Other Issuer Secured Creditor or any other person or to act upon or comply with any direction or request of any Other Issuer Secured Creditor or any other person whilst (in the case of any Other Issuer Secured Creditor) any amount remains owing to any Noteholder and (in the case of any other person) at any time.
- (d) In the event of an issue of Replacement Notes (as defined in **Condition 16.2**) or New Notes (as defined in **Condition 16.3**), the provisions of the Trust Deed, these Conditions, the Agency Agreement and the Issuer Deed of Charge, including those concerning:
- (i) the basis on which the Trustee will be required to exercise its rights, powers, trusts, authorities, duties and discretions;
  - (ii) the circumstances in which the Trustee will become bound to take action, as referred to in **Condition 10** or **11**;
  - (iii) meetings of Noteholders and the passing of effective Extraordinary Resolutions; and
  - (iv) the order of priority of payments both prior to, and upon, acceleration of the Notes,

will be modified in such manner as the Trustee considers necessary to reflect the issue of such Replacement Notes or, as the case may be, New Notes and the ranking thereof in relation to the Notes. If any New Notes are issued and the Notes are then listed on the Irish Stock Exchange, the Issuer will immediately advise the Irish Stock Exchange accordingly, procure the publication of a notice of the issue in a leading newspaper having general circulation in Dublin, file a new prospectus



in respect of the issue of the New Notes with the Irish Stock Exchange and make such prospectus and any related agreements available in Dublin at the specified office of the Irish Paying Agent.

As used in these Conditions:

**Issuer Secured Creditors** means the Noteholders, the Other Issuer Secured Creditors and any other party so designated by the Issuer and the Trustee; and

**Other Issuer Secured Creditors** means the Trustee, any receiver appointed by or other appointee of, the Trustee, the Servicer, the Special Servicer, the Independent Director Provider, the Liquidity Bank, the Issuer Account Bank, the Agent Bank, the Cash Administrator, the Swap Counterparty and the Paying Agents.

### 3.2 Issuer Security and Priority of Payments

The Issuer Security in respect of the Notes and the payment obligations of the Issuer under the Issuer Transaction Documents is set out in the Issuer Deed of Charge. The Servicing Agreement contains provisions regulating the priority of application of the Issuer Charged Property by the Servicer (and proceeds thereof) among the persons entitled thereto prior to the Issuer Security becoming enforceable and the Issuer Deed of Charge contains provisions regulating such application by the Trustee after the Issuer Security has become enforceable.

The Issuer Security will become enforceable upon the occurrence of a Note Event of Default in accordance with **Condition 10**. If the Issuer Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Trustee will not be entitled to give an Acceleration Notice to the Issuer pursuant to **Condition 10** unless: (a) a sufficient amount would be realised to allow discharge in full of all amounts owing to the Noteholders and any amounts required under the Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes; or (b) the Trustee is of the opinion, which will be binding on the Noteholders, reached after considering at any time and from time to time the advice, upon which the Trustee will be entitled to rely, of such professional advisers as may be selected by the Trustee, that the cashflow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts owing to the Noteholders and any amounts required under the Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes; or (c) the Trustee determines that not to give an Acceleration Notice would place the Issuer Security in jeopardy, and, in any event, the Trustee has been secured and/or indemnified to its satisfaction.

## 4. COVENANTS

### 4.1 Restrictions

Save with the prior written consent of the Trustee pursuant to **Condition 12.8** or as provided in these Conditions or as permitted by the Issuer Transaction Documents, the Issuer shall not, so long as any of the Notes remains outstanding:

(a) Negative Pledge:

(save for the Issuer Security) create or permit to subsist any mortgage, sub-mortgage, charge, sub-charge, assignment, assignation, pledge, lien, hypothecation or other security interest whatsoever, however created or arising (unless arising by operation of law) over any of its property, assets or undertakings (including the Issuer Charged Property) or any interest, estate, right, title or benefit therein or use, invest or dispose of, including by way of sale or the grant of any security interest of whatsoever nature or otherwise deal with, or agree or

attempt or purport to sell or otherwise dispose of (in each case whether by one transaction or a series of transactions) or grant any option or right to acquire any such property, assets or undertaking present or future;

(b) Restrictions on Activities:

- (i) engage in any activity whatsoever which is not, or is not reasonably incidental to, any of the activities in which the Issuer Transaction Documents provide or envisage the Issuer will engage;
- (ii) open or have an interest in any account whatsoever with any bank or other financial institution, save where such account or the Issuer's interest therein is immediately charged in favour of the Trustee so as to form part of the Issuer Security;
- (iii) have any subsidiaries;
- (iv) own or lease any premises or have any employees;
- (v) amend, supplement or otherwise modify its memorandum and articles of association; or
- (vi) issue any further shares;

(c) Borrowings:

incur or permit to subsist any other indebtedness in respect of borrowed money whatsoever, except in respect of the Notes (which shall include any New Notes, Further Notes and Replacement Notes issued pursuant to **Condition 16**), or give any guarantee or indemnity in respect of any indebtedness or of any other obligation of any person;

(d) Merger:

consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person unless:

- (i) the person (if other than the Issuer) which is formed pursuant to or survives such consolidation or merger or which acquires by conveyance or transfer the properties or assets of the Issuer substantially as an entirety shall be a person incorporated and existing under the laws of England and Wales, the objects of which include the funding, purchase and administration of mortgages and mortgage loans, and who shall expressly assume, by an instrument supplemental to each of the Issuer Transaction Documents, in form and substance satisfactory to the Trustee, the obligation to make due and punctual payment of all monies owing by the Issuer, including principal and interest on the Notes, and the performance and observance of every covenant in each of the Issuer Transaction Documents to be performed or observed on the part of the Issuer;
- (ii) immediately after giving effect to such transaction, no Note Event of Default shall have occurred and be continuing;
- (iii) such consolidation, merger, conveyance or transfer has been approved by an Extraordinary Resolution of each Class of the Noteholders;

- (iv) all persons required by the Trustee shall have executed and delivered such documentation as the Trustee may require;
  - (v) the Issuer shall have delivered to the Trustee a legal opinion of English lawyers acceptable to the Trustee in a form acceptable to the Trustee to the effect that such consolidation, merger, conveyance or transfer and such supplemental instruments and other documents comply with paragraphs (i) to (i) above and are binding on the Issuer (or any successor thereto) or, as the case may be, the person referred to in paragraph (i) above; and
  - (vi) the then current ratings of each Class of Notes are unaffected by such consolidation, merger, conveyance or transfer;
- (e) Disposal of Assets:
- transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertaking or any interest, estate, right, title or benefit therein;
- (f) Assets:
- own assets other than those representing its share capital, the funds arising from the issue of the Notes, the property, rights and assets secured by the Issuer Security and associated and ancillary rights and interests thereto, the benefit of the Issuer Transaction Documents and any investments and other rights or interests created or acquired thereunder, as all of the same may vary from time to time;
- (g) Dividends or Distributions:
- pay any dividend or make any other distribution to its shareholders or issue any further shares, other than in accordance with the Issuer Deed of Charge;
- (h) VAT:
- apply to become part of any group for the purposes of section 43 of the Value Added Tax Act 1994, (or such act, regulation, order, statutory instrument or directive which may from time to time re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994) with any other company or group of companies; or
- (i) Securitisation Company:
- prejudice its eligibility for its corporation tax liability to be calculated in accordance with regulation 14 of the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296) (as such regulations may be amended from time to time);
- (j) Other:
- cause or permit the validity or effectiveness of any of the Issuer Transaction Documents, or the priority of the security interests created thereby, to be amended, terminated, postponed or discharged, or consent to any variation of, or exercise any powers of consent or waiver pursuant to, the Trust Deed, the Issuer Deed of Charge or any of the other Issuer Transaction Documents, or dispose of any part of the Issuer Charged Property.

In giving any consent to the foregoing, the Trustee may require the Issuer to make such modifications or additions to the provisions of any of the Issuer Transaction Documents or may impose such other conditions or requirements as the Trustee may deem expedient (in its absolute discretion) in the interests of the Noteholders, provided that each of the Rating Agencies has provided written confirmation to the Trustee that the then applicable ratings of each Class of Notes then rated thereby will not be adversely affected as a result thereof.

#### 4.2 Independent Director and Separateness Covenants

Save with the prior written consent of the Trustee or as provided in these Conditions or as permitted by the Issuer Transaction Documents, the Issuer shall as long as any of the Notes remains outstanding:

(a) Independent Director:

ensure that an Independent Director is a member of the board of directors of the Issuer (the **Board**). **Independent Director** means a person who is not at the time of appointment to the Board, or in the past five years, (i) a direct or indirect legal or beneficial owner of the Issuer or any of its Affiliates (excluding *de minimus* ownership interests), (ii) a creditor, supplier, employee, officer, director, family member, manager or contractor of the Issuer or any of its Affiliates, or (iii) a person who controls (whether directly or indirectly) the Issuer or any of its Affiliates or any creditor, supplier, employee, officer, director, manager or contractor of the Issuer or any of its Affiliates; and

(b) Separateness:

- (i) maintain books, records and accounts separate from any other person or entity;
- (ii) not commingle assets with those of any other entity (other than cash collections from the securitised assets, which may be placed in an account in the name of the Servicer);
- (iii) conduct its own business in its own name;
- (iv) maintain separate financial statements;
- (v) pay its own liabilities out of its own funds;
- (vi) observe all corporate or other formalities required by the constituting documents;
- (vii) maintain an arm's-length relationship with its Affiliates (as may be in existence at any time);
- (viii) not guarantee or become obligated for the debts of any other entity or hold out its credit as being available to satisfy the obligations of others;
- (ix) not acquire obligations or securities of its shareholders;
- (x) use separate stationery, invoices, and cheques;
- (xi) not pledge its assets for the benefit of any other entity or make any loans or advances to any entity (except as provided in the Issuer Transaction Documents); and

- (xii) hold itself out as a separate entity and use reasonable endeavours to correct any known misunderstanding regarding its separate identity.

#### 4.3 **Servicer**

- (a) So long as any of the Notes remains outstanding, the Issuer will procure that there will at all times be a servicer for the servicing of the Loans and the performance of the other administrative duties set out in the Servicing Agreement.
- (b) The Servicing Agreement will provide that (i) the Servicer will not be permitted to terminate its appointment unless a replacement servicer acceptable to the Issuer and the Trustee has been appointed and (ii) the appointment of the Servicer may be terminated by the Trustee if, among other things, the Servicer defaults in any material respect in the observance and performance of any obligation imposed on it under the Servicing Agreement, which default is not remedied within 30 Business Days after written notice of such default shall have been served on the Servicer by the Issuer or the Trustee.

#### 4.4 **Special Servicer**

If either Loan has become Specially Serviced in accordance with the Servicing Agreement, then the Issuer, upon being so instructed by an Extraordinary Resolution of the Class of Noteholders then acting as Controlling Party, will exercise its rights under the Servicing Agreement to appoint a substitute or successor special servicer in respect of the relevant Loan, subject to the conditions of the Servicing Agreement.

**Controlling Party** means, at any time:

- (a) the holders of the most junior Class of Notes then having an aggregate Principal Amount Outstanding (as defined below) greater than 25% of its original aggregate Principal Amount Outstanding on the Closing Date; or
- (b) if no Class of Notes then has an aggregate Principal Amount Outstanding greater than 25% of its original aggregate Principal Amount Outstanding on the Closing Date, the holders of the then most junior Class of Notes,

excluding, in each case:

- (i) any Class of Notes the entire Principal Amount Outstanding of which is held by, or for the benefit of or on behalf of, the Issuer and/or a Borrower and/or any one or more of its Affiliates (the **Excluded Class**); and
- (ii) any Principal Amount Outstanding of any Class of Notes held by, for the benefit of or on behalf of the Excluded Class.

In the event that the Excluded Class would be (but for the preceding paragraph) determined to be the Controlling Party, the Class of Notes ranking immediately in priority in point of security to the Excluded Class and satisfying the test above will be the Controlling Party.

#### 4.5 **Operating Adviser**

The Class of Noteholders then acting as Controlling Party may by an Extraordinary Resolution appoint an adviser (the **Operating Adviser**) with whom the Servicer or Special Servicer, as the case may be, will be required to liaise in accordance with the Servicing Agreement. The fees and/or

expenses of the Operating Adviser will be to the Controlling Party and at no cost to the Issuer, the Servicer, the Trustee or the Special Servicer.

## 5. INTEREST

### 5.1 Period of Accrual

The Notes will bear interest on their Principal Amount Outstanding (subject to **Condition 5.9**) from (and including) the Closing Date. Interest shall cease to accrue on any part of the Principal Amount Outstanding of any Note from the due date for redemption unless, upon due presentation, payment of principal or any part thereof due is improperly withheld or refused or any other default is made in respect thereof. In such event, interest will continue to accrue as provided in the Trust Deed.

### 5.2 Interest Payment Dates and Interest Periods

Interest on the Notes is, subject as provided below in relation to the first payment, payable quarterly in arrears on 15 January, 15 April, 15 July and 15 October in each year or, if any such day is not a Business Day (as defined below), the next succeeding Business Day (unless the next succeeding Business Day falls in the next calendar month, in which case that date will be the first preceding day that is a Business Day) (each, an **Interest Payment Date**). The first such payment is due on the Interest Payment Date falling in April 2007 in respect of the period from (and including) the Closing Date to (but excluding) that Interest Payment Date. Each period from (and including) an Interest Payment Date (or the Closing Date, in the case of the first Interest Period) to (but excluding) the next (or, in the case of the first Interest Period, the first) Interest Payment Date is in these Conditions called an **Interest Period**.

### 5.3 Rates of Interest

The rate of interest payable from time to time (the **Rate of Interest**) and the Interest Payment (as defined below) in respect of each Class of Notes will be determined by the Agent Bank on the basis of the following provisions:

- (a) The Agent Bank will, at or as soon as practicable after 11.00 a.m. (London time) on the Business Day that falls on the first day of each Interest Period (each, an **Interest Determination Date**), determine the Rate of Interest applicable to each Class of Notes, and calculate the amount of interest payable on each of the Notes (each payment so calculated, an **Interest Payment**), for such Interest Period. The Rate of Interest applicable to the Notes of each Class for any Interest Period will be equal to:
  - (i) in the case of the Class A Notes, LIBOR (as determined in accordance with **Condition 5.3(b)** (Determination of LIBOR)) plus a margin of 0.20% per annum;
  - (ii) in the case of the Class B Notes, LIBOR (as so determined) plus a margin of 0.27% per annum; and
  - (iii) in the case of the Class C Notes, LIBOR (as so determined) plus a margin of 0.49% per annum.

The **Interest Payment** in relation to a Note of a particular Class shall (subject to **Condition 5.9**) be calculated by applying the Rate of Interest applicable to the Notes of that Class to the Principal Amount Outstanding of each Note of that Class, multiplying the product of such calculation by the actual number of days in the relevant Interest Period divided by 365 and rounding the resultant figure to the nearest penny (fractions of half a penny being rounded downwards).

For the purposes of these Conditions:

**Business Day** means a day (other than a Saturday or a Sunday or a public holiday) 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 and Dublin.

(b) Determination of LIBOR

For the purposes of determining the Rate of Interest in respect of each Class of Notes under **Condition 5.3(a)**, **LIBOR** will be determined by the Agent Bank on the basis of the following provisions:

- (i) on each Interest Determination Date, the Agent Bank will determine the interest rate for three month sterling deposits (or, in respect of the first such Interest Period, a linear interpolation of the rate for 2 month and 3 month sterling deposits) in the London inter-bank market which appears on LIBOR01 Reuters (or such other page as may replace that page on that service, or such service as may be nominated as the information vendor, for the purpose of displaying rates or prices comparable to that "Floating Rate Option" (the **LIBOR Screen Rate**) at or about 11.00 a.m. (London time) on such date; or
  - (ii) if the LIBOR Screen Rate is not then available, the arithmetic mean (rounded to five decimal places, 0.000005 rounded upwards) of the rates notified to the Agent Bank at its request by each of four reference banks duly appointed for such purpose (the **Reference Banks**) (provided that, once a Reference Bank has been appointed by the Agent Bank that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such) as the rate at which three month deposits in sterling in an amount of £10,000,000 are offered for the same period as that Interest Period by those Reference Banks to prime banks in the London inter-bank market at or about 11.00 a.m. (London time) on that Interest Determination Date (or, in respect of the first Interest Period, the arithmetic mean of a linear interpolation of such rates for 2 month and 3 month sterling deposits notified by the Reference Banks). If, on any such Interest Determination Date, at least two of the Reference Banks provide such offered quotations to the Agent Bank the relevant rate shall be determined, as aforesaid, on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Interest Determination Date, only one of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Trustee and the Issuer for the purposes of agreeing one additional bank to provide such a quotation to the Agent Bank (which bank is in the sole opinion of the Trustee suitable for such purpose) and the rate for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of the Reference Bank and such bank as so agreed. If no Reference Bank provides the Agent Bank with such an offered quotation or no such bank is so agreed or such bank as so agreed does not provide such a quotation, then the rate for the relevant Interest Period shall be the rate in effect for the last preceding Interest Period.
- (c) There will be no minimum or maximum Rate of Interest.

#### 5.4 **Publication of Rates of Interest and Interest Payments**

The Agent Bank will cause the Rate of Interest and the Interest Payment relating to each Class of Notes for each Interest Period and the Interest Payment Date to be forthwith notified to the Issuer,

the Trustee, the Servicer, the Paying Agents, the Noteholders in accordance with **Condition 15** and, for so long as the Notes are listed on the Irish Stock Exchange (the **Stock Exchange**), the Stock Exchange and in any event not later than two Business Days after the relevant Interest Determination Date. The Interest Payments and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of a lengthening or shortening of such Interest Period.

#### 5.5 **Determination or Calculation by Trustee**

If the Agent Bank at any time for any reason does not determine the Rates of Interest or calculate an Interest Payment in accordance with **Condition 5.3** above, the Trustee shall procure the determination of the Rates of Interest at such rates as, in its absolute discretion (having such regard as it shall think fit to the procedure described in **Condition 5.3** above), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Payment in accordance with **Condition 5.3** above, and each such determination or calculation shall be deemed to have been made by the Agent Bank.

#### 5.6 **Notification to be Final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition, whether by the Reference Banks (or any of them) or the Agent Bank or the Trustee, shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Reference Banks, the Agent Bank, the Paying Agents, the Trustee and all Noteholders and (in the absence as aforesaid) no liability to the Noteholders shall attach to the Issuer, the Reference Banks, the Agent Bank, the Paying Agents or the Trustee in connection with the exercise by them of any of their powers, duties and discretions under this Condition.

#### 5.7 **Agent Bank**

The Issuer will procure that, so long as any of the Notes remain outstanding, there will at all times be an Agent Bank. The Issuer reserves the right at any time with the prior written consent of the Trustee to terminate the appointment of the Agent Bank. Notice of any such termination will be given to the Noteholders in accordance with **Condition 15**. If any person shall be unable or unwilling to continue to act as the Agent Bank, or if the appointment of the Agent Bank shall be terminated, the Issuer will, with the written approval of the Trustee, appoint a successor Agent Bank to act as such in its place, provided that neither the resignation nor the removal of the Agent Bank shall take effect until a successor approved by the Trustee has been appointed.

#### 5.8 **Deferral of Payment**

- (a) Interest on the Notes is payable subject to, and in accordance with, the order of priorities set out in the Pre-Enforcement Income Priority of Payments and the Post-Enforcement Pre-Acceleration Income Priority of Payments. If, on any Interest Payment Date, the Issuer has insufficient funds to make payment in full of all amounts of interest (including any Deferred Interest (as defined below) and accrued interest thereon) payable in respect of the Class B Notes and/or the Class C Notes after having paid or provided for items of higher priority, then:
- (i) the Issuer shall be entitled (unless there are then no Class A Notes outstanding) to defer, to the next Interest Payment Date, the payment of interest in respect of the Class B Notes:
    - (A) if it then defers all payments of interest then due (but for the provisions of this paragraph (A)) in respect of the Class C Notes; and



- (B) to the extent only of any insufficiency of funds after having paid or provided for all amounts specified as having a higher priority than interest payable in respect of the Class B Notes; and
  - (ii) the Issuer shall be entitled (unless there are then no Class A Notes and Class B Notes outstanding) to defer, to the next Interest Payment Date, the payment of interest in respect of the Class C Notes to the extent only of any insufficiency of funds after having paid or provided for all amounts specified as having a higher priority than interest payable in respect of the Class C Notes.
- (b) Any amount of interest (including any Deferred Interest arising on any preceding Interest Payment Date and accrued interest thereon) on the Class B Notes and/or the Class C Notes which is not due and payable on an Interest Payment Date as a result of the provisions of this **Condition 5.8** is the **Class B Deferred Interest** and the **Class C Deferred Interest** respectively and, together, the **Deferred Interest** arising on any such Interest Payment Date. Interest will accrue on the amount of any Deferred Interest at the rate from time to time applicable to the Class B Notes or the Class C Notes (as the case may be) and on the same basis as interest on the Class B Notes or the Class C Notes (as the case may be) then applicable. Any Deferred Interest and accrued interest thereon is payable on the next Interest Payment Date unless and to the extent that this **Condition 5.8** applies.
- (c) As soon as practicable after becoming aware that any part of a payment of interest on the Class B Notes and/or the Class C Notes will be deferred or that a payment previously deferred will be made in accordance with this **Condition 5.8**, the Issuer will give notice thereof to the Class B Noteholders and/or the Class C Noteholders (as the case may be) in accordance with **Condition 15**. Any deferral of interest in accordance with this **Condition 5.8** will not constitute a Note Event of Default. The provisions of this **Condition 5.8** shall cease to apply on the Final Maturity Date or any earlier date on which the Notes become repayable in full or upon acceleration of the Notes pursuant to **Condition 10**, at which time all Deferred Interest and accrued interest thereon shall become due and payable.

#### 5.9 Reduction of Interest-Bearing Balance

If:

- (a) the Loan Security in respect of any Loan is enforced and the proceeds of enforcement then applied in redemption of Notes under **Condition 6.3(e)**; and
- (b) following such enforcement, there occurs a principal loss in respect of that Loan (as determined by the Servicer or the Special Servicer, as appropriate, the **Principal Loss**),

then the interest payable by the Issuer in respect of the Notes will be calculated with reference to the Notional Principal Amount Outstanding of the relevant Notes (and not, for the avoidance of doubt, with reference to the Principal Amount Outstanding thereof).

For these purposes, the **Notional Principal Amount Outstanding** of a Note means, at any time, its Principal Amount Outstanding less a *pro rata* share of the Principal Loss applied across each Class C Note and, when the Notional Principal Amount Outstanding of each Class C Note would be zero, across each Class B Note and, when the Notional Principal Amount Outstanding of each Class B Note would be zero, across each Class A Note until the Notional Principal Amount Outstanding of each Class A Note would be zero.

## 6. REDEMPTION

### 6.1 Redemption on the Final Maturity Date

- (a) Save to the extent otherwise redeemed or cancelled in accordance with this **Condition 6**, the Issuer shall redeem the **Notes** of each Class at the respective Principal Amounts Outstanding plus interest accrued and unpaid on the Interest Payment Date which falls in January 2017 (the **Final Maturity Date**). **Principal Amount Outstanding** means, in respect of any Note at any time, the principal amount thereof as at the Closing Date as reduced by any payment of principal to the holder of the Note up to (and including) that time.
- (b) Expected redemption on Loan Maturity Date
- (i) Subject to **paragraph (ii)** below, the Issuer must redeem the Notes of each Class in full at their respective Principal Amounts Outstanding plus accrued and unpaid interest on the Interest Payment Date falling in January 2014 (the **Loan Maturity Date**) using the proceeds of repayment of the Loans.
- (ii) To the extent that either Borrower does not repay its Loan in full on the Loan Maturity Date, the Issuer must apply any repayment funds received on that date and on each subsequent Interest Payment Date on which Loan repayment funds are received by the Issuer in the following order of priority:
- (A) first, so to redeem the Class A Notes until the Class A Notes have been redeemed in full;
- (B) second, so to redeem the Class B Notes until the Class B Notes have been redeemed in full; and
- (C) third, so to redeem the Class C Notes until the Class C Notes have been redeemed in full.
- (iii) Failure by the Issuer to redeem the Notes on the Loan Maturity Date in accordance with this **Condition 6.1(b)** will not constitute a Note Event of Default to the extent that such failure is a result of any failure by a Borrower to repay its Loan in full.

### 6.2 Redemption for Taxation or Other Reasons

- (a) If the Issuer at any time satisfies the Trustee immediately prior to the giving of the notice referred to in this **Condition 6.2(b)** below that either: (i) by reason of a change of tax law, which change becomes effective on or after the Closing Date, the Issuer would become subject to tax on its income in more than one jurisdiction or on the occasion of the next Interest Payment Date, the Issuer would be required to make any withholding or deduction from any payment of principal or interest in respect of any of the Notes, for or on account of any present or future tax, duty or charge of whatsoever nature incurred or levied by or on behalf of the United Kingdom or any authority thereof or therein; or (ii) by reason of a change of law, which change becomes effective on or after the Closing Date, it has or will become unlawful for the Issuer to make, lend or allow to remain outstanding all or any advances made or to be made by it under either Loan Agreement, then the Issuer shall inform the Trustee accordingly and shall, in order to avoid the event described, use all reasonable endeavours to arrange the substitution of a company incorporated in another jurisdiction approved in writing by the Trustee as principal debtor under the Notes in accordance with **Condition 12.9**.

- (b) If the Issuer is unable to arrange such a substitution which would have the result of avoiding the event described above, then the Issuer may, having given not more than 60 nor less than 15 clear days' notice to the Noteholders in accordance with **Condition 15**, redeem all (but not some only) of the Notes at their respective Principal Amounts Outstanding together with accrued interest on the next Interest Payment Date, provided that, prior to giving any such notice, the Issuer shall have satisfied the Trustee that it will have the funds, not subject to the interest of any other person, required to fulfil its obligations hereunder in respect of the Notes and any amounts required under the Servicing Agreement and/or the Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes and shall have delivered to the Trustee a certificate signed by two directors of the Issuer stating that the event described above applies or, as the case may be, will apply on the occasion of the next Interest Payment Date and cannot be avoided by the Issuer using all reasonable endeavours to arrange a substitution as aforesaid and that the Issuer will have the funds referred to above; and the Trustee shall accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above and it shall be conclusive and binding on the Noteholders.

### 6.3 **Mandatory Redemption in Whole or in Part**

#### (a) **Property Disposals and Compulsory Purchases**

Where a Borrower's Property is disposed of, either voluntarily (a **Property Disposal**) or by way of Compulsory Purchase, the Borrower:

- (i) may prepay its Loan in a principal amount equal to the Minimum Prepayment Amount or the Compulsory Purchase Proceeds, as the case may be, on the next Interest Payment Date following the disposal of the relevant Released Property, if the Borrower so requests;
- (ii) may prepay its Loan in a principal amount equal to the Minimum Prepayment Amount or the Compulsory Purchase Proceeds, as the case may be, on any Interest Payment Date, if the Borrower gives not less than ten Business Days' prior notification to the Issuer of such prepayment; or
- (iii) must prepay its Loan if the Borrower Security Trustee notifies the relevant Borrower that an amount standing to the credit of the Disposal Proceeds Account has not been utilised in full to acquire an Additional Property in the period of twelve months since the payment of that sum into the Disposal Proceeds Account, in a principal amount equal to the Minimum Prepayment Amount (less the amount (if any) withdrawn for the purpose of acquiring an Additional Property), on the Interest Payment Date immediately following the last day of that twelve month period,

and the Issuer will then be obliged, having given not more than 60 and not less than 15 clear days' notice to the Noteholders in accordance with **Condition 15**, to redeem the Notes on the date of expiry of such notice (which may not be an Interest Payment Date) or on the next Interest Payment Date falling immediately after that date, in an aggregate principal amount equal to the principal amount of the relevant prepayment. In these circumstances, the Issuer will, prior to the enforcement of the Issuer Security, be obliged to redeem the Notes as follows:

- (A) first, an amount equal to the Allocated Loan Amount of the each relevant Property will be applied *pro rata* in redemption of all Classes of Notes at their respective Principal Amount Outstanding together with accrued interest; and
- (B) secondly, in respect of a Property Disposal, an amount equal to the Minimum Prepayment Amount less the relevant Allocated Loan Amount, or, in respect of a Compulsory Purchase, an amount equal to the Compulsory Purchase Proceeds less the relevant Allocated Loan

Amount, is to be applied in redemption of Notes, at their respective principal amounts then outstanding together with accrued interest, in the following order of priority:

- I. first, to redeem the Class A Notes until the Class A Notes have been redeemed in full;
- II. second, to redeem the Class B Notes until the Class B Notes have been redeemed in full; and
- III. third, to redeem the Class C Notes until the Class C Notes have been redeemed in full.

(b) Voluntary Loan Prepayment

Each Borrower has the option under the relevant Loan Agreement to prepay in whole, but not in part, the relevant Loan on any Interest Payment Date after giving not less than 20 Business Days' prior notice to the Issuer. If a Borrower so prepays its Loan the Issuer will be obliged to redeem the Notes on the Interest Payment Date on which or immediately following the day on which the relevant prepayment is made by the Borrower and the notice referred to in the following sentence expires, in an aggregate principal amount equal to the principal amount of the relevant prepayment. In these circumstances, the Issuer will, prior to the enforcement of the Issuer Security, having given not more than 60 and not less than 15 clear days' notice to the Noteholders in accordance with **Condition 15**, be obliged to apply the prepayment *pro rata* according to the Principal Amount Outstanding of each Class on the relevant Interest Payment Date, together with accrued interest.

(c) Mandatory Prepayment Due to Illegality or a Change of Control

If either Borrower is required to prepay its relevant Loan under the terms of the relevant Loan Agreement: (i) where prepayment is required due to the illegality of the relevant Loan, or (ii) where prepayment is required due to a change of control of the Borrower, the Issuer will be obliged to redeem the Notes on the Interest Payment Date on which the relevant prepayment is made or on the Interest Payment Date immediately following the day on which the relevant prepayment is made by the Borrower, in an aggregate principal amount equal to the principal amount of the relevant prepayment. In these circumstances, the Issuer will, prior to the enforcement of the Issuer Security, having given not more than 60 and not less than 15 clear days' notice to the Noteholders in accordance with **Condition 15**, be obliged to apply the prepayment *pro rata* according to the Principal Amount Outstanding, together with accrued interest, of each Class on the relevant Interest Payment Date.

(d) Insurance or Major Loss Prepayment

If either Borrower is required to prepay its Loan under the terms of the relevant Loan Agreement: (i) where, if the Borrower Security Trustee so requires, proceeds of any insurance policy must be used to repay the relevant Loan or (ii) where major damage affects a Property and such damage has or would be likely to have a Material Adverse Effect, to the extent that the Issuer requires the Borrower to make a prepayment in respect of the relevant Loan, then the Issuer will be obliged to redeem the Notes prior to the enforcement of the Issuer Security, having given not more than 60 and not less than 15 clear days' notice to the Noteholders in accordance with **Condition 15**, at their then respective Principal Amounts Outstanding together with accrued interest, on the earliest applicable date (whether or not an Interest Payment Date) after the relevant prepayment in respect of the relevant Loan is made by the Borrower and is received by the Issuer, in an aggregate principal amount equal to the principal amount of the relevant prepayment in the following order of priority:

- (i) first, to redeem the Class A Notes until the Class A Notes have been redeemed in full;

- (ii) second, to redeem the Class B Notes until the Class B Notes have been redeemed in full; and
- (iii) third, to redeem the Class C Notes until the Class C Notes have been redeemed in full.

(e) **Involuntary Prepayment and Cancellation**

Each Borrower has the option under the relevant Loan Agreement to prepay in whole, but not in part, the relevant Loan in the event that it is required to make a deduction or withholding for or on account of any tax in respect of any payment to the Issuer. If a Borrower so prepays its Loan the Issuer will be obliged, subject to giving the notice referred to below, to redeem the Notes on the first Interest Payment Date on which or immediately following the day on which the prepayment is made by the Borrower, in an aggregate principal amount equal to the principal amount of the relevant prepayment. In these circumstances, the Issuer will, prior to the enforcement of the Issuer Security, having given not more than 60 and not less than 15 clear days' notice to the Noteholders in accordance with **Condition 15**, be obliged to apply the prepayment *pro rata* according to the Principal Amount Outstanding of each Class of Notes on the relevant Interest Payment Date, together with accrued interest.

(f) **Redemption from Loan Enforcement Principal Proceeds**

After having given not more than 60 and not less than 15 clear days' notice to the Noteholders in accordance with **Condition 15**, the Issuer must apply all Loan Enforcement Principal Proceeds received by it in redemption of the Notes on the Interest Payment Date following determination and receipt thereof and the expiry of such notice in the following order of priority:

- (i) first, to redeem the Class A Notes until the Class A Notes have been redeemed in full;
- (ii) second, to redeem the Class B Notes until the Class B Notes have been redeemed in full; and
- (iii) third, to redeem the Class C Notes until the Class C Notes have been redeemed in full.

(g) If the Issuer is obliged to redeem the Notes under this **Condition 6.3**, the Issuer must redeem the relevant principal amount of each relevant Note at a redemption price equal to par along with any accrued but unpaid interest.

(h) If Replacement Notes (as defined in **Condition 16.2** above) are to be issued, the Issuer may, having given not more than 60 nor less than 15 clear days' notice to the Noteholders in accordance with **Condition 15**, on any Interest Payment Date redeem only the relevant Class or Classes of Notes to be replaced at a price equal to par with accrued interest, provided that, prior to giving any such notice, the Issuer shall have satisfied the Trustee that it will have the funds, not subject to the interest of any other persons, required to fulfil its obligations hereunder in respect of the Notes and any amounts required under the Servicing Agreement and/or the Issuer Deed of Charge to be paid *pari passu* with, or in priority to, the Notes and shall have delivered to the Trustee a certificate signed by two directors of the Issuer stating that the Issuer will have such funds; and the Trustee shall accept the certificate as sufficient evidence of the satisfaction of such condition precedent and it shall be conclusive and binding on the Noteholders.

6.4 **Notice of Redemption**

Any such notice as is referred to in **Condition 6.2** or **6.3** above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes of the relevant Class in accordance with such Condition and in the amounts specified in these Conditions.

## 6.5 **Purchase**

The Issuer shall not purchase any of the Notes.

## 6.6 **Cancellation**

All Notes redeemed in full will be cancelled forthwith and may not be reissued.

## 7. **PAYMENTS**

- 7.1 Payments of principal and interest in respect of the Notes will be made in sterling against presentation and, where applicable, surrender of the relevant Global Notes at the specified office of the Principal Paying Agent or, at the option of the holder of the relevant Global Notes, at the specified office of any other Paying Agent outside the United States of America subject, in the case of any Temporary Global Note, to certification of non U.S. beneficial ownership as provided in such Temporary Global Note. Payments of principal and interest will in each case be made by sterling cheque drawn on a bank in London or, at the option of the holder, by transfer to a sterling denominated account maintained by the payee with a branch of a bank in London. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made on the relevant Global Note by the Paying Agent to which such Global Note was presented for the purpose of making such payment, and such record shall be *prima facie* evidence that the payment in question has been made. Payments of principal and interest in respect of the Notes will be subject in all cases to any fiscal or other laws and regulations applicable thereto and to normal banking practice.

For so long as the Notes are in global form, none of the persons appearing from time to time in the records of Euroclear or Clearstream, Luxembourg as the holder of a Note of the relevant Class or as being entitled to a particular principal amount of Notes shall have any claim directly against the Issuer or the Trustee in respect of payments due on such Note(s) or principal amount whilst such Note(s) is/are represented by a Global Note and the Issuer or the Trustee, as the case may be, shall be discharged by payment of the relevant amount to the bearer of the relevant Global Note.

If payment of principal is improperly withheld or refused, or default is otherwise made in the payment thereof on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with **Condition 5** and the provisions of the Trust Deed will be paid against presentation of such Note at the specified office of any Paying Agent.

If the date for payment of any amount in respect of any Note is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day and shall not be entitled to further payments of additional amounts by way of interest, principal or otherwise.

If a Paying Agent makes a partial payment in respect of any Note presented to it for payment, such Paying Agent will endorse on the relevant Note a statement indicating the amount and date of such payment.

The initial Principal Paying Agent and the initial Irish Paying Agent and their initial specified offices are listed at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent or the Irish Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain a Principal Paying Agent and also at least one Paying Agent with a specified office in a European city which, so long as the Notes are admitted to the Official List of the Irish Stock Exchange, will be Dublin. The Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or

introduced in order to conform to, such Directive. The Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents or their specified offices to be given in accordance with **Condition 15**.

- 7.2 A holder shall be entitled to present a Note for payment only on a Payment Day and shall not, except as provided in **Condition 5**, be entitled to any further interest or other payment if a Payment Day is after the due date.

**Payment Day** means a day which (subject to **Condition 8**):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note is presented for payment; and

in the case of payment by transfer to a sterling denominated account in London as referred to in **Condition 7.1** above, is a Business Day in London.

- 7.3 In this **Condition 7**, **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and Dublin.

## 8. PRESCRIPTION

Claims in respect of Notes shall become void unless made within ten years, in the case of principal, and five years, in the case of interest, of the appropriate relevant date. In this Condition, the **relevant date** means the date on which a payment first becomes due or (if the full amount of the monies payable has not been duly received by the Paying Agents or the Trustee on or prior to such date) the date on which notice that the full amount of such monies has been received is duly given to the Noteholders in accordance with **Condition 15**.

## 9. TAXATION

All payments in respect of the Notes by or on behalf of the Issuer or any Paying Agent will be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature and all interest, penalties or similar liabilities with respect thereto (**Taxes**) unless such withholding or deduction is required by law. In that event, the Issuer or 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 any Paying Agent will be obliged to make any additional payments to Noteholders in respect of any such withholding or deduction.

## 10. EVENTS OF DEFAULT

- 10.1 The Trustee at its absolute discretion may, and if so requested in writing by the holders of not less than 25% in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding or if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding shall, (subject in each case to its being secured and/or indemnified to its satisfaction) give notice in writing (an **Acceleration Notice**) to the Issuer declaring the Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the occurrence of any of the following events (each, a **Note Event of Default**):

- (a) default being made for a period of five days in the payment of any interest on or principal of any Note when and as the same ought to be paid in accordance with these Conditions

provided that a deferral of interest in accordance with **Condition 5.8** shall not constitute a default in the payment of such interest for the purposes of this **Condition 10.1(a)**; or

- (b) breach by the Issuer of any representation or warranty made by it in these Conditions, the Trust Deed or any of the other Transaction Documents to which it is a party and in any such case (except where the Trustee certifies that, in its opinion, such breach is incapable of remedy, when no notice will be required), such breach continuing for a period of 30 days following the service by the Trustee on the Issuer of notice in writing requiring the same to be remedied; or
- (c) the Issuer failing duly to perform or observe any other obligation, condition or provision binding upon it under these Conditions, the Trust Deed or any of the other Transaction Documents to which it is a party and in any such case (except where the Trustee certifies that, in its opinion, such failure is incapable of remedy, when no notice will be required), such failure continuing for a period of 30 days following the service by the Trustee on the Issuer of notice in writing requiring the same to be remedied; or
- (d) the Issuer, otherwise than for the purposes of such a pre-approved amalgamation or reconstruction as is referred to in paragraph (e) below, ceasing or, through an official action of the board of directors of the Issuer, threatening to cease to carry on business (or a substantial part thereof) or the Issuer being (or being deemed to be) unable to pay its debts as and when they fall due; or
- (e) an order being made or an effective resolution being passed for the winding-up of the Issuer, except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction the terms of which have previously been approved in writing by the Trustee or an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding; or
- (f) proceedings being initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, documents being filed with the Court for the appointment of an administrator), or an administrative receiver or other receiver, liquidator or other similar official being 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 taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress or execution or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer, and such proceedings, distress, execution or process (as the case may be unless initiated by the Issuer) not being discharged or not otherwise ceasing to apply within 15 clear days, or the Issuer initiating or consenting to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally,

provided that in the case of each of the events described in subparagraphs (b), (c) and (d) of this **Condition 10.1**, the Trustee shall have certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the holders of the Most Senior Class of Notes outstanding.

- 10.2 Upon any declaration being made by the Trustee in accordance with **Condition 10.1** above that the Notes are due and repayable each Note shall thereby immediately become due and repayable at its Principal Amount Outstanding together with accrued interest as provided in the Trust Deed and the Issuer Deed of Charge (subject to the Post-Acceleration Priority of Payments).



## 11. ENFORCEMENT

- 11.1 The Trustee may, at its absolute discretion and without notice at any time and from time to time, take such proceedings or other action it may think fit to enforce the provisions of the Issuer Transaction Documents to which it is a party and/or the Notes, provided that, subject to **Condition 11.3** below, enforcement of the Issuer Security shall be the only remedy available for the repayment of the Class A Notes, the Class B Notes and the Class C Notes and the payment of accrued interest (including any Deferred Interest and accrued interest thereon) and, at any time after the Issuer Security has become enforceable, take such steps as it may think fit to enforce or realise the Issuer Security, but it shall not be bound to take any such proceedings, action or steps unless: (a) it shall have been so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or so requested in writing by the holders of at least 25% in aggregate Principal Amount Outstanding for the time being of the Most Senior Class of Notes then outstanding; and (b) it shall have been secured and/or indemnified to its satisfaction.
- 11.2 Subject to **Condition 11.3** below, no Noteholder shall be entitled to proceed directly against the Issuer or any other party to the Issuer Transaction Documents or to enforce or realise the Issuer Security unless the Trustee, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing. The Trustee cannot, while any of the Notes are outstanding, be required to enforce or realise the Issuer Security at the request of any of the Other Issuer Secured Creditors under the Issuer Deed of Charge.
- 11.3 If the net proceeds of realisation of, or enforcement with respect to, the Issuer Security are not sufficient to discharge all of the Issuer's Secured Obligations, the Issuer's other assets will not be available for payment of any arising shortfall. Any shortfall will be borne in accordance with the provisions of these Conditions and the Issuer Deed of Charge. All claims in respect of such shortfall, after realisation of or enforcement of the Issuer Security, shall be extinguished and the Trustee, the Noteholders and the other Issuer Secured Creditors will have no further claim against the Issuer in respect of such unpaid amounts. Each Noteholder, by subscribing for or purchasing Notes, as applicable, is deemed to acknowledge and accept that it is fully aware that, in the event of an enforcement or realisation of the Issuer Security: (a) its right to obtain repayment in full is limited to the Issuer Security; and (b) the Issuer will have duly and entirely fulfilled its payment obligations by making available to each Noteholder its relevant proportion of the proceeds of realisation or enforcement of the Issuer Security in accordance with these Conditions and the Issuer Deed of Charge, and all claims in respect of any shortfall will be extinguished.

## 12. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, SUBSTITUTION AND TRUSTEE'S DISCRETIONS

- 12.1 The Trust Deed contains provisions for convening meetings of Noteholders of any Class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of these Conditions or the provisions of any of the Issuer Transaction Documents or any other documents the rights and benefits of the Issuer in respect of which are comprised in the Issuer Security.
- 12.2 The quorum at any meeting of the Noteholders of any Class for passing an Extraordinary Resolution shall be one or more persons holding or representing over 50% in aggregate Principal Amount Outstanding of the Notes of the relevant Class then outstanding or, at any adjourned meeting, one or more persons being or representing the Noteholders of the relevant Class whatever the aggregate Principal Amount Outstanding of the Notes of the relevant Class so held or represented except that, at any meeting the business of which includes the sanctioning of a Basic Terms Modification (as defined below), the necessary quorum for passing an Extraordinary Resolution shall be one or more persons holding or representing not less than 75% or, at any adjourned such meeting, not less than

33% in aggregate Principal Amount Outstanding of the Notes of the relevant Class for the time being outstanding.

- 12.3 An Extraordinary Resolution passed at any meeting of the Class A Noteholders shall be binding on all the Class B Noteholders and the Class C Noteholders, irrespective of its effect upon them except an Extraordinary Resolution to sanction a Basic Terms Modification, which shall not take effect unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class B Noteholders and the Class C Noteholders or the Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class B Noteholders and the Class C Noteholders.
- 12.4 An Extraordinary Resolution passed at any meeting of Class B Noteholders (other than a sanctioning Extraordinary Resolution referred to above) shall not be effective unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders or the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders.
- 12.5 An Extraordinary Resolution passed at any meeting of Class B Noteholders shall be binding on all and Class C Noteholders, irrespective of its effect upon them except an Extraordinary Resolution to sanction a Basic Terms Modification, which shall not take effect unless it shall have been sanctioned by an Extraordinary Resolution of the Class C Noteholders or the Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class C Noteholders.
- 12.6 An Extraordinary Resolution passed at any meeting of Class C Noteholders (other than a sanctioning Extraordinary Resolution referred to above) shall not be effective unless it shall have been sanctioned by an Extraordinary Resolution of each of the Class A Noteholders and the Class B Noteholders or the Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders and the Class B Noteholders.
- 12.7 As used in these Conditions and the Trust Deed:
- (a) **Extraordinary Resolution** means:
- (i) a resolution passed at a meeting of any Class of Noteholders duly convened and held in accordance with the Trust Deed by a majority consisting of not less than 75% of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than 75% of the votes cast on such poll; or
- (ii) a resolution in writing signed by or on behalf of holders of not less than 90% in aggregate Principal Amount Outstanding of any Class of Noteholders, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Noteholders of that Class and shall be as valid, effective and binding as a resolution duly passed at such a meeting (and for the purposes of **Conditions 4.4** and **4.5**, any Notes held by, for the benefit of or on behalf of the Issuer and/or Borrower and/or any one or more of its Affiliates will not be included for voting purposes);
- (b) **Affiliate** means any company or other entity of which either Borrower or the Issuer is a **Subsidiary**, any other company or entity which is a Subsidiary of that company or entity and any Subsidiary of either Borrower or the Issuer;
- (c) **Subsidiary** means:
- (i) a Subsidiary within the meaning of Section 736 of the Companies Act, 1985 (as amended); or

- (ii) (unless the context otherwise requires) a subsidiary undertaking within the meaning of European Communities (Companies: Group Accounts) Regulations 1992 (S.I. No 201 of 1992).

(d) **Basic Terms Modification** means, in respect of a Class of Notes:

- (i) a change in the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, of the method of calculating the date of payment in respect of any principal or interest in respect of such Notes;
- (ii) alteration of the currency in which payments under such Notes are to be made;
- (iii) alteration of the quorum or the majority required to pass an Extraordinary Resolution;
- (iv) the sanctioning of any such scheme or proposal in respect of such Notes as is described in paragraph 18(i) of Schedule 3 to the Trust Deed (Provisions for Meeting of Noteholders);
- (v) alteration of this definition or the provisos to paragraphs 5 and/or 6 of Schedule 3 to the Trust Deed (Provisions for Meeting of Noteholders);
- (vi) alteration of the Pre-Enforcement Income Priority of Payments, the Post-Enforcement Pre-Acceleration Income Priority of Payments or the Post-Acceleration Priority of Payments; and
- (vii) alteration in any material respect of the Issuer Charged Property or release of Issuer Security.

12.8 The Trustee may agree, without the consent of the Noteholders: (a) to any modification of, or to the waiver or authorisation of any breach or proposed breach of, these Conditions, the Trust Deed or any of the other Transaction Documents, which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders of any Class; or (b) to any modification of these Conditions or any of the Issuer Transaction Documents, which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven. The Trustee may also, without the consent of the Noteholders, determine that any Note Event of Default shall not, or shall not subject to specified conditions, be treated as such if, in its opinion, the interests of the Noteholders of each Class will not be materially prejudiced thereby. 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 by the Issuer to the Noteholders in accordance with **Condition 15** as soon as practicable thereafter.

12.9 The Trustee may agree, without the consent of the Noteholders, to the substitution of another body corporate in place of the Issuer as principal debtor under the Trust Deed and the Notes, subject to:

- (a) the Notes being unconditionally and irrevocably guaranteed by the Issuer (unless all or substantially all of the assets of the Issuer are transferred to such body corporate);
- (b) such body corporate being a single purpose vehicle and undertaking itself to be bound by provisions corresponding to those set out in these Conditions;
- (c) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced thereby; and

- (d) certain other conditions set out in the Trust Deed being complied with.

Any such substitution shall be notified by the Issuer to the Noteholders in accordance with **Condition 15** and the Rating Agencies.

In the case of a substitution pursuant to this **Condition 12.9**, the Trustee may in its absolute discretion agree, without the consent of the Noteholders, to a change of the laws governing the Notes and/or any of the Issuer Transaction Documents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the Noteholders of any Class. No such substitution shall take effect unless it applies to all the Notes then outstanding.

### **13. INDEMNIFICATION AND EXONERATION OF THE TRUSTEE**

- 13.1 The Trust Deed and certain of the Issuer Transaction Documents contain provisions governing the responsibility (and relief from responsibility) of the Trustee and providing for its indemnification in certain circumstances, including provisions relieving it from taking enforcement proceedings or enforcing the Issuer Security or taking any other action in relation to the Trust Deed or the other Transaction Documents unless secured and/or indemnified to its satisfaction. 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 Issuer Charged Property, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of RBS or any agent or related company of RBS or by clearing organisations or their operators or by intermediaries such as banks, brokers, depositories, warehousemen or other persons whether or not on behalf of the Trustee.
- 13.2 The Trust Deed contains provisions pursuant to which the Trustee or any of its related companies is entitled, among other things:
- (a) to enter into business transactions with the Issuer and/or any other person who is a party to the Issuer Transaction Documents or whose obligations are comprised in the Issuer Charged Property and/or any of their subsidiary or associated companies and to act as trustee for the holders of any other securities issued by or relating to the Issuer and/or any other person who is a party to the Issuer Transaction Documents or whose obligations are comprised in the Issuer Charged Property and/or any of their subsidiary or associated companies;
  - (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of the Noteholders); and
  - (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.
- 13.3 The Trust Deed also relieves the Trustee of liability for not having made or not having caused to be made on its behalf the searches, investigations and enquiries which a prudent chargee would normally have been likely to make in entering into the Issuer Deed of Charge. The Trustee has no responsibility in relation to the legality, validity, sufficiency, adequacy and enforceability of the Issuer Security or the Issuer Transaction Documents. The Trustee will not be obliged to take any action which might result in its incurring personal liabilities unless secured and/or indemnified to its satisfaction or to supervise the performance by the Servicer or any other person of their obligations under the Issuer Transaction Documents and the Trustee shall assume, until it has notice in writing to the contrary, that all such persons are properly performing their duties, notwithstanding that the Issuer Security (or any part thereof) may, as a consequence, be treated as floating rather than fixed security.

13.4 The Trust Deed and certain of the other Transaction Documents contain other provisions limiting the responsibility, duties and liability of the Trustee.

13.5 The Trust Deed contains provisions pursuant to which:

- (a) the Trustee may retire at any time on giving not less than three months' prior written notice to the Issuer, and will be relieved of any liability incurred by reason of such retirement; and
- (b) the Noteholders may by Extraordinary Resolution of the holders of each Class of Notes remove the Trustee.

The retirement or removal of the Trustee will not become effective until a successor trustee is appointed. The Trustee is entitled to appoint a successor trustee in the circumstances specified in the Trust Deed and may then retire.

## 14. REPLACEMENT OF THE NOTES

### 14.1 Definitive Notes

If a Definitive Note is mutilated, defaced, lost, stolen or destroyed, it may be replaced at the specified office of any Paying Agent. Replacement thereof will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the relevant Paying Agent may reasonably require. If mutilated or defaced, the Definitive Note must be surrendered before a new one will be issued.

### 14.2 Global Notes

If a Global Note is lost, stolen, mutilated, defaced or destroyed, it shall, upon satisfactory evidence of such loss, theft, mutilation, defacement or destruction being given to the Issuer and the Trustee, become void and a duly executed and authenticated replacement Global Note will be delivered by the Issuer to the Common Depositary only upon surrender, in the case of mutilation or defacement, of the relevant Global Note. Replacement thereof will only be made upon payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and the Principal Paying Agent may reasonably require.

## 15. NOTICE TO NOTEHOLDERS

15.1 Notices to Noteholders may be given by delivery of the relevant notice to Clearstream, Luxembourg and/or Euroclear for communication by them to Noteholders provided that so long as the Notes are listed on the Irish Stock Exchange, the Irish Stock Exchange so agrees. Any notice delivered to Clearstream, Luxembourg and/or Euroclear as aforesaid shall be deemed to have been given on the day of such delivery.

15.2 A copy of each notice given by the Issuer in accordance with this **Condition 15** shall be provided to each of Fitch Ratings Ltd. (**Fitch**) and Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (**S&P** and, together with Fitch, the **Rating Agencies**, which reference in these Conditions shall include any additional or replacement rating agency appointed by the Issuer to provide a credit rating in respect of the Notes or any Class thereof). For the avoidance of doubt, and unless the context otherwise requires, all references to rating and ratings in these Conditions shall be deemed to be references to the ratings assigned by the Rating Agencies. The Trustee will (at the expense of the Issuer) upon request from the Issuer or any of the Rating Agencies provide a copy to the Rating Agencies of any notice given by the Trustee to Noteholders under this **Condition 15**.

15.3 The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a Class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

## 16. FURTHER ISSUES REPLACEMENT NOTES AND NEW NOTES

### 16.1 Further Issues

The Issuer is at liberty from time to time without the consent of the Noteholders, but subject always to the provisions of these Conditions and the Trust Deed to create and issue further Notes (the **Further Notes**) in bearer form carrying the same terms and conditions in all respects (except in relation to the issue date, the first Interest Period and the first Interest Payment Date) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the relevant Class of Notes, provided that:

- (a) the aggregate principal amount of all Further Notes to be issued on such date is in a minimum amount of £50,000,000;
- (b) any Further Notes are assigned the same ratings by the Rating Agencies as are then applicable to the corresponding Class of Notes then outstanding;
- (c) the Rating Agencies confirm that the ratings of each Class of Notes at that time outstanding will not be adversely affected as a result of such issue of Further Notes;
- (d) an amount equal to the aggregate principal amount of such Further Notes will be on-lent by the Issuer pursuant to the provisions of the relevant Loan Agreement;
- (e) such encumbrances necessary to maintain the then current ratings referred to in (c) above or to obtain the necessary ratings for the Further Notes are given in favour of the Trustee, the Borrower Security Trustee and/or the Issuer by (as the case may be) the Issuer, the relevant Borrower and/or the other Obligors at the date of issue of the Further Notes (if applicable);
- (f) no Loan Event of Default has occurred and is continuing or would occur as a result of such issue of Further Notes;
- (g) the Issuer's liabilities in respect of such Further Notes are hedged to the satisfaction of the Rating Agencies then rating the Notes;
- (h) no Note Event of Default has occurred and is continuing or would occur as a result of such issue of Further Notes; and
- (i) application will be made to have the Notes admitted to trading on the regulated market of the Irish Stock Exchange, or if the Notes then issued are no longer so admitted, on such exchange, if any, on which the Notes then issued are then listed.

## 16.2 Replacement Notes

The Issuer will also be entitled (but not obliged) at its option from time to time on any date, without the consent of the Noteholders, to issue notes (**Replacement Notes**), each class of which shall be required to have the same terms and conditions in all respects as the Class of Notes which it replaces except in relation to:

- (a) the first Interest Period; and
- (b) the rate of interest applicable to such Replacement Notes which must be a rate of interest equal to or lower than the rate of interest applicable to the Class of Notes being replaced, and shall on issue be in a principal amount which in aggregate does not exceed the aggregate Principal Amount Outstanding of the Class of Notes which it replaces, *provided that* the Class or Classes of Notes to be replaced are redeemed in full in accordance with **Condition 6.3(h)** and the conditions to the issue of Further Notes as set out in **Condition 16.1(a), (b), (c) and (e) to (i)** above are met, *mutatis mutandis*, in respect of such issue of Replacement Notes (as if references therein to Further Notes were to Replacement Notes) and provided further that, for the purposes of this **Condition 16.2**:
  - (i) where interest in respect of the Replacement Notes or the Class of Notes being replaced is payable on a fixed rate basis, the rate of interest applicable to the Replacement Notes or, as the case may be, the Class of Notes being replaced shall be deemed to be the floating rate payable by the Issuer under any interest rate exchange agreement entered into by the Issuer in relation to the Replacement Notes or, as the case may be, the Class of Notes being replaced; and
  - (ii) where the Replacement Notes or the Class of Notes being replaced have the benefit of a financial guarantee or similar arrangement (a **Financial Guarantee**), the guarantee fee and any other amounts payable to the provider of the Financial Guarantee, other than any such amounts the payment of which is subordinated to payments in respect of all of the Notes, (expressed as a percentage rate per annum on the principal amount of the Replacement Notes or, as the case may be, the Class of Notes being replaced) shall be added to the rate of interest applicable to the Replacement Notes or, as the case may be, the Class of Notes being replaced.

## 16.3 New Notes

The Issuer shall be at liberty, without the consent of the Noteholders (but subject always to the provisions of the Trust Deed), to raise further funds from time to time and on any date by the creation and issue of new notes (the **New Notes**) in bearer form which may rank *pari passu* with the Class A Notes or after the Class A Notes but ahead of or *pari passu* with the Class B Notes or after the Class B Notes but ahead of or *pari passu* with the Class C Notes or after the Class C Notes and which do not form a single series with any Class of the Notes and which may have a Financial Guarantee *provided that* the conditions to the issue of Further Notes as set out in **Conditions 16.1(a) and (c) to (i)** are met, *mutatis mutandis*, in respect of the issue of such New Notes as if reference therein to Further Notes were references to New Notes.

## 16.4 Supplemental trust deeds and security

Any such Further Notes, Replacement Notes and New Notes will be constituted by a further deed or deeds supplemental to the Trust Deed and have the benefit of the Issuer Security pursuant to the Issuer Deed of Charge as described in **Condition 3**.

## **17. RIGHTS OF THIRD PARTIES**

This Note does not confer any rights on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from the Contracts (Rights of Third Parties) Act 1999.

## **18. LIMITED RECOURSE**

The ability of the Issuer to meet its obligations under the Notes will depend on payments received by it under the Loans and the Liquidity Facility Agreement. In the event of non-payment, the only remedy for recovering amounts due on the Notes is through enforcement of the Issuer Security. If the Issuer Security is enforced, the proceeds of enforcement may be insufficient to pay all principal and interest due on the Notes, and neither the Trustee nor the Noteholders may take any further steps against the Issuer in respect of amounts payable on the Notes and all such claims against the Issuer shall be extinguished and discharged.

## **19. NON PETITION**

- 19.1 Only the Trustee may pursue the remedies available under applicable law, under the Issuer Deed of Charge and under the Issuer Transaction Documents to enforce the Issuer Security and no other Issuer Secured Creditors shall be entitled to enforce directly the Issuer Security, unless the Trustee having been bound to take steps and/or proceedings, fails to do so within a reasonable time and such failure is continuing.
- 19.2 Notwithstanding any other provision of these Conditions or any other Transaction Document, none of the parties to the Issuer Transaction Documents (other than in the case of the Issuer its shareholders or directors if required by law to do so) shall be entitled to petition or take any corporate action or other steps or legal proceedings for the winding-up, dissolution, court protection, administration, reorganisation, liquidation, bankruptcy or insolvency of the Issuer or for the appointment of a receiver, administrator, receiver manager, administrative receiver, trustee, liquidator or similar officer in respect of the Issuer or any of its revenues or assets for so long as the Notes are outstanding for two years and a day after all sums outstanding and owing in respect of the Notes have been paid in full, provided that the Trustee may enforce the Issuer Security and appoint a receiver, receiver and manager, administrative receiver or manager or an insolvency official as permitted under the terms of the Issuer Deed of Charge and/or prove or lodge a claim in a liquidation of the Issuer initiated by another party and provided further that the Trustee may take proceedings to obtain a declaration or similar judgment or order as to the obligations and liabilities of the Issuer under the Issuer Deed of Charge and/or the other Transaction Documents.
- 19.3 None of the parties to the Issuer Transaction Documents shall have any recourse against any director, shareholder or officer of the Issuer in respect of any obligations, covenant or agreement entered into or made by the Issuer pursuant to the terms of the Notes, the Issuer Deed of Charge or any other Transaction Document to which it is a party or any notice or documents which it is requested to deliver hereunder or thereunder.

## **20. GOVERNING LAW**

The Trust Deed and the Notes are governed by, and will be construed in accordance with, English law.



## UNITED KINGDOM TAXATION

**The following, which applies only to persons who are the beneficial owners of the Notes, is a summary of current United Kingdom tax law and H.M. Revenue and Customs practice as at the date of this Prospectus relating to certain aspects of United Kingdom taxation of the Notes. It is not a comprehensive analysis of the tax consequences arising in respect of the Notes. Some aspects do not apply to certain classes of taxpayer (such as dealers and persons connected with the Issuer). Prospective Noteholders who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.**

### **Interest on the Notes**

#### *Withholding tax on payments of interest on the Notes*

Payments of interest on the Notes may be made without deduction or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Income and Corporation Taxes Act 1988 (ICTA). The Irish Stock Exchange is a recognised stock exchange. Under a United Kingdom H.M. Revenue and Customs (HMRC) interpretation, the Notes will satisfy this requirement if they are listed (by being admitted to the Official List) and admitted to trading on the Irish Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid to a person whose usual place of abode is not outside the United Kingdom for United Kingdom tax purposes and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner of the interest is within the charge to United Kingdom corporation tax as regards the payment of interest or that the payment is made to one of the persons listed in section 349B of ICTA in the circumstances specified in section 349B, provided that HMRC has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the lower rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

#### *Provision of information*

Noteholders may wish to note that in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

#### *Further United Kingdom income tax issues*

Interest on the Notes will constitute United Kingdom source income and, as such, may be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Noteholder (other than

certain trustees) who is not resident for tax purposes in the United Kingdom unless that Noteholder carries on a trade, profession or vocation through a United Kingdom branch or agency in connection with which the interest is received or to which the Notes are attributable (and where that Noteholder is a company, unless that Noteholder carries on a trade in the United Kingdom through a permanent establishment in connection with which interest is received or to which the Notes are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may be relevant for such Noteholders.

### **United Kingdom corporation tax payers**

In general, Noteholders which are within the charge to United Kingdom corporation tax in respect of the Notes will be charged to tax and obtain relief as income on all returns, profits and gains on, and fluctuations in value of the Notes (whether attributable to currency fluctuation or otherwise) broadly in accordance with their statutory accounting treatment.

### **Other United Kingdom tax payers**

#### *Taxation of chargeable gains*

The Notes will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Noteholder of a Note will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

#### *Accrued income scheme*

On a disposal of Notes by a Noteholder, any interest which has accrued between the last Interest Payment Date and the date of disposal may be chargeable to tax as income under the rules of the "accrued income scheme" as set out in Chapter II of Part XVII of ICTA, if that Noteholder is resident or ordinarily resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Notes are attributable.

### **Stamp Duty and Stamp Duty Reserve Tax (SDRT)**

No United Kingdom stamp duty or SDRT is payable on the issue of the Notes into, or transfer by delivery of the Notes within, a clearing system.

### **EU Directive on the Taxation of Savings Income**

Under the EC Council Directive 2003/48/EC on the taxation of savings income, from 1 July 2005, Member States are required 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 an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

## SUBSCRIPTION AND SALE

The Royal Bank of Scotland plc (in its capacity as **Lead Manager**) and Danske Bank A/S of 75 King William Street, London EC4N 7DT (the **Co-Manager** and, together with the Lead Manager, the **Managers** and each a **Manager**) pursuant to a subscription agreement dated 29 January 2007 (the **Subscription Agreement**), between the Managers and the Issuer, have agreed, subject to certain conditions, to subscribe and pay for the Class A Notes at 100% of the initial principal amount of such Notes, the Class B Notes at 100% of the initial principal amount of such Notes, and the Class C Notes at 100% of the initial principal amount of such Notes.

The Issuer has agreed to reimburse or procure the reimbursement of the Lead Manager for certain of its expenses in connection with the issue of the Notes. The Subscription Agreement is subject to a number of conditions and may be terminated by the Lead Manager in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Lead Manager and the Co-Manager against certain liabilities in connection with the offer and sale of the Notes.

### United States of America

Each Manager has represented and agreed with the Issuer that the Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**), and may not be offered or sold or delivered within the United States or to, or for the account or benefit of, U.S. Persons except pursuant to an exemption from transactions not subject to the registration requirements of the Securities Act and applicable state laws. Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date (for the purposes only of this section *Subscription and Sale*, the **Distribution Compliance Period**) within the United States or to, or for the account or benefit of, U.S. Persons and that it will have sent to each distributor, dealer or other person to which it sells 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. Terms used in this paragraph have the meanings given to them by Regulation S of the Securities Act.

In addition, until 40 days after the later of the date of the commencement of the offering of the Notes and the Closing Date, an offer or sale of the Notes within the United States by a dealer, whether or not participating in the offering, may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The Notes are in bearer form and are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in the preceding sentence have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

### United Kingdom

Each Manager has represented and agreed that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (**FSMA**), with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of

section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

## **Ireland**

Each Manager has represented and agreed that:

- (a) it has complied and will comply with all applicable provisions of the Investment Intermediaries Acts, 1995 to 2000 of Ireland (as amended) with respect to anything done by it in relation to the Notes or operating in, or otherwise involving, Ireland and, in the case of the Lead Manager and Sole Bookrunner acting under and within the terms of an authorisation to do so for the purposes of European Union (EU) Council Directive 93/22/EEC of 10 May 1993 (as amended), it has complied with any codes of conduct made under the Investment Intermediaries Acts, 1995 to 2000 of Ireland (as amended), in the case of the Lead Manager acting within the terms of an authorisation granted to it for the purposes of EU Council Directive 2000/12/EC of 20 March 2000 (as amended), it has complied with any codes of conduct or practice made under Section 117(1) of the Central Bank Act, 1989 of Ireland (as amended);
- (b) it has not and will not offer or sell any Notes other than in compliance with the provisions of the Market Abuse (Directive 2003/6/EC) Regulations 2005 of Ireland; and
- (c) in connection with offers or sales of Notes, it has only issued or passed on, and will only issue or pass on any document received by it in connection with the issue of such Notes to persons who are persons to whom the documents may otherwise lawfully be issued or passed on.

## **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), each of the Managers has represented and agreed with the Issuer, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (a) in the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000 and (3) an annual net turnover of more than EUR 50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to

purchase or subscribe for the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

## **General**

Other than the approval by the Financial Regulator in Ireland of this Prospectus as a prospectus in accordance with the requirements of the Prospectus Directive and relevant implementing measures in Ireland, application having been made for the Notes to be admitted to the Official List of the Irish Stock Exchange and to trading on the regulated market of the Irish Stock Exchange, no action is being taken by the Issuer or the Managers in any jurisdiction that would or is intended to permit a public offering of the Notes, or the possession, circulation or distribution of this Prospectus or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. This Prospectus does not constitute, and may not be used for the purpose of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material, advertisement, form of application or other material in connection with the Notes may be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each Manager has undertaken not to offer or sell, directly or indirectly, any of the Notes, or to distribute this Prospectus or any other material relating to the Notes, in or from any jurisdiction except under circumstances that will result in compliance with applicable law and regulations.

## VALUATION REPORTS

The full Valuation Reports and tenancy schedule are reproduced on the CD-ROM that is available in connection with this Prospectus or by accessing a designated website the details of which can be obtained from RBS.

The CD-ROM and the website that are available in connection with this Prospectus contain the reports compiled for the purposes of ascertaining the valuations in respect of the Properties prior to advancing any amounts under the Loans and the related tenancy schedule (the **Origination Valuation Reports**). Prospective investors should be aware that the Origination Valuation Reports were prepared prior to the date of this Prospectus. The Valuer that produced the Origination Valuation Reports has not been requested to update or revise any of the information contained in the Origination Valuation Reports or to review, update or comment on the information contained in the available CDROM, nor shall they be requested to do so prior to the issue of the Notes. Accordingly, the information included in each Origination Valuation Report may not reflect the current physical, economic, competitive, market and other conditions with respect to the Properties. The information contained in the CD-ROM and on the website must be considered together with all of the information contained elsewhere in this Prospectus, including without limitation, the statements made in the section entitled *Risk Factors—Reliance on Valuation Reports* above. All of the information contained in the CD-ROM and on the website is subject to the same limitations, qualifications and restrictions contained in the other portions of this Prospectus. Prospective investors are strongly urged to read this Prospectus in its entirety prior to accessing the CD-ROM or the website. If the CD-ROM is not received in a sealed package, there can be no assurance that it remains in its original format and should not be relied upon for any purpose.

The information contained in the CD-ROM and on the website does not form part of this Prospectus nor part of the Prospectus to be filed with the Irish Stock Exchange or IFSRA. Accordingly, prospective investors should not regard the CD-ROM or the website as being part of the Prospectus.

All information contained in the CD-ROM and on the website is confidential and must be treated as such by any person into whose possession it comes.

All information on the website will be removed at the close of business on the Closing Date.

## GENERAL INFORMATION

1. All authorisations, consents and approvals to be obtained by the Issuer in connection with the issue of the Notes, the performance by the Issuer of the obligations expressed to be undertaken by it and the distribution of this Prospectus have been obtained and are in full force and effect.
2. The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on 25 January 2007.
3. It is expected that admission of the Notes to the Official List of the Irish Stock Exchange will be granted on or about 6 February 2007, subject only to the issue of the Global Notes. The admission of the Notes will be cancelled if the Global Notes are not issued. Transactions will normally be effected for settlement in sterling and for delivery on the third working day after the day of the transaction. The estimated cost of the application for admission to the Official List and admission to trading on the Irish Stock Exchange's market for listed securities is €5,000.
4. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg as follows:

	Common Code	ISIN
Class A	028319479	XS0283194792
Class B	028319649	XS0283196490
Class C	028319959	XS0283199593

5. No statutory or non-statutory accounts in respect of any financial year of the Issuer have been prepared and the Issuer has not commenced operations. So long as the Notes are admitted to the Official List of the Irish Stock Exchange, the most recently published audited annual accounts of the Issuer from time to time will be available at the specified offices of the Paying Agent. The Issuer does not publish interim accounts.
6. Since the date of incorporation, the Borrowers have not commenced operations and no financial statements have been made up as of the date of this Prospectus.
7. The Issuer is not, and has not 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, since the date of its incorporation, a significant effect on the Issuer's financial position.
8. The Borrowers are not, and have not been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either Borrower is aware) which may have, or have had, since the date of its incorporation, a significant effect on the relevant Borrower's financial position.
9. Since the date of its incorporation, the Issuer has entered into the Subscription Agreement, being a contract entered into other than in its ordinary course of business.
10. Knight Frank LLP is a Limited Liability Partnership registered in England and Wales with registration number OC305934 and has its registered office at 20 Hanover Square, London W1S 1HZ. Knight Frank LLP is a qualified valuer under the requirements of The Royal Institution of Chartered Surveyors Appraisal and Valuation Standards. Knight Frank LLP has given and not withdrawn its written consent to the issue of this Prospectus and the inclusion of its report and references to its name in the form and context in which they are included and has authorised the

contents of that part of this Prospectus for the purposes of section 45 of the Investment Funds, Companies and Miscellaneous Provisions Act 2005 of Ireland.

11. Save as disclosed herein, since 3 January 2007 (being the date of incorporation of the Issuer), there has been (a) no material adverse change in the financial position or prospects of the Issuer and (b) no significant change in the trading or financial position of the Issuer.
12. Save as disclosed herein, since 8 December 2006 (being the date of incorporation of the Borrowers), there has been (a) no material adverse change in the financial position or prospects of the Borrowers and (b) no significant change in the trading or financial position of the Borrowers.
13. The Issuer Deed of Charge, the Trust Deed and the Borrower Security Documents will provide that the Trustee and the Borrower Security Trustee (as applicable) may rely on reports or other information from professional advisers or other experts in accordance with the Issuer Deed of Charge, the Trust Deed and the relevant Borrower Security Agreement (as applicable), whether or not such report or other information, engagement letter or other document entered into by the Trustee or the Borrower Security Trustee (as applicable) and the relevant professional advisor or expert in connection therewith contains any limit on the liability of that relevant professional advisor or expert.
14. Copies of the following documents may be physically inspected during usual business hours on any week day (excluding Saturdays, Sundays, and public holidays) at the offices of the Issuer at City Tower, Piccadilly Plaza, Manchester M1 4BD and at the specified offices of the Irish Paying Agent whilst any Note remains outstanding:
  - (a) the Memorandum and Articles of Association of the Issuer and the Borrowers;
  - (b) the Subscription Agreement referred to in paragraph 9 above;
  - (c) the latest annual financial reports of the Issuer; and
  - (d) drafts (subject to modification) of the following documents (together with the Subscription Agreement, the **Transaction Documents**):
    - (i) the Trust Deed;
    - (ii) the Notes and Conditions appended thereto.
    - (iii) the Agency Agreement;
    - (iv) the Issuer Deed of Charge;
    - (v) the Swap Agreements;
    - (vi) the Liquidity Facility Agreement;
    - (vii) the Servicing Agreement;
    - (viii) the Independent Director Agreement;
    - (ix) the Cash Administration Agreement;
    - (x) the Issuer Account Bank Agreement;



- (xi) the BE Loan Agreement;
- (xii) the BE Borrower Security Agreement;
- (xiii) the BE Mortgage of Shares;
- (xiv) the BE Property Management Agreement;
- (xv) the BE Subordination Deed;
- (xvi) the BE Account Bank Agreement;
- (xvii) the B2000 Loan Agreement
- (xviii) the B2000 Borrower Security Agreement;
- (xix) the B2000 Mortgage of Shares;
- (xx) the B2000 Property Management Agreement;
- (xxi) the B2000 Subordination Deed;
- (xxii) the B2000 Account Bank Agreement;
- (xxiii) the Tax Deed of Covenant; and
- (xxiv) the Master Definitions Schedule.

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