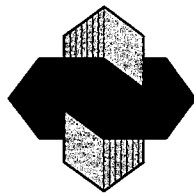


North  
British  
Housing  
Association



**THE NORTH BRITISH HOUSING ASSOCIATION LIMITED**

*(Incorporated in England with limited liability under the Industrial and Provident Societies Act 1965  
with registration number 19447R and registered with the Housing Corporation under the  
Housing Act 1996 with number L0659)*

**£100,000,000**  
**6.625 per cent.**  
**Secured Bonds 2038**  
**issued at 100.521 per cent.**

**Dresdner Kleinwort Benson**

A copy of this document, which comprises listing particulars relating to The North British Housing Association Limited (the “Issuer” or “North British”) in accordance with the listing rules made under Part IV of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration as required by section 149 of that Act.

Application has been made to the London Stock Exchange Limited (the “London Stock Exchange”) for the £100,000,000 6.625 per cent. Secured Bonds 2038 (the “Original Bonds”) to be admitted to the Official List.

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

The Original Bonds will be available in bearer form in denominations of £1,000 each and will initially be represented by a temporary global bond in bearer form, without coupons or talons, which will be deposited with a common depository for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system (“Euroclear”), and Cedel Bank, société anonyme (“Cedel Bank”) on the issue date of the Original Bonds (the “Closing Date”). The temporary global bond will be exchangeable, not earlier than 40 days after the Closing Date and upon certification of non-U.S. beneficial ownership, for interests in a permanent global bond in bearer form, without coupons or talons attached, which will also be deposited with such common depository for Euroclear and Cedel Bank. The permanent global bond will be exchangeable for definitive Bonds in bearer form, with coupons and talons attached, only in limited circumstances as described in “Summary of Provisions relating to the Bonds while in Global Form” below.

In connection with the issue of the Original Bonds, Dresdner Bank A.G. London Branch (the “Manager”) may over-allot or effect transactions which stabilise or maintain the market price of the Bonds on the London Stock Exchange at a level which might not otherwise prevail on that exchange. Such stabilisation, if commenced, may be discontinued at any time.

Terms defined in the section “Definitions” in Section 3 of this Offering Circular are, except where the context otherwise requires, used with the same meanings elsewhere in this document.

The Original Bonds 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. Subject to certain exceptions, the Bonds may not be offered, sold or delivered within the United States or to U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)) (see “Purchase and Sale” below).

The distribution of this document or any part thereof and any offering of the Original Bonds in certain jurisdictions may be restricted by law. No action has been taken by the Issuer or the Manager, other than as set out in the first two paragraphs of this page, which would permit a public offer of the Original Bonds or distribution of this document in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this document nor any part thereof nor any other offering circular, prospectus, form of application, advertisement or other offering material may be issued, distributed or published in any country or jurisdiction (including the United Kingdom), except in circumstances that will result in compliance with applicable laws, orders, rules and regulations.

Persons into whose possession this document (or any part thereof) or any Original Bonds come are required by the Issuer and the Manager to inform themselves about and to observe any such restrictions. For a further description of certain restrictions on offers and sales of the New Bonds and distribution of this document (or any part thereof), see “Purchase and Sale” below.

Neither this document nor any part hereof constitutes an offer of, or an invitation by, or on behalf of, the Issuer or the Manager to subscribe for or to purchase, any of the Original Bonds and neither this document nor any part hereof may be used for or in connection with an offer or solicitation by any person in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

The Original Bonds will be obligations solely of the Issuer and will not be guaranteed by, or be the responsibility of, any government entity or other person.

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

It is expected that the Original Bonds when issued will be rated Aa1 by Moody’s Investors Service Limited, AA by Standard & Poor’s Rating Services, a division of the McGraw-Hill Companies, Inc. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

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## **SECTION 1: GENERAL INFORMATION**

### **1. Background**

North British currently owns and manages approximately 50,000 properties and is the largest registered social landlord, by reference to its asset base, in the UK.

### **2. Purpose of the Bonds and Use of Proceeds**

The net proceeds of the issue of the Bonds (after deduction of expenses payable by North British) are expected to be approximately £99.9 million. The purpose of the issue of the Bonds is to provide funds to refinance existing loans totalling approximately £35 million. The remaining funds raised will be used in furtherance of North British's objects, which include the maintenance and improvement of its housing stock and the supply of additional social housing.

### **3. Security for the Bonds**

The Stock will be secured by legal mortgages and fixed charges over real property, investments and cash as described in Section 3. Those properties that are intended to form the initial real property security will be some, but not necessarily all, of those set out in Section 4.

### **4. Yield**

The gross redemption yield on the Bonds at the issue price of 100.521 per cent. is 6.579 per cent. semi-annual based on a gross annual interest payment of £6.625 per £100 nominal of the Bonds.

The gross redemption yield is calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol 105, Part 1, 1978, page 18.

### **5. Listing and Settlement**

It is expected that permission for the listing of the Bonds will be granted on 3rd June 1998 (subject to allotment) and that official dealings commence at 8.30 a.m. on 11th June 1998. Prior to official listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.

The Bonds are payable in full on acceptance.

The Bonds have been accepted for clearance through Euroclear and Cedel Bank. The International Securities identification number allocated to the Bonds is XS0087645817 and the Common Code for the Bonds is 008764581.

### **6. Interest**

The Bonds will carry interest at the rate of 6.625 per cent. per annum payable in arrear on 31 March and 30 September in each year, as set out in Column C of Paragraph 6(A) of Section 3 below. The first payment of interest on the Bonds will be made on 31 March 1999 and will be in respect of the period from the Closing Date to (but excluding) 31 March 1999 and will amount to 5.3368 per £100 nominal of Bonds.

## SECTION 2: INFORMATION RELATING TO NORTH BRITISH

### The North British Housing Association Limited and the North British Housing Group

North British is administered by a voluntary Board of Management which has overall responsibility for the conduct of the Association's business. The Group consists of The North British Housing Association Limited, six active subsidiaries and four dormant ones (the "Group"). North British's statement of purpose describes the organisation as "a leading national housing group delivering quality local solutions which are within the means of people in housing need".

North British operates in most parts of England through a decentralised management structure designed to promote effective service delivery and accountability at a local level. The current structure is based on nineteen areas within three divisions. The Executive Team responsible for day to day management of the Association comprises the Group Chief Executive, three Divisional Directors and the two Group Directors of Corporate Affairs and Finance and Information.

At 31 December 1997 the Group owned 37,423 homes for rent. These range from flats, houses and bungalows for families, single and elderly people to specially designed housing schemes for people with special needs. In addition the Association had a retained equity interest in 4,997 shared ownership properties at that date.

On 31 March 1998, the Association donated a total of £9 million, representing the majority of its expected surplus before tax for the year ending 31 March 1998 to its two charitable subsidiaries. It is considering converting to charitable status on 1 April 1999 which will involve transferring non-charitable assets of some £125 million (representing less than 10 per cent. of its asset base) to a new non-charitable subsidiary during the financial year to 31 March 1999.

#### Capital Structure

As at 28 May 1998, The North British Housing Association Limited has allotted issued and fully paid 205 ordinary shares of £1 each. Ordinary shareholders are not entitled to any dividend.

#### Indebtedness Statement

At the close of business on 31 December 1997, North British had the following outstanding indebtedness:

	£'000
<b>Lender</b>	
Local Authorities	9,990
Banks and Building Societies	248,165
Others	159,052
	<u>417,207</u>

All indebtedness was secured with the exception of £11 million.

Since 31 December 1997, there has been no material change in the indebtedness of North British with the exception of drawings of £9.8 million under secured loans from banks and building societies; net drawings of £25 million under unsecured loans from banks and building societies and repayments of secured loans of £0.5 million.

Save as set out above, at the close of business on 28 May 1998, North British had no loan capital (including term loans) outstanding or created but unissued, nor any outstanding mortgages, charges, debentures nor other borrowings nor indebtedness in the nature of borrowings, including bank overdrafts and liabilities under acceptances or acceptance credits, hire purchase commitments, obligations under finance leases, guarantees or contingent liabilities.

## Housing Stock for the Group as at 31 December 1997

### *Housing Stock*

Units owned for rent	37,423
Home Ownership Units part owned and managed	4,997
Subtotal	42,420
Units managed for other organisations	6,023
Units under development	1,484
Total owned, managed and under development	<u>49,927</u>

## Incorporation and Management as at 28 May 1998

The North British Housing Association Limited was incorporated on 14 May 1970 and is registered under the Housing Act 1996 with the Housing Corporation (Reg. No. L0659). It is registered under the Industrial and Provident Societies Act 1965 (Reg. No. 19447R).

### Registered Address:

4 The Pavilions  
Portway  
Preston PR2 2YB

The names of the members of the Board of Management, who serve on a voluntary basis and are non-executive and whose business addresses are all 4 The Pavilions, Portway, Preston PR2 2YB, and details are as follows:

S. L. Cox (Chairman)	Assistant Chief Probation Officer
Revd. R. W. B. Atkinson (Deputy Chairman)	Clergyman
Dr. M. J. Le Lohe	University lecturer
H. A. Spurr	Local Government Planning Officer
R. D. N. Somerville	Company Director
Mrs. E. Gill	Housing Care and Support Manager
G. Brunt	Assistant Chief Probation Officer
R. J. Lombardelli	Chartered Quantity Surveyor
Mrs. M. E. Morris	Retired Nursing Manager
Mrs. K. M. A. Alick	Principal Community Development Officer
D. A. Main	Retired Company Finance Director
A. Mortimer	Retired Technical Director
A. J. Burford	Business Consultant
Mrs. C. A. O'Donnell	Foyer Manager
Ms. K. Martynuick	Assistant Youth and Community Worker

### SECTION 3: TERMS AND CONDITIONS OF THE BONDS

*The following is the text, subject to completion and amendment, of the Terms and Conditions which will be endorsed on the Bonds in definitive form. Bonds in definitive form will only be issued in certain limited circumstances. For a summary of the provisions relating to the Bonds in global form see "Summary of Provisions relating to the Bonds while in Global Form" below.*

The Original Bonds (as defined below) were created by a resolution of the Board of Management of The North British Housing Association Limited ("North British") passed on 25th March 1998 and will be constituted and secured by a trust deed dated on or about 10th June 1998 (the "Trust Deed") to be entered into between North British and Prudential Trustee Company Limited as trustee for the holders for the time being of the Bonds (the "Trustee" and the "Bondholders", respectively). Certain provisions of these Terms and Conditions are summaries of and are subject to the detailed provisions of the Trust Deed, which includes the form of the Bonds and the interest coupons and talons relating to the Bonds (the "Coupons" and the "Talons" respectively). Payments in relation to the Bonds will be made pursuant to a paying agency agreement (the "Paying Agency Agreement") dated on or about 10th June 1998 between North British, the Trustee, The Chase Manhattan Bank N.A. as principal paying agent (the "Principal Paying Agent", which expression includes any successor principal paying agent appointed from time to time in connection with the Bonds) and the other paying agents named therein (together with the Principal Paying Agent, the "Paying Agents", which expression includes any successor or additional paying agents appointed from time to time in connection with the Bonds). Copies of the Trust Deed and the Paying Agency Agreement are available for inspection at the registered office of the Trustee (presently at 142 Holborn Bars, London EC1N 2NH) and at the specified offices of each of the Paying Agents. The Bondholders, the holders of the Coupons (the "Couponholders") and the holders of the Talons, whether or not attached to the relevant Bonds, are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Trust Deed and those applicable to them of the Paying Agency Agreement. The Trust Deed and certain related documents referred to below will contain, *inter alia*, provisions to the following effect:

#### 1. Definitions

In these Conditions:

"Annual Expenditure" means in respect of any Property either:

- (a) the figure certified by the Surveyors or Auditors in a certificate (an "Expenditure Certificate") (prepared after consultation with North British) as one fifth of the minimum level of expenditure (taking into account, without limitation, ground and head rents, service charges, council tax (or equivalent), insurance, repairs, maintenance and other outgoings, amortisation of leaseholds in accordance with generally accepted accounting principles from time to time in force and depreciation of any fixed plant and machinery thereon) which in their opinion would be required in respect of the next five years to manage and maintain such Property in good and tenantable repair and condition; or
- (b) if an Expenditure Certificate relating to such Property shall not have been given in the preceding 12 months, the figure in respect of such period determined in accordance with the following formula:

$$NA = OA \times \left( \frac{NIF}{OIF} + \frac{N}{100} \right)$$

where:

NA equals the Annual Expenditure figure being determined;

OA equals the Annual Expenditure figure shown in the last Expenditure Certificate;

NIF equals the Index applicable to the month in which the new Annual Expenditure figure falls to be determined;

OIF equals the Index applicable to the month in which the Annual Expenditure figure was determined in the last Expenditure Certificate; and

N equals the number of years (including fractions thereof) since the date of the last Expenditure Certificate,

provided that Annual Expenditure shall be determined in accordance with (a) above if, prior to such determination, no Expenditure Certificate has ever been produced;

“Audited Accounts” means a balance sheet, income and expenditure account and such other accounts or statements as have been audited and reported on as part of the accounts for the Group and have been prepared in accordance with the Housing Act 1996 and the Accounting Requirements for Registered Social Landlords General Determination 1996 or such other accounting requirement as shall be applicable to the Group from time to time;

“Auditors” means the auditors (or, in the case of joint auditors, any one of them) for the time being of North British or, in the event of their being unable or unwilling within the time periods specified in the Trust Deed to carry out any action requested of them pursuant to the provisions of the Trust Deed, such other recognised firm of accountants as the Trustee may in writing nominate or approve for the purpose (after consultation, where practicable in the opinion of the Trustee, with North British);

“Authorised Institution” means a bank or other financial institution with a credit rating of at least AA by Standard and Poors Rating Services and Aa1 by Moody’s Investors Services or such other lower credit rating as, in the circumstances existing at the relevant time, each of the Rating Agents confirms will not result in a downgrading of the credit rating of the Bonds;

“Bonds” means the Original Bonds and any Further Bonds;

“Borrowing” means any indebtedness for borrowed monies of North British whether as principal or surety and whether present or future, actual or contingent, and includes:

- (a) the principal amount of all debentures of North British notwithstanding that the same may be or have been issued in whole or in part for a consideration other than cash;
- (b) the outstanding amount of acceptances (not being acceptances of trade bills in respect of the purchase or sale of goods in the ordinary course of trading) by North British or by the bank or accepting house under any acceptance credit opened on behalf of and in favour of North British;
- (c) the nominal amount of any share capital and the principal amount of any debentures or other borrowed moneys (not being shares or debentures which are borrowed moneys the indebtedness in respect of which is for the time being beneficially owed by North British or any Subsidiary) the redemption or repayment whereof is guaranteed (or is the subject of an indemnity granted) by North British; and
- (d) any fixed or minimum premium payable on final redemption or repayment of any debentures, share capital or other borrowed moneys falling to be taken into account;

but for the avoidance of doubt excludes the amount of any Social Housing Grant;

“Business Day” means any day other than a Saturday, a Sunday or a public holiday on which banks are generally open for business in London;

“Charged Account” means an account or accounts in either the joint names of the Trustee and North British or in the name of the Trustee alone held with such bank or banks in the United Kingdom as the Trustee may direct or approve in accordance with the provisions of the Trust Deed designated “NBHA – Charged Account” and charged to the Trustee pursuant to the terms of the Trust Deed;

“Closing Date” means 10th June 1998;

“Collection Statement” has the meaning ascribed to that term in Condition 3(B)(b) below;

“Debt Service Reserve” means the aggregate of all amounts from time to time paid to the credit of the Debt Service Reserve Account together with any Permitted Investments at any time representing the same;

“Debt Service Reserve Account” means a sub-account of the Charged Account designated as such in the books of the Trustee;

“Default” means an event within Condition 14(A) below;

“Default Notice” has the meaning ascribed to it in Condition 14(C) below;



“Encumbrance” means any mortgage, pledge, lien, charge, assignment by way of security, hypothecation, security interest or any other agreement or arrangement having the effect of conferring security;

“Expenditure Certificate” has the meaning ascribed to that term in the definition of Annual Expenditure”;

“Extraordinary Resolution” means a resolution of the Bondholders passed in accordance with the provisions relating thereto contained in the Trust Deed;

“Final Redemption Date” means 30th September 2038;

“Further Bonds” means any further sterling denominated secured bonds to be issued by North British in accordance with Condition 8 below ranking *pari passu* in point of security with the Original Bonds whether forming a single series consolidated with the Original Bonds or otherwise or, as the case may be, the amount thereof for the time being issued and outstanding or, as the context may require, a specific portion thereof;

“Gross Annual Income Cover Ratio” means, in relation to an Interest Payment Date and subject to Condition 9(C), the ratio of X to Y where:

X is 100 multiplied by the dividend of the Gross Annual Income Receivable from the Security as at such Interest Payment Date divided by the outstanding nominal amount of the Bonds; and

Y is the figure set out in Column D of Condition 6(A) below opposite such Interest Payment Date multiplied by 2.

“Gross Annual Income Receivable” means at any time when it falls to be determined:

- (i) in relation to Property, the Net Annual Income Receivable thereof adjusted by adding back the amount of any value added tax or Annual Expenditure deducted or for which provision was made in the calculation of such Net Annual Income Receivable;
- (ii) in relation to the Initial Cash, an amount equal to the Gross Annual Income Receivable attributable to the Initial Properties which are not Mortgaged Properties; and
- (iii) in relation to other assets, the Net Annual Income Receivable thereof;

“Gross Annual Income Received” means, in respect of any period of time, the Gross Annual Income Receivable (whether it relates to that period or a time prior to that period) which is actually received (save insofar as it represents value added tax) by North British in that period;

“Gross Redemption Yield” means a yield calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries as reported in the Journal of the Institute of Actuaries, Vol. 105, Part 1, 1978, page 18;

“Group” means North British and its Subsidiaries;

“Holder” has the meaning ascribed thereto in Condition 4(J);

“Housing Corporation” means the body defined as the “Corporation” in section 56(1) of the Housing Act 1996 (as amended from time to time) or, in the event the same ceases to exist, any public sector body which, in the opinion of the Trustee (after consulting with North British), is the successor or otherwise equivalent thereto;

“Income Capture Period” means each and every period of time in respect of which North British is under an obligation to pay the Gross Annual Income Received from the Security (or part thereof) for any period to the credit of the Debt Service Reserve Account pursuant to these Conditions;

“Income Cover Statement” has the meaning ascribed to that term in Condition 3(A)(a) below;

“Index” means the United Kingdom General Index of Retail Prices (for all items) published by the Office for National Statistics or any equivalent or comparable index which in the Trustee’s opinion replaces the same from time to time provided that:

- (i) if at any time the Index shall be changed by the substitution of a new base therefor so that the base of 100 ceases to be the Index for January 1987 or such other date or month as may already have been substituted, then with effect from the date or month as from and including when such substitution takes effect the definition of Index shall be deemed to refer to the new date or month in substitution for January 1987 (or, as the case may be, for such other date or month as may have been substituted) and the definition of Index shall be amended in such manner as in the opinion of the Trustee is most appropriate to implement such change; and
- (ii) any reference to the Index applicable to a particular month shall be construed as a reference to the Index issued two months prior to the relevant month and relating to the month before that second month;

“Initial Cash” means the amount paid to the credit of the Initial Cash Security Account pursuant to Condition 2(C) together with any Permitted Investments at any time representing the same;

“Initial Cash Security Account” means a sub-account of the Charged Account designated as such in the books of the Trustee;

“Initial Debt Service Reserve Payment” means, subject to Condition 6(B)(c), a payment made to the credit of the Debt Service Reserve Account pursuant to Condition 2(B) below;

“Initial Properties” means, subject to Condition 9(B) below, the Properties identified as such in the Trust Deed.

“Interest Payment Date” means each 31st March and 30th September in any year;

“Mortgaged Properties” means the Properties for the time being subject to a first legal mortgage in favour of the Trustee and “Mortgaged Property” shall be construed accordingly;

“Net Annual Income Receivable” means, at any time when it falls to be determined:

- (i) in relation to Mortgaged Property, the amount representing the annual income from such Mortgaged Property then accruing (such income to be annualised where it is not receivable on an annual basis) after deducting any value added tax but before deducting any other taxation and after making proper provision for Annual Expenditure provided that, save as otherwise agreed by the Trustee, no such income shall be attributed to any Mortgaged Property in which North British holds a leasehold interest the term of which expires before the Final Redemption Date;
- (ii) in relation to the Initial Cash, an amount equal to the Net Annual Income Receivable attributable to the Initial Properties which are not Mortgaged Properties; and
- (iii) in relation to other assets, the amount of the annual income accruing therefrom before deducting taxation;

“Net Annual Income Cover Ratio” means, in relation to an Interest Payment Date and subject to Condition 9(C), the ratio of X to Y where:

X is 100 multiplied by the dividend of the Net Annual Income Receivable from the Security as at such Interest Payment Date divided by the outstanding nominal amount of the Bonds; and

Y is the figure set out in Column D of Condition 6(A) below opposite such Interest Payment Date multiplied by 2;

“Original Bonds” means the £100,000,000 6.625 per cent. Secured Bonds 2038 of North British constituted and secured by the Trust Deed or the amount thereof for the time being outstanding or a specific portion thereof, as the case may be;

“outstanding nominal amount of the Bonds” means, at any time, the nominal amount of the Bonds then outstanding (for the avoidance of doubt, such nominal amount to take into account redemptions of the Bonds);

“Payment Guarantee Period” means the period commencing upon the day after the Refinancing Test Date in respect of which the Trustee notifies North British that it has received the items specified at paragraphs (a) and (b) of Condition 7(A) below each in form and substance satisfactory to it and, ending on the date the Bonds are redeemed in full and all interest accrued on the Bonds has been paid in full;

“Payment Guarantee” has the meaning ascribed to that term in Condition 7(A) below;

“Permitted Investments” has the meaning ascribed to it in Condition 5(B) below;

“Property” means any freehold, leasehold or other immovable property situate in England or Wales legal title to which is held by North British and in relation to which, unless agreed otherwise by the Trustee, there shall not have been granted or be outstanding (or have been agreed to be granted) any tenancies or licences which North British would not be permitted to grant (without the consent of the Trustee) under the covenant referred to in Condition 13(iv) below and which comprises in all respects: (a) if the property is unregistered, a fee simple absolute in possession or a lease created by a deed having at the relevant time a term expiring after the Final Redemption Date, or (b) if the property is registered, absolute freehold title or absolute leasehold title having at the relevant time a term expiring after the Final Redemption Date or, in either case, such other quality of title as the Trustee is advised by its solicitors is acceptable, and “Properties” means more than one of them;

“Property Condition Survey” means a written survey prepared by the Surveyors as at a date not more than three months prior to the date such Property Condition Survey is required or is otherwise being relied upon for the purposes of the Trust Deed confirming whether the Mortgaged Properties are as at the date of the report in good and tenantable repair and condition and adequately painted and decorated, with an analysis of the age of the Mortgaged Properties, the expected frequency and date of the last internal (in respect of communal areas only) and external decoration and the estimated remaining life of any major components at the Mortgaged Properties;

“Rating Agents” means Moody’s Investors Service, Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. and any other internationally recognised rating agency which has assigned a solicited rating to the Bonds at the relevant time, in each case for the time being designated by North British with the written consent of the Trustee, and “Rating Agent” shall mean any one of them;

“Rating Agents’ Substitution Conditions” means, in relation to a substitution of one or more Mortgaged Properties, certain conditions specified in the Trust Deed which if met in relation to a Property to be substituted for such Mortgaged Properties, would not cause either of the Rating Agencies to rate the Bonds at less than the then current credit rating of the Bonds;

“Registered Social Landlord” means a person registered with the Housing Corporation pursuant to section 1(2) or section 3 of the Housing Act 1996;

“Repair Sinking Fund Cash” has the meaning ascribed to that term in Condition 11(E) below;

“Required Ratio” means, in relation to each Interest Payment Date listed in Column A below and (i) the Gross Annual Income Cover Ratio, the ratio set out in Column B below opposite such Interest Payment Date, or (ii) the Net Annual Income Cover Ratio, the ratio set out in Column C below opposite such Interest Payment Date:

<i>Column A</i>	<i>Column B</i>	<i>Column C</i>
<i>Interest Payment Date</i>	<i>Gross Annual Income Cover Ratio</i>	<i>Net Annual Income Cover Ratio</i>
31st March 1999	1.36:1	1.11:1
30th September 1999	1.36:1	1.12:1
31st March 2000	1.37:1	1.12:1
30th September 2000	1.38:1	1.13:1
31st March 2001	1.38:1	1.14:1
30th September 2001	1.39:1	1.14:1
31st March 2002	1.40:1	1.15:1
30th September 2002	1.40:1	1.15:1
31st March 2003	1.41:1	1.16:1
30th September 2003	1.42:1	1.16:1
31st March 2004	1.28:1	1.05:1

<i>Column A</i>	<i>Column B</i>	<i>Column C</i>
<i>Interest Payment Date</i>	<i>Gross Annual Income Cover Ratio</i>	<i>Net Annual Income Cover Ratio</i>
30th September 2004	1.29:1	1.06:1
31st March 2005	1.29:1	1.06:1
30th September 2005	1.30:1	1.07:1
31st March 2006	1.31:1	1.07:1
30th September 2006	1.31:1	1.08:1
31st March 2007	1.32:1	1.08:1
30th September 2007	1.33:1	1.09:1
31st March 2008	1.33:1	1.09:1
30th September 2008	1.34:1	1.10:1
31st March 2009	1.35:1	1.10:1
30th September 2009	1.35:1	1.11:1
31st March 2010	1.36:1	1.11:1
30th September 2010	1.37:1	1.12:1
31st March 2011	1.37:1	1.13:1
30th September 2011	1.38:1	1.13:1
31st March 2012	1.39:1	1.14:1
30th September 2012	1.39:1	1.14:1
31st March 2013	1.40:1	1.15:1
30th September 2013	1.41:1	1.15:1
31st March 2014	1.41:1	1.16:1
30th September 2014	1.42:1	1.17:1
31st March 2015	1.43:1	1.17:1
30th September 2015	1.44:1	1.18:1
31st March 2016	1.44:1	1.18:1
30th September 2016	1.45:1	1.19:1
31st March 2017	1.46:1	1.19:1
30th September 2017	1.46:1	1.20:1
31st March 2018	1.47:1	1.20:1
30th September 2018	1.48:1	1.20:1
31st March 2019	1.49:1	1.20:1
30th September 2019	1.49:1	1.20:1
31st March 2020	1.50:1	1.20:1
30th September 2020	1.50:1	1.20:1
31st March 2021	1.50:1	1.20:1
30th September 2021	1.50:1	1.20:1
31st March 2022	1.50:1	1.20:1
30th September 2022	1.50:1	1.20:1
31st March 2023	1.50:1	1.20:1
30th September 2023	1.50:1	1.20:1
31st March 2024	1.50:1	1.20:1
30th September 2024	1.50:1	1.20:1
31st March 2025	1.50:1	1.20:1
30th September 2025	1.50:1	1.20:1
31st March 2026	1.50:1	1.20:1
30th September 2026	1.50:1	1.20:1
31st March 2027	1.50:1	1.20:1
30th September 2027	1.50:1	1.20:1
31st March 2028	1.50:1	1.20:1
30th September 2028	1.50:1	1.20:1
31st March 2029	1.50:1	1.20:1
30th September 2029	1.50:1	1.20:1
31st March 2030	1.50:1	1.20:1
30th September 2030	1.50:1	1.20:1
31st March 2031	1.50:1	1.20:1
30th September 2031	1.50:1	1.20:1
31st March 2032	1.50:1	1.20:1
30th September 2032	1.50:1	1.20:1

<i>Column A</i>	<i>Column B</i>	<i>Column C</i>
<i>Interest Payment Date</i>	<i>Gross Annual Income Cover Ratio</i>	<i>Net Annual Income Cover Ratio</i>
31st March 2033	1.50:1	1.20:1
30th September 2033	1.50:1	1.20:1
31st March 2034	1.50:1	1.20:1
30th September 2034	1.50:1	1.20:1
31st March 2035	1.50:1	1.20:1
30th September 2035	1.50:1	1.20:1
31st March 2036	1.50:1	1.20:1
30th September 2036	1.50:1	1.20:1
31st March 2037	1.50:1	1.20:1
30th September 2037	1.50:1	1.20:1
31st March 2038	1.50:1	1.20:1
30th September 2038	1.50:1	1.20:1

“Rescheduling Event” means any legislation (whether primary or secondary) being adopted or any other governmental directive of whatever type being enacted (i) abolishing or very significantly reducing housing benefit in England and Wales without its replacement by a similar scheme for the provision of support for housing costs providing either revenue or capital support or (ii) the effect of which is, in the opinion of the Trustee, tantamount to such abolition or a very significant reduction in housing benefit, in either case without any such replacement, provided that for this purpose a “very significant reduction” in housing benefit shall be deemed to occur only if the total amount paid by any central or local governmental body or other public sector organisation (together “agencies”) taken together in any calendar year is reduced by more than 85 per cent. of the total amount so paid by such agencies in the preceding calendar year to Registered Social Landlords or their tenants;

“reviewed” by the Auditors, in relation to any statement, means that such statement has been reviewed by the Auditors, who have confirmed that the matters set out therein have been (a) properly extracted from the underlying financial records of North British, (b) correctly calculated and (c) prepared in accordance with the provisions of the Trust Deed;

“Security” means the Debt Service Reserve, the Substituting Cash, the Repair Sinking Fund Cash, the Mortgaged Properties, the Initial Cash and any cash or Permitted Investments charged pursuant to Condition 3(E) below;

“Shortfall Amount” has the meaning attributed to that term in Condition 5(E) below;

“Social Housing Grant” means a grant or subsidy including the value of any land transferred at nil cost or, in the case of land transferred at a reduced monetary consideration, the difference between such land’s value at the time of transfer and the amount of consideration paid (i) under section 18, 20 and/or 21 of the Housing Act 1996 or section 50 of the Housing Act 1988 or any previous equivalent grant or any grant replacing or substituted for such from time to time (ii) from any central government authority, (iii) from a public sector authority as defined in section 573 of the Housing Act 1985 other than a Registered Social Landlord, (iv) from a body falling within sub-section 4(c) or 4(d) of the Housing Act 1985, (v) from a District Health Authority as defined in section 8 of the National Health Services Act 1977 (as amended by the Health Authorities Act 1995), (vi) from a Housing Action Trust within the meaning of the Housing Act 1988 or (vii) being a grant or subsidy which in the opinion of the Auditors is equivalent to any grant or subsidy referred to in any of (i) to (vi) above provided that any such grant or subsidy referred to in (i) to (vii) above is or will be a capital or revenue grant (or has the same characteristics as a capital or revenue grant) ranking, in the event of its becoming repayable, after any Security;

“Subsidiary” means an industrial and provident society or a company which is for the time being a subsidiary (within the meaning of section 15 of the Friendly and Industrial and Provident Societies Act 1968 or section 736 of the Companies Act 1985 or section 60 of the Housing Act 1996) of North British, and “Subsidiaries” means more than one of them;

“Substituting Cash” has the meaning ascribed to that term in Condition 10(B) below;

“Substitution Statement” has the meaning ascribed to that term in Condition 9(A) below;

“Supplemental Debt Service Reserve Payment” means a payment made to the credit of the Debt Service Reserve Account pursuant to Condition 5(E) below;

“Surveyors” means such firm of independent professional surveyors and/or valuers as are nominated by North British and approved from time to time in writing by the Trustee or, in the event of their being unable or unwilling within the time periods specified in the Trust Deed to carry out any action requested of them pursuant to the provisions of the Trust Deed, such other firm of independent professional surveyors as the Trustee may in writing nominate or approve for the purpose (after consultation, where practicable in the opinion of the Trustee, with North British);

“Valuation” means a written valuation addressed to the Trustee made by the Surveyors on the basis of “open market value” as defined in and in accordance with the statement of Assets Valuation Principles and guidance notes as published from time to time by the Assets Valuation Standards Committee of The Royal Institution of Chartered Surveyors or such other fair and reasonable basis as the Trustee shall determine;

“Value” means in relation to Security:

- (i) in the case of cash a determination by the Trustee of the amount thereof for the time being;
- (ii) in the case of Permitted Investments which are listed on the London Stock Exchange, the price thereof (net of accrued interest) based on the middle market quotation therefor most recently published in the London Stock Exchange Daily Official List as at the date of valuation;
- (iii) in the case of Permitted Investments which are not so listed, a valuation thereof as agreed between North British and the Trustee of the market value thereof on the date of determination or, in the absence of such agreement, as determined by an approved bank, as defined by the rules of The Securities and Futures Authority Limited, approved by the Trustee; and
- (iv) in the case of Mortgaged Property, the value ascribed thereto by the most recent Valuation.

“Value Date” means each 31st March and 30th September in each year unless the aggregate Value of the Debt Service Reserve on any Value Date shall be less than 110 per cent. of the aggregate amount required to be paid to the credit of the Debt Service Reserve Account in accordance with Condition 2(B) below on or before such Value Date, in which case the Value Date shall be the last Business Day of each month but only until the next Value Date on 31st March or 30th September, as the case may be; and

“Void Property” means any Mortgaged Property or any part thereof which is lettable as a separate unit which, in each case, is not at the relevant time producing any income as shown by the relevant Income Cover Statement and “Void Properties” means more than one of them.

“Withdrawal Ratio” means (i) in relation to the Gross Annual Income Cover Ratio, up to and including 31st March 2004, 1.67:1, and thereafter 1.50:1; and (ii) in relation to the Net Annual Income Cover Ratio, up to and including 31st March 2004, 1.34:1, and thereafter 1.20:1.

## **2. Security**

### *(A) Security*

The obligations of North British under the Trust Deed will be secured as follows:

- (a) first ranking fixed charges over all cash and Permitted Investments forming part of the Debt Service Reserve;
- (b) first ranking fixed charges over all cash and Permitted Investments forming part of the Initial Cash;
- (c) first ranking legal mortgages over Properties;
- (d) first ranking fixed charges over any cash and Permitted Investments and/or cash forming part of the Substituting Cash or the Repair Sinking Fund Cash; and
- (e) first ranking fixed charges over any Permitted Investments and/or cash charged pursuant to Condition 3(E) below,

all as more particularly described in the Trust Deed and related security documentation and so as to comply with the restrictions and other provisions set out in this Condition 2 and Condition 3 below. The Security will be granted in favour of the Trustee (on behalf of the Bondholders) to secure North British's obligations under the Trust Deed in respect of the Bonds.

*(B) Payments to Debt Service Reserve Account*

North British shall pay to the credit of the Debt Service Reserve Account:

- (a) on the Closing Date, the sum of £6.625 million out of the cash proceeds of the issue of the Original Bonds; and
- (b) on each Interest Payment Date up to and including 30th September 2003, the sum of £75,380.

*(C) Payments to Initial Cash Security Account*

North British shall on the Closing Date pay to the credit of the Initial Cash Security Account the amount of the cash proceeds of the issue of the Original Bonds which is not to be applied in accordance with Condition 2(B)(a) above.

*(D) First Legal Mortgages over the Initial Properties*

North British will be required under the Trust Deed on or before the date falling 18 months (or such longer period (if any) as North British and the Trustee may agree) after the date of the Trust Deed to execute and deliver to the Trustee first legal mortgages over such of the Initial Properties, ranking in priority to all other charges over the Initial Properties, as are required to ensure that after the execution of such legal mortgages, each of the Net Annual Income Cover Ratio and the Gross Annual Income Cover Ratio is at least equal to the Required Ratio as at the immediately succeeding Interest Payment Date. Upon North British charging one or more Initial Properties by way of first legal mortgage in favour of the Trustee in accordance with the provisions of this Condition and delivering to the Trustee a written statement prepared by North British which shall (a) be reviewed by the Auditors, (b) be addressed to the Trustee, (c) be dated not more than three calendar months prior to the giving of that first legal mortgage, and (d) set out details of the Net Annual Income Receivable and the Gross Annual Income Receivable from such Initial Properties then being mortgaged and all existing Mortgaged Properties (if any) the Trustee shall release to North British:

- (i) an amount of Initial Cash which is equal to the lesser of C1 and C2 where:
  - (a) C1 equals the amount of Initial Cash which has a Net Annual Income Receivable equal to the Net Annual Income Receivable set out in the relevant statement less the aggregate amount of Initial Cash previously released to North British pursuant to this Condition 2(D); and
  - (b) C2 equals the amount of Initial Cash which has a Gross Annual Income Receivable equal to the Gross Annual Income Receivable set out in the relevant statement less the aggregate amount of Initial Cash previously released to North British pursuant to this Condition 2(D); and
- (ii) the income earned on such amount of Initial Cash from the Closing Date.

**3. Minimum Income Cover**

*(A) Income Cover Statement*

- (a) North British shall, within twenty-eight days of each Interest Payment Date (or within fourteen days of each Interest Payment Date occurring during an Income Capture Period), deliver to the Trustee a written statement (an "Income Cover Statement") prepared by North British and addressed to the Trustee which sets out the Net Annual Income Receivable and Gross Annual Income Receivable from the Security as at such Interest Payment Date and confirms whether or not as at such Interest Payment Date the Net Annual Income Cover Ratio and the Gross Annual Income Cover Ratio are at least equal to the respective Required Ratios. Such statement shall, unless there are no Mortgaged Properties, also set out the Gross Annual Income Received during the period of 12 months ending on such Interest Payment Date, insofar as it relates to the Mortgaged Properties and identify the level of Void Properties (if any).

- (b) North British shall procure that in respect of any Interest Payment Date which is 30th September, the Income Cover Statement shall be reviewed by the Auditors.

(B) *Income Capture*

- (a) If in relation to an Interest Payment Date the relevant Income Cover Statement shows that:
- (i) the Net Annual Income Cover Ratio is less than the Required Ratio; or
  - (ii) the Gross Annual Income Cover Ratio is less than the Required Ratio; or
  - (iii) (1) the Gross Annual Income Received from the Mortgaged Properties in the period of 12 months ending on such Interest Payment Date is less than 90 per cent. of the Gross Annual Income Receivable from such Mortgaged Properties; and
  - (2) either of the Gross Annual Income Cover Ratio and the Net Annual Income Cover Ratio is less than the Withdrawal Ratio,

subject to Condition 3(B)(c) below, the Gross Annual Income Received from the Security shall thereafter (to the extent it is not already so paid) be paid by North British to the credit of the Debt Service Reserve Account in accordance with Condition 3(C) below.

- (b) If, in relation to an Interest Payment Date, the relevant Income Cover Statement shows that the Gross Annual Income Received from the Mortgaged Properties in the period of 12 months ending on such Interest Payment Date is such that the Gross Annual Income Cover Ratio would be less than 0.95 multiplied by the Required Ratio if the definition of Gross Annual Income Cover Ratio were amended by replacing the reference to "Gross Annual Income Receivable from the Security as at such Interest Payment Date" with a reference to "Gross Annual Income Received from the Mortgaged Properties in the period of 12 months ending on such Interest Payment Date" (the Gross Annual Income Cover Ratio as so amended being hereafter referred to as the "Gross Property Income Received Cover Ratio"), North British shall within eight weeks of that Interest Payment Date deliver to the Trustee a written statement (a "Collection Statement") setting out the amount of any Gross Annual Income Received from the Mortgaged Properties in the period of six weeks immediately following such Interest Payment Date which represents Gross Annual Income Receivable from the Mortgaged Properties in the period of 12 months ending on such Interest Payment Date. If, on the basis that any Gross Annual Income Received from the Mortgaged Properties set out in the Collection Statement is deemed to be included within the Gross Annual Income Received from the Mortgaged Properties in the period of 12 months ending on such Interest Payment Date, following the delivery of the relevant Collection Statement, the Gross Annual Income Received from the Mortgaged Properties for such period is such that the Gross Property Income Received Cover Ratio would be less than 0.95 multiplied by the Required Ratio the Gross Annual Income Received from the Security shall thereafter (to the extent it is not already so paid) be paid by North British to the credit of the Debt Service Reserve Account in accordance with Condition 3(C) below.
- (c) If, in relation to an Interest Payment Date, the relevant Income Cover Statement shows that either the Net Annual Income Cover Ratio or the Gross Annual Income Cover Ratio is less than the Required Ratio, North British may, if the Trustee so agrees, within the period of 30 days following the delivery to the Trustee of such Income Cover Statement charge by way of first legal mortgage in favour of the Trustee and to its satisfaction Property (the "Additional Property") so as to form part of the Security and shall, within the said period deliver to the Trustee a written statement (a "Supplemental Income Statement") setting out the Net Annual Income Receivable and the Gross Annual Income Receivable attributable to the Additional Property. In such event, if on the basis of the relevant Income Cover Statement and the Supplemental Income Statement in relation to the relevant Interest Payment Date, the Net Annual Income Cover Ratio and the Gross Annual Income Cover Ratio are both not less than the Required Ratio (on the basis that the Additional Property is assumed to have become part of the Mortgaged Properties on such Interest Payment Date) North British shall not, in respect of such Interest Payment Date, be under any obligation to pay the Gross Annual Income Received from the Security to the credit of the Debt Service Reserve Account in accordance with Condition 3(B)(a) above.



- (d) In the event that, in relation to an Interest Payment Date, the Trustee agrees to North British charging Property pursuant to Condition 3(B)(c) above, for the said period of 30 days any obligation under Condition 3(B)(a) above in respect of that Interest Payment Date to pay the Gross Annual Income Received from the Security to the Debt Service Reserve Account shall be suspended. In such event, if the said obligation is not terminated pursuant to Condition 3(B)(c) above, it shall cease to be suspended after the expiry of such period and North British shall immediately make the payments to the Debt Service Reserve Account it would otherwise have been required to make in that period pursuant to Condition 3(C) below.

*(C) Payment of Gross Annual Income Received*

If, in relation to an Interest Payment Date, there is a requirement on North British under Condition 3(B) above to pay the Gross Annual Income Received from the Security to the credit of the Debt Service Reserve Account (to the extent it is not already being so paid), within 10 Business Days of the end of each month North British shall pay an amount equal to the Gross Annual Income Received from the Security in such month to the credit of the Debt Service Reserve Account (to the extent it is not already being so paid). In such circumstances, North British shall so pay such Gross Annual Income Received until such Interest Payment Date in respect of which the Trustee is satisfied that in relation to the three immediately succeeding Interest Payment Dates there would be no further requirement under Condition 3(B) above to so pay such Gross Annual Income Received in which case provided that the Trustee is satisfied that (i) no Default Notice shall have been issued in accordance with Condition 14(C) below, (ii) the proportion of the Gross Annual Income Receivable from the Mortgaged Properties that is attributable to service charges does not exceed 12½ per cent. of the said Gross Annual Income Receivable and (iii) no other Income Capture Period exists, within 10 days of such Interest Payment Date the Trustee shall release from the Debt Service Reserve and release to North British an amount equal to lesser of:

- (a) the said Gross Annual Income Received so paid by it in accordance with Condition 3(B) above together with any income accrued thereon (if not already released in accordance with Condition 5(D) below); and
- (b) such amount as is equal to the amount by which (1) the Value of the Debt Service Reserve as at such Interest Payment Date exceeds (2) the aggregate amount of Initial Debt Service Reserve Payments required to have been made pursuant to Condition 2(B) above on or prior to such Interest Payment Date and the aggregate of all amounts paid to the credit of the Debt Service Reserve Account pursuant to these Conditions (other than Conditions 2(B) and 3(B) above) (to the extent not released from the Debt Service Reserve pursuant to any other Condition) together with all income accrued thereon to the extent it has not been released from the Debt Service Reserve in accordance with these Conditions.

*(D) Void Properties and Income Capture Periods*

- (a) If, during any Income Capture Period, in relation to any Interest Payment Date the Gross Annual Income Receivable last attributable to Void Properties which are unlet on such Interest Payment Date and have been unlet for a period of three months or more, is greater than 5 per cent. of the Gross Annual Income Receivable from the Security at such date, North British shall within three months of such Interest Payment Date either substitute for such Void Properties other Property (subject to compliance with Condition 9(A) below) or dispose of such number of such Void Properties (on terms satisfactory to the Trustee) as is necessary to ensure that the Gross Annual Income Receivable last attributable to the remaining Void Properties (after such disposal) on the relevant Interest Payment Date is less than 5 per cent. of the Gross Annual Income Receivable from the Security at such date on the basis that the Gross Annual Income Receivable from other Property substituted for Void Properties is taken into account. The net proceeds of any disposal of Void Properties pursuant to this Condition 3(D)(a) shall be paid to the credit of the Debt Service Reserve Account.
- (b) If, following a payment being made to the credit of the Debt Service Reserve Account pursuant to Condition 3(D)(a) above, on any Interest Payment Date, the Trustee is satisfied that:
- (i) a Default Notice has not been served in accordance with Condition 14(C) below and no Income Capture Period then exists; and

- (ii) the Gross Annual Income Receivable last attributable to Void Properties which North British has failed to relet for a period of three months or more is less than 5 per cent. of the Gross Annual Income Receivable from the Security at that date, the Trustee shall release from the Debt Service Reserve an amount equal to the lesser of:
  - (1) the aggregate amount paid to the credit of the Debt Service Reserve Account pursuant to Condition 3(D)(a) above (to the extent not already released pursuant to this Condition 3(D)(b)) together with any income accrued thereon (if not already released pursuant to Condition 5(D)below); and
  - (2) such amount as is equal to the amount by which (x) the Value of the Debt Service Reserve exceeds (y) the aggregate amount of Initial Debt Service Reserve Payments required to have been made pursuant to Condition 2(B) above on or prior to the date of release and all amounts paid to the credit of the Debt Service Reserve Account pursuant to these Conditions (other than Conditions 2(B) and 3(B) above) (to the extent not released from the Debt Service Reserve pursuant to any other Condition) together with all income accrued thereon to the extent it has not been released from the Debt Service Reserve in accordance with these Conditions.

*(E) Additional Security Required*

If, as shown by the relevant Income Cover Statement, the Gross Annual Income Received from the Mortgaged Properties for any six month period ending on an Interest Payment Date (a "Rent Period") when aggregated with the income from any cash, debt securities or investments previously charged under this Condition 3(E) accrued during such Rent Period is less than, 90 per cent. of one half of the Gross Annual Income Receivable from the Mortgaged Properties for the twelve month period ending on such Interest Payment Date, North British shall, within the period of six weeks that immediately follows the end of such Rent Period:

- (i) execute first legal mortgages over one or more Properties (the "Additional Properties") and deliver the same to the Trustee together with a written statement setting out the Gross Annual Income Received from such Properties for the Rent Period and the Gross Annual Income Receivable from such Properties relating to the said twelve month period; and/or
- (ii) pay to the Trustee cash and/or deliver to the Trustee Permitted Investments and, in any event, execute and deliver to the Trustee first fixed charges over the same (together with a written statement setting out the annual income attributable to such cash and Permitted Investments being in the case of cash, the rate per annum at which at least two or more clearing banks pay interest on a six month deposit of the amount of such cash and in the case of Permitted Investments the annual income accruing on the same (the aggregate annual income attributable to such cash and Permitted Investments being herein referred to as the "Deemed Annual Income Amount"),

such that if the Additional Properties had formed part of the Mortgaged Properties during such Rent Period the Gross Annual Income Received from the Mortgaged Properties for the Rent Period and the period of six weeks that immediately follows the end of such Rent Period (as shown by a further written statement delivered to the Trustee) when aggregated with one half of the Deemed Annual Income Amount would have been at least equal to 90 per cent. of one half of the Gross Annual Income Receivable from the Mortgaged Properties (excluding, for the avoidance of doubt, the Additional Properties) for the said twelve month period (as shown by the relevant Income Cover Statement and the said written statements).

**4. Interest and Payments**

*(A) Interest Rate*

The Bonds will carry interest at the rate of 6.625 per cent. per annum payable in arrear by half-yearly instalments on each Interest Payment Date. Interest will be paid on the then outstanding nominal amount of the Bonds on each Interest Payment Date and will be the amount per £100 outstanding nominal amount of the Bonds set out in the Column C of Condition 6(A) below in respect of such Interest Payment Date.

(B) *Calculations*

- (a) If interest is required to be calculated for any period other than that from one Interest Payment Date (or the Closing Date) to the next Interest Payment Date, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed; and
- (b) Any amount calculated in accordance with these Conditions shall be rounded up (if not already such a multiple) to the nearest multiple of £0.01.

(C) *Default Interest*

Each Bond and Coupon will cease to bear interest from the due date for redemption unless, upon due presentation, payment thereof is improperly withheld or refused, in which case it will thereafter bear interest from time to time equal to the rate payable on the Bonds from time to time (as set out in the table set out in Condition 6 below) or, if none, at the rate payable on the Bonds immediately prior to the final Interest Payment Date (as well after as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant Bondholder and (b) the day which is seven days after the Trustee or the Principal Paying Agent has notified the Bondholders that it has received all sums due in respect of the Bonds up to such seventh day (except to the extent that there is any subsequent default in payment).

(D) *Payments only against presentation*

Payments in respect of the Bonds will be made only against:

- (a) in relation to payments of interest, presentation and surrender of the appropriate Coupons; and
- (b) in the case of final redemption (provided that payment is made in full) surrender of the relevant Bonds

at the specified office of any Paying Agent outside the United States by sterling cheque drawn on, or by transfer to a sterling account maintained by the payee with, a bank in London.

(E) *Payments subject to fiscal laws*

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 4(J). No commissions or expenses shall be charged to the Bondholders or Couponholders in respect of such payments.

(F) *Unmatured Coupons and Talons Void*

On the early redemption in full of any Bond, all unmaturing Coupons and Talons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(G) *Payments on Business Days*

If the due date for payment of any amount in respect of any Bond is not a business day, the Holder shall not be entitled to payment in such place of the amount due until the next following business day and shall not be entitled to any further interest or other payment (in respect of any such delay). In this Condition, "business day" means any day (other than a Saturday or Sunday) on which banks are open for business in the City of London and in the relevant place of presentation.

(H) *Payments otherwise than against surrender of Coupons*

If a Paying Agent makes a payment in respect of any Bond in circumstances where no Coupon is surrendered, such Paying Agent will endorse on such Bond a statement indicating the amount and date of such payment.

(I) *Exchange of Talons*

On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Bonds (each a "Coupon Sheet"), the Talon forming part of such Coupon Sheet may be exchanged at the specified office of the Principal Paying Agent for a further Coupon Sheet

(excluding any Coupons in respect of which claims have already become void pursuant to Condition 23). Upon the due date for redemption of any Bond any non-exchanged Talon relating to such Bond shall become void and no Coupon will be delivered in respect of such Talon.

*(J) Taxation*

All payments of principal and interest in respect of the Bonds by North British shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or in the United Kingdom or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event North British shall pay such additional amounts as will result in the receipt by the Bondholders and the Couponholders (each a "Holder") of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Bond or Coupon presented for payment:

- (a) by or on behalf of a Holder in circumstances where such payment would not be subject to such withholding or deduction if the Holder had made a declaration of nonresidence or other similar claim for exemption to the relevant tax authority;
- (b) in the United Kingdom unless there is no Paying Agent outside the United Kingdom; or
- (c) more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had presented such Bond or the relevant Coupon for payment on the last day of such period of 30 days.

In this Condition 4, "Relevant Date" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Principal Paying Agent or the Trustee on or prior to such date, the date on which (the full amount having been so received) notice to that effect has been given to the Bondholders.

Any references in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition or under any obligations undertaken in addition thereto or in substitution therefor pursuant to the Trust Deed.

**5. Debt Service Reserve and other charged cash**

*(A) Payments and Deposit of Investments*

- (a) Each payment or deposit of investments to be made by North British pursuant to these Conditions to form part of the Security shall be paid or made free from all Encumbrances (save for floating charges) and shall thereupon forthwith be charged by North British by way of first fixed charge in favour, and to the satisfaction, of the Trustee;
- (b) Each payment to be made by North British pursuant to these Conditions to form part of the Security shall be paid to the credit of the Charged Account.

*(B) Permitted Investments*

Unless and until a Default Notice shall have been issued in accordance with Condition 14(C) below, any cash or investments forming part of the Security shall, if North British so directs, be applied in the purchase of investments or in the placing of cash deposits held, to the extent appropriate, in the joint names of the Trustee and North British (together the "Permitted Investments") in which North British is permitted under its constitution to invest and which satisfy the following criteria (and which shall be subject to the security constituted by or pursuant to the Trust Deed):

- (i) in relation to all or any part of the Initial Cash and cash charged pursuant to Condition 3(E) above, investments or deposits having a maturity of not more than six months from the date of investment or deposit and in the case of the Initial Cash maturing on or before the date falling 18 months after the date of the Trust Deed (or such other date as the Trustee may approve) and in respect of investments with a short-term credit rating from the Rating Agents of A1+/P-1 (or equivalent) or which would not otherwise adversely affect the then current rating of the Bonds and in respect of cash deposits held with an institution whose short-term unsecured debt is rated at least A1+/P-1 (or its equivalent) by the Rating Agents or which would not otherwise adversely affect the then current rating of the Bonds; and

- (ii) in relation to amounts forming part of the Debt Service Reserve, Substituting Cash or Repair Sinking Fund Cash, debt securities issued by the Government of the United Kingdom or investments confirmed by the Rating Agents as not adversely affecting the rating of the Bonds.

The Trustee shall have the right at any time and without reference to North British to hold, or convert any of the Permitted Investments into, cash where North British has failed to make any payment on its due date (ignoring any grace period for this purpose).

*(C) Application of Debt Service Reserve*

The Debt Service Reserve shall be held and retained by the Trustee as security for the payment of the principal amount of the Bonds and premium (if any) and all interest thereon and all other moneys payable under or pursuant to the Trust Deed in relation to the Bonds and shall, subject as provided in the Trust Deed, be applied for the following purposes:

- (i) in the payment of all costs, charges, expenses and liabilities incurred by the Trustee and of all remuneration payable to the Trustee;
- (ii) in the payment of interest on the outstanding nominal amount of the Bonds falling due for payment at any time where such application is required to enable or assist North British in meeting its obligations to pay all interest falling due for payment on the Bonds in accordance with Condition 4 above; and
- (iii) in the repayment of any principal amount and premium (if any) of the Bonds falling due for payment at any time where such application is required to enable or assist North British in meeting its obligations to repay the Bonds in accordance with Condition 6(A) below.

*(D) Income from Debt Service Reserve*

- (a) Unless and until a Default Notice shall have been issued in accordance with Condition 14(C) below and for so long as an Income Capture Period does not exist, all income from the Debt Service Reserve (other than any income attributable to Initial Debt Service Reserve Payments) shall, subject to the Net Annual Income Cover Ratio and the Gross Annual Income Cover Ratio from the Security each continuing to be at least equal to the relevant Required Ratio as required by these Conditions, to the satisfaction of the Trustee, be paid to North British free of the security created under the Trust Deed.
- (b) Income in relation to Initial Debt Service Reserve Payments shall not be paid out to North British except in accordance with Condition 5(E) below.

*(E) Income in Relation to Initial Debt Service Reserve Payments and Valuations*

- (a) The Trustee shall cause the Value of the Debt Service Reserve insofar as it relates to Initial Debt Service Reserve Payments and Supplemental Debt Service Reserve Payments to be determined on each Value Date and shall notify North British of the results of such determination within 7 days of such date.
- (b) If the Value of the Debt Service Reserve insofar as it relates to Initial Debt Service Reserve Payments and Supplemental Debt Service Reserve Payments on any Value Date is less than the aggregate amount of Initial Debt Service Reserve Payments required to have been made pursuant to Condition 2(B) above on or before such date (the difference being herein referred to as the "Shortfall Amount"), North British shall within 21 days of the Value Date pay to the credit of the Debt Service Account an amount equal to the Shortfall Amount.
- (c) If the Trustee shall be satisfied that the Value of the aggregate of the Debt Service Reserve insofar as it relates to Initial Debt Service Reserve Payments and Supplemental Debt Service Reserve Payments on any Value Date exceeds the aggregate amount of Initial Debt Service Reserve Payments required to have been made pursuant to Condition 2(B) above on or before such date there shall, unless and until a Default Notice shall have been issued in accordance with Condition 14(C) below and for so long as an Income Capture Period does not exist, be released as soon as reasonably practicable to North British (following a request by North British to the Trustee) free of the security created under the Trust Deed, an amount not exceeding the amount of such excess.

## 6. Redemption and purchase of Bonds

### (A) Scheduled Redemption

Subject to Conditions 6(B), (C) and (D) below, the Bonds will be redeemed on each Interest Payment Date commencing with the Interest Payment Date falling on 31st March 2004 in the amount per £100 outstanding nominal amount of the Bonds set out opposite such Interest Payment Date in Column B in the table below.

<i>Column A</i> Interest Payment Date	<i>Column B</i> Principal amount to be redeemed (£)	<i>Column C</i> Interest Payment (£)	<i>Column D</i> Total Payment (£)
31st March 1999	nil	5.3368	5.3368
30th September 1999	nil	3.3125	3.3125
31st March 2000	nil	3.3125	3.3125
30th September 2000	nil	3.3125	3.3125
31st March 2001	nil	3.3125	3.3125
30th September 2001	nil	3.3125	3.3125
31st March 2002	nil	3.3125	3.3125
30th September 2002	nil	3.3125	3.3125
31st March 2003	nil	3.3125	3.3125
30th September 2003	nil	3.3125	3.3125
31st March 2004	0.3769	3.3125	3.6894
30th September 2004	0.3894	3.3000	3.6894
31st March 2005	0.4023	3.2871	3.6894
30th September 2005	0.4156	3.2738	3.6894
31st March 2006	0.4294	3.2600	3.6894
30th September 2006	0.4436	3.2458	3.6894
31st March 2007	0.4583	3.2311	3.6894
30th September 2007	0.4735	3.2159	3.6894
31st March 2008	0.4892	3.2002	3.6894
30th September 2008	0.5054	3.1840	3.6894
31st March 2009	0.5221	3.1673	3.6894
30th September 2009	0.5394	3.1500	3.6894
31st March 2010	0.5573	3.1321	3.6894
30th September 2010	0.5757	3.1137	3.6894
31st March 2011	0.5948	3.0946	3.6894
30th September 2011	0.6145	3.0749	3.6894
31st March 2012	0.6349	3.0545	3.6894
30th September 2012	0.6559	3.0335	3.6894
31st March 2013	0.6776	3.0118	3.6894
30th September 2013	0.7001	2.9893	3.6894
31st March 2014	0.7233	2.9661	3.6894
30th September 2014	0.7472	2.9422	3.6894
31st March 2015	0.7720	2.9174	3.6894
30th September 2015	0.7975	2.8919	3.6894
31st March 2016	0.8240	2.8654	3.6894
30th September 2016	0.8512	2.8382	3.6894
31st March 2017	0.8794	2.8100	3.6894
30th September 2017	0.9086	2.7808	3.6894
31st March 2018	0.9387	2.7507	3.6894
30th September 2018	0.9698	2.7196	3.6894
31st March 2019	1.0019	2.6875	3.6894
30th September 2019	1.0351	2.6543	3.6894
31st March 2020	1.0694	2.6200	3.6894
30th September 2020	1.1048	2.5846	3.6894
31st March 2021	1.1414	2.5480	3.6894
30th September 2021	1.1792	2.5102	3.6894
31st March 2022	1.2183	2.4711	3.6894
30th September 2022	1.2586	2.4308	3.6894
31st March 2023	1.3003	2.3891	3.6894

<i>Column A</i> <i>Interest Payment Date</i>	<i>Column B</i> <i>Principal amount to be redeemed (£)</i>	<i>Column C</i> <i>Interest Payment (£)</i>	<i>Column D</i> <i>Total Payment (£)</i>
30th September 2023	1.3434	2.3460	3.6894
31st March 2024	1.3879	2.3015	3.6894
30th September 2024	1.4338	2.2556	3.6894
31st March 2025	1.4813	2.2081	3.6894
30th September 2025	1.5304	2.1590	3.6894
31st March 2026	1.5811	2.1083	3.6894
30th September 2026	1.6335	2.0559	3.6894
31st March 2027	1.6876	2.0018	3.6894
30th September 2027	1.7435	1.9459	3.6894
31st March 2028	1.8012	1.8882	3.6894
30th September 2028	1.8609	1.8285	3.6894
31st March 2029	1.9226	1.7668	3.6894
30th September 2029	1.9862	1.7032	3.6894
31st March 2030	2.0520	1.6374	3.6894
30th September 2030	2.1200	1.5694	3.6894
31st March 2031	2.1902	1.4992	3.6894
30th September 2031	2.2628	1.4266	3.6894
31st March 2032	2.3377	1.3517	3.6894
30th September 2032	2.4152	1.2742	3.6894
31st March 2033	2.4952	1.1942	3.6894
30th September 2033	2.5778	1.1116	3.6894
31st March 2034	2.6632	1.0262	3.6894
30th September 2034	2.7514	0.9380	3.6894
31st March 2035	2.8426	0.8468	3.6894
30th September 2035	2.9367	0.7527	3.6894
31st March 2036	3.0340	0.6554	3.6894
30th September 2036	3.1345	0.5549	3.6894
31st March 2037	3.2383	0.4511	3.6894
30th September 2037	3.3456	0.3438	3.6894
31st March 2038	3.4564	0.2330	3.6894
30th September 2038	3.5764	0.1185	3.6949

(B) *Purchase*

- (a) North British may at any time purchase Bonds on The London Stock Exchange Limited or by tender (available to all Bondholders alike) or by private treaty at any price. Such purchases shall comply with the applicable requirements (if any) of The London Stock Exchange Limited.
- (b) Following any such purchase of Bonds, the Trustee shall, unless and until a Default Notice shall have been issued in accordance with Condition 14(C) below and for so long as an Income Capture Period does not exist, upon the written request of North British, release to North British from the Debt Service Reserve such amount as will, after such release, result in the amount standing to the credit of the Debt Service Reserve having a Value of not less than the aggregate amount of Initial Debt Service Reserve Payments required to have been made pursuant to Condition 2(B) above on or prior to the date of release (but as reduced pursuant to Condition 6(B)(c) below) and the aggregate of all amounts paid to the Debt Service Reserve Account pursuant to these Conditions (other than Condition 2(B) above) (to the extent not released from the Debt Service Reserve pursuant to any other Condition) together with all income accrued thereon to the extent it has not been released from the Debt Service Reserve in accordance with these Conditions.
- (c) On any purchase of Bonds pursuant to this Condition 6(B), the Initial Debt Service Reserve Payments required to be or to have been made pursuant to Condition 2(B) shall, for all purposes be reduced by the proportion thereof that the outstanding nominal amount of the Bonds so purchased bears to the outstanding nominal amount of the Bonds at such time.

(C) *Early Redemption*

- (a) North British may, at any time before the Final Redemption Date, having given not less than 45 nor more than 60 days' notice in writing to the holders of the Bonds, redeem the whole but not some only of the Bonds, together with interest accrued up to and including the date of redemption, at a price which shall be the higher of the following:
- (i) the outstanding nominal amount of the Bonds; and
  - (ii) that price (as reported to North British and the Trustee by a leading broker and/or primary dealer operating in the gilt-edged market approved by the Trustee) expressed as a percentage and rounded up to four decimal places at which the Gross Redemption Yield on the Bonds on the Relevant Date (as defined below) is equal to the Gross Redemption Yield at 3.00 p.m. on that date of 8 per cent. Treasury Stock 2021 while that stock is in issue, and thereafter such government stock as the Trustee, with the advice of two leading brokers and/or primary dealers operating in the gilt-edged market approved by the Trustee, may agree to be most nearly equivalent to the aforementioned Treasury Stock.

For the purposes of this Condition 6(C)(a), "Relevant Date" means the date which is the second Business Day prior to the despatch of the notice referred to in this Condition 6(C)(a).

- (b) North British may, on the Interest Payment Date falling on 30th September 2033, having given not less than 60 days' notice in writing to the holders of the Bonds, redeem the whole but not some only of the Bonds, together with interest accrued up to and including the date of redemption, at a price equal to the outstanding nominal amount of the Bonds.

(D) *Redemption for tax reasons*

If North British satisfies the Trustee immediately before the giving of the notice referred to below that, as a result of any change in, or amendment to, the laws or regulations of, or applicable in, the United Kingdom or any political sub-division of, or any authority in, or of, the United Kingdom having power to tax, or any change in the application or official interpretation of such laws or regulations on the occasion of the next payment due in respect of the Bonds, North British would be required to pay additional amounts as provided or referred to in Condition 4(J) above (disregarding the exceptions thereto in sub-paragraphs (a) to (c) thereof), North British may at its option, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 25 (which notice shall be irrevocable), redeem all, but not some only, of the Bonds in each case at their nominal amount together with interest accrued to, but excluding, the date of redemption, provided that (1) no notice of redemption shall be given earlier than 90 days before the earliest date on which North British would be required to pay the additional amounts were a payment in respect of the Bonds then due and (2) no such notice may be given if North British has already given a notice pursuant to Condition 6(C) above.

(E) *Cancellation*

Any Bonds purchased by North British or redeemed in whole will be cancelled and will not be available for reissue or resale.

(F) *Rescheduling Event*

- (a) If a Rescheduling Event shall occur, the Gross Annual Income Received from the Security shall thereafter, subject to Condition 6(F)(b) below, be paid by North British to the credit of the Debt Service Reserve Account (to the extent it is not already being so paid).
- (b) If a Rescheduling Event occurs, North British shall have the right to call a meeting of the Bondholders who will have the power to direct by Extraordinary Resolution that the provisions of Condition 6(F)(a) above shall not apply, in which event they shall not apply and North British shall thereafter not be obliged to pay the Gross Annual Income Received from the Security to the credit of the Debt Service Reserve Account in accordance with Condition 6(F)(a) above. Such meeting of the Bondholders may also direct the Trustee to release from the Debt Service Reserve (and if so instructed, the Trustee will release) to North British an amount equal to the lesser of:



- (i) the amount of Gross Annual Income Received from the Security in respect of any period paid to the credit of the Debt Service Reserve Account pursuant to Condition 6(F)(a) above together with any income accrued thereon (if not already released in accordance with Condition 5(D) above); and
  - (ii) such amount as is equal to the difference between (1) the Value of the Debt Service Reserve and (2) the aggregate amount of Initial Debt Service Reserve Payments required to have been made pursuant to Condition 2(B) above on or prior to the date of release and the aggregate of all amounts paid to the credit of the Debt Service Reserve Account pursuant to these Conditions (other than Condition 2(B) above and this Condition 6(F)) (to the extent not released from the Debt Service Reserve pursuant to any other Condition) together with all income accrued thereon to the extent it has not been released from the Debt Service Reserve in accordance with these Conditions.
- (c) If there is a requirement on North British under Condition 6(F)(a) above or Condition 11(C) below to pay the Gross Annual Income Received from the Security to the credit of the Debt Service Reserve Account, within 10 Business Days of the end of each month, North British shall pay an amount equal to the Gross Annual Income Received from the Security in such month to the credit of the Debt Service Reserve Account (to the extent it is not already so paid).

## 7. **Authorised Institution Guarantee**

### (A) *Authorised Institution Guarantee*

On giving the Trustee not less than 90 days' notice (or such lesser period as the Trustee may agree), North British may procure that the Trustee is, at least 5 Business Days prior to an Interest Payment Date being a 30th September falling on or after 30th September 2025 (the "Proposed Guarantee Start Date") (as defined below), provided with (in form and substance reasonably satisfactory to the Trustee and the Rating Agencies):

- (a) a guarantee (or other form of assurance) (a "Payment Guarantee") which:
  - (i) is given and duly executed by an Authorised Institution;
  - (ii) takes effect as and from the day after the Proposed Guarantee Start Date;
  - (iii) unconditionally guarantees (or assures) all redemptions of the Bonds falling due after the Guarantee Start Date and the payment of all interest on the Bonds accruing after the Guarantee Start Date; and
  - (iv) is given to the Trustee for the benefit of the Bondholders and the Couponholders; and
- (b) a written statement from North British which states that immediately after the Proposed Guarantee Start Date the Value of the Mortgaged Properties is not less than 150 per cent. of the outstanding nominal amount of the Bonds.

On receiving the items specified at (a) and (b) above in form and substance satisfactory to it, the Trustee shall notify North British.

### (B) *Release of Security*

Within 45 days of the commencement of a Payment Guarantee Period, the Trustee shall, so long as no Default is outstanding, release to North British free of the security created by or pursuant to the Trust Deed:

- (a) the Debt Service Reserve; and
- (b) a number of the Mortgaged Properties such that the Trustee is satisfied that immediately after such release:
  - (i) the Mortgaged Properties as a whole will be substantially similar to the Mortgaged Properties as a whole immediately prior to such release in relation to condition, size, tenancy type and rent level;

- (ii) North British is in compliance with the covenants set out in Conditions 12 and 13 below; and
- (iii) the Value of the Mortgaged Properties is not less than 150 per cent. of the outstanding nominal amount of the Bonds.

(C) *Non-application of Cover Tests and related provisions*

During a Payment Guarantee Period:

- (i) Conditions 3, 5, 6(F), 9, 10 and 11 shall no longer apply, and North British and the Trustee shall have no obligations or rights under the said Conditions; and
- (ii) North British shall have the right to withdraw Property from the Security in satisfaction of any statutory right of a tenant to buy such Property or where grant is provided to North British pursuant to Section 20 or Section 21 of the Housing Act 1996 in respect of any disposal to a tenant (or any similar statutory provision).

(D) *Obligation to restore asset cover*

If, during a Payment Guarantee Period, in respect of an Interest Payment Date, the Value of the Mortgaged Properties is less than 150 per cent. of the outstanding nominal amount of the Bonds, North British shall, within 60 days of such Interest Payment Date charge by way of first legal mortgage further Properties such that the Value of the Mortgaged Properties is not less than 150 per cent. of the outstanding nominal amount of the Bonds.

(E) *Limitation*

North British may only exercise its rights under Condition 7(A) above once.

## 8. Further Bonds

Power will be reserved to North British without the consent of the Trustee from time to time to create and issue Further Bonds ranking *pari passu* in point of security with the Original Bonds and carrying such rights and on such terms (without limitation) as North British may determine, including Further Bonds carrying the same rights in all respects (or in all respects save for the first payment of interest thereon) as the Original Bonds and forming a single series therewith provided that in such case North British charges by way of first legal mortgage and/or by way of fixed charge in favour of the Trustee and to its satisfaction other Property and/or cash so as to form part of the Security and provided further that North British delivers to the Trustee a written statement reviewed by the Auditors which demonstrates that, immediately upon issuing such Further Bonds, the Gross Annual Income Cover Ratio and the Net Annual Income Cover Ratio are each at least equal to the Required Ratio and provided further that the Rating Agents shall have confirmed that their credit rating of the Original Bonds will be unchanged as a result of the issue of such Further Bonds. In the case of each such issue, the Further Bonds shall be constituted and secured by a deed supplemental to the Trust Deed (in such form as the Trustee may approve).

## 9. Mortgaged Property – Substitution

(A) *General Substitution Right*

- (a) Subject to Condition 9(A)(b) below, North British may withdraw from the Security any or all of the Mortgaged Property upon charging by way of first legal mortgage in favour of the Trustee and to its satisfaction other Property so as to form part of the Security and upon providing to the Trustee and the Rating Agents a written statement (a “Substitution Statement”), dated not more than three calendar months prior to the creation of such legal mortgage, of the Net Annual Income Receivable and Gross Annual Income Receivable attributable to the new Property and the Property being withdrawn, provided that the Trustee is satisfied immediately prior to such substitution that:
  - (i) North British is in compliance with, *inter alia*, the covenants set out in Conditions 12 and 13 below;
  - (ii) upon such substitution the Gross Annual Income Cover Ratio and Net Annual Income Cover Ratio are each at least equal to the Required Ratio relating to the immediately preceding Interest Payment Date, if ascertained immediately after such substitution;
  - (iii) either:

- (1) the Mortgaged Properties as a whole after such substitution are substantially similar to the Mortgaged Properties as a whole prior to such substitution in relation to condition, size, tenancy type and rent level and it has not been made aware by any of the Rating Agents that such substitution would or might cause such Rating Agent to downgrade its credit rating of the Bonds (but, for the avoidance of doubt, without any obligation on the Trustee to consult with any of the Rating Agents prior to any such substitution); or
  - (2) each of the Rating Agents has nevertheless confirmed that such substitution will not cause such Rating Agent to downgrade its then current credit rating of the Bonds; and
- (iv) North British has certified to the Trustee in writing that the Properties proposed by North British to be substituted for any or all of the Mortgaged Properties satisfies the Rating Agents' Substitution Conditions or, if North British does not so certify, each of the Rating Agents has nevertheless confirmed that such substitution will not cause such Rating Agent to downgrade its then current credit rating of the Bonds.
- (b) In determining whether or not the Gross Annual Income Cover Ratio and Net Annual Income Cover Ratio are each at least equal to the relevant Required Ratios for the purposes of this Condition 9(A) or Condition 10(B) below, the Trustee may rely, in respect of the Gross Annual Income Receivable and Net Annual Income Receivable attributable to the new Property and/or cash and the Property and/or cash being withdrawn, on the figures set out in the relevant Substitution Statement and, in respect of the Gross Annual Income Receivable and Net Annual Income Receivable attributable to the other relevant parts of the Security, on the figures shown in the last Income Cover Statement.

*(B) Substitution of Initial Properties*

North British may substitute any one or more of the Initial Properties prior to some of the same being charged by way of first legal mortgage in favour of the Trustee with other Properties upon providing to the Trustee and the Rating Agents a written statement, dated not more than three calendar months prior to the date of substitution, showing that the Net Annual Income Receivable attributable to the new Properties is at least equal to the Net Annual Income Receivable of the Initial Properties being so substituted and provided that the Trustee is satisfied that the Initial Properties as a whole after such substitution are substantially similar to the Initial Properties as a whole prior to such substitution in relation to condition, size, tenancy type and rent level, such substitution shall take effect on the seventh day after the date of the Trustee's receipt of the said written statement.

*(C) Substitution of Void Properties for income cover ratios*

- (a) North British may, subject to Conditions 9(C)(b), (d) and (e) below, for the purposes of calculating the Gross Annual Income Cover Ratio and the Net Annual Income Cover Ratio, elect by notice to the Trustee that the income last attributable to one or more Void Properties be included within the calculation of the Net Annual Income Receivable and the Gross Annual Income Receivable from the Mortgaged Properties as if such Void Properties had not been void and the said income was receivable in respect of such Void Properties. Any such election will take effect on North British paying to the credit of the Debt Service Reserve Account additional cash having an aggregate Value equal to the Gross Annual Income Receivable attributable to such Void Properties. (Void Properties in respect of which such an election has been made are herein referred to as "Substituted Void Properties".)
- (b) North British may not make an election under Condition 9(C)(a) if it would result in the Gross Annual Income Receivable or, as the case may be, Net Annual Income Receivable last attributable to all Substituted Void Properties exceeding 5 per cent. of the Gross Annual Income Receivable or, as the case may be, Net Annual Income Receivable from the Security as at the date of election.
- (c) North British may, at any time elect by notice to the Trustee that a Property that is a Substituted Void Property and has ceased to be void be no longer a Substituted Void Property and on such election:

- (i) such Property shall cease to be a Substituted Void Property and only the actual Gross Annual Income Receivable and the actual Net Annual Income Receivable from such Property shall be taken into account for the purposes of calculating the Gross Annual Income Cover Ratio and the Net Annual Income Cover Ratio; and
- (ii) there shall, unless and until a Default Notice shall have been issued in accordance with Condition 14(C) below and for so long as an Income Capture Period does not exist, be released from the Debt Service Reserve an amount equal to the lesser of:
  - (1) the amount of cash paid to the credit of the Debt Service Reserve Account pursuant to Condition 9(C)(a) above in respect of such Property together with any income accrued thereon (if not already released in accordance with Condition 5(D) above); and
  - (2) such amount as is equal to the amount by which (x) the Value of the Debt Service Reserve exceeds (y) the aggregate amount of Initial Debt Service Reserve Payments required to have been made pursuant to Condition 2(B) above on or prior to the date of release and all amounts paid to the credit of the Debt Service Reserve Account pursuant to these Conditions (other than Condition 2(B) above and this Condition 9(C)) (to the extent not released from the Debt Service Reserve pursuant to any other Condition) and the income accrued thereon to the extent it has not been released from the Debt Service Reserve in accordance with these Conditions.
- (d) A Property that becomes a Substituted Void Property shall remain a Substituted Void Property for a maximum period of 12 months and thereafter cease to be a Substituted Void Property with the effect that only the actual Gross Annual Income Receivable and the actual Net Annual Income Receivable from such Property shall be taken into account for the purposes of calculating the Gross Annual Income Cover Ratio and the Net Annual Income Cover Ratio.
- (e) A Property may only become a Substituted Void Property once in any 5 year period.

*(D) Default Notice*

All rights of substitution under this Condition 9 and of withdrawal under Condition 10 below shall cease upon a Default Notice being issued in accordance with Condition 14(C) below.

**10. Security – Additions and Withdrawals**

*(A) Withdrawals*

If an Income Cover Statement shows that the Gross Annual Income Cover Ratio and the Net Annual Income Cover Ratio are each greater than the Withdrawal Ratio, North British may within the period of three months after the Interest Payment Date to which such Income Cover Statement relates (or such longer period as the Trustee may approve) withdraw from the Security Mortgaged Properties and/or cash and Permitted Investments in the Debt Service Reserve without substituting other Property, Permitted Investments or cash, provided that:

- (i) the Trustee receives a written statement prepared by North British and reviewed by the Auditors which shows that after such withdrawal the Gross Annual Income Cover Ratio and the Net Annual Income Cover Ratio are each at least equal to the Withdrawal Ratio; and
- (ii) the Trustee is satisfied that:
  - (1) the Mortgaged Properties as a whole immediately after such withdrawal will be substantially similar to the Mortgaged Properties as a whole immediately prior to such withdrawal in relation to condition, size, tenancy type and rent level;
  - (2) North British is in compliance with the covenants set out in Conditions 12 and 13 below;
  - (3) after such withdrawal the Value of the Debt Service Reserve is not less than the aggregate amount of Initial Debt Service Reserve Payments required to have been made pursuant to Condition 2(B) above on or prior to the date of withdrawal and the aggregate of all amounts paid to the credit of the Debt Service Reserve Account pursuant to these Conditions (other than Condition 2(B) above) (to the extent not

released from the Debt Service Reserve pursuant to any other Condition) together with all income accrued thereon to the extent it has not been released from the Debt Service Reserve in accordance with these Conditions; and

- (4) no Income Capture Period exists; and
- (iii) the Trustee has not been made aware by any of the Rating Agents that such withdrawal would or might cause such Rating Agent to downgrade its credit ratings of the Bonds (but for the avoidance of doubt without any obligation on the Trustee to consult the Rating Agents prior to such withdrawal) provided that if the Trustee has been made so aware North British may withdraw Mortgaged Properties so long as the Trustee is satisfied as to (1) to (4) inclusive above and so long as the remaining Mortgaged Properties after such withdrawal shall comprise at least 100 units.

*(B) Right to Buy*

North British shall have the right to withdraw Property from the Security in satisfaction of any statutory right of a tenant to buy such Property or where grant is provided to North British pursuant to Section 20 or Section 21 of the Housing Act 1996 in respect of any disposal to a tenant (or any similar statutory provision). If North British shall withdraw Property in accordance with this Condition 10(B), North British shall, unless it provides the Trustee with a certificate prepared by North British certifying that after such withdrawal the Gross Annual Income Cover Ratio and the Net Annual Income Cover Ratio are respectively greater than the Required Ratio for the immediately preceding Interest Payment Date, charge by way of first legal mortgage and/or fixed charge in favour and to the satisfaction of the Trustee further Property and/or cash (together with any Permitted Investments at any time representing the same, "Substituting Cash") and shall provide to the Trustee a Substitution Statement of the Net Annual Income Receivable and Gross Annual Income Receivable attributable to the new Property and/or cash and the Property being withdrawn such that the Trustee is satisfied that the Gross Annual Income Cover Ratio and the Net Annual Income Cover Ratio would each be at least equal to the Required Ratio relating to the immediately preceding Interest Payment Date if calculated immediately after such substitution, provided that any cash so charged pursuant to this Condition 10(B) shall, within two years from the date it is charged to the Trustee, be replaced with first legal mortgages ranking in priority to all other charges over sufficient Property, supported by appropriate Substitution Statements, such that the Trustee is satisfied that the Gross Annual Income Cover Ratio and the Net Annual Income Cover Ratio would each be at least equal to the Required Ratio relating to the immediately preceding Interest Payment Date if calculated immediately after such substitution.

## **11. Mortgaged Properties – Property Condition**

*(A) Property Condition Survey*

Following the first charging of Property in accordance with Condition 2(D) above, North British undertakes that it will procure that a Property Condition Survey for the Mortgaged Properties and all buildings and landlord's fixtures and fittings in or upon the same is delivered to the Trustee at least once in any five year period, the first such Property Condition Survey to be as at a date no later than 31st March 2003.

*(B) Repairs*

If upon any such Property Condition Survey the Surveyors are of the opinion that the general condition of the Mortgaged Properties as a whole and the buildings and landlord's fixtures and fittings in or upon the same is such that they have not been maintained in a state of good and tenable repair, North British shall take such steps as the Surveyors shall reasonably recommend to bring the same into a state of good and tenable repair within a reasonable period of time recommended by the Surveyors.

*(C) Continued Repairing Breach*

If upon the expiry of the reasonable period of time recommended by the Surveyors, the Surveyors are still of the opinion that the general condition of the Mortgaged Properties as a whole and the buildings and landlord's fixtures and fittings in or upon the same is not one of good and tenable repair, then, subject to Condition 11(E) below, the Gross Annual Income Received from the Security shall thereafter (to the extent it is not already so paid) be paid by North British to the credit of the Debt Service Reserve Account in accordance with Condition 6(F)(c) above.

(D) *Release from Debt Service Reserve*

The Gross Annual Income Received from the Security shall be applied in accordance with Condition 11(C) above until such time as the Trustee is satisfied that (i) the Surveyors are satisfied that the general condition of the Mortgaged Properties as a whole and the buildings and landlord's fixtures and fittings in or upon the same is one of good and tenantable repair, (ii) no Default Notice shall have been issued in accordance with Condition 14(C) below and (iii) no Income Capture Period shall exist, upon which the Trustee shall release from the Debt Service Reserve and pay back to North British an amount equal to the lesser of:

- (1) the amount of the Gross Annual Income Received from the Security in respect of any period paid to the credit of the Debt Service Reserve Account pursuant to Condition 11(C) above together with any income accrued thereon (if not already released in accordance with Condition 5(D) above); and
- (2) such amount as is equal to the difference between (x) the Value of the Debt Service Reserve and (y) the aggregate amount of Initial Debt Service Reserve Payments required to have been made pursuant to Condition 2(B) above on or prior to the date of release and the aggregate of all amounts paid to the credit of the Debt Service Reserve Account pursuant to these Conditions (other than Conditions 2(B) and 11(C) above) (to the extent not released from the Debt Service Reserve pursuant to any other Condition) together with income accrued thereon to the extent it has not been released from the Debt Service Reserve in accordance with these Conditions.

(E) *Option to give cash security*

- (a) In the circumstances set out in Condition 11(C) above, if the Trustee so agrees North British may charge by way of fixed charge in favour of the Trustee such amount of cash (together with any Permitted Investments at any time representing the same, "Repair Sinking Fund Cash") as the Surveyors stipulate to be the cost of carrying out the necessary remedial works to ensure that the general condition of the Mortgaged Properties as a whole and the buildings and landlord's fixtures and fittings in or upon the same is one of good and tenantable repair. If North British so charges such amount of cash it shall not be obliged, pursuant to Condition 11(C) above, to apply the Gross Annual Income Received from the Security to the credit of the Debt Service Reserve Account.
- (b) The Trustee shall release to North British from the charges created by the Trust Deed, Repair Sinking Fund Cash as and when the remedial works in respect of which such Repair Sinking Fund Cash was deposited are completed to the satisfaction of the Surveyors.

**12. General Covenants**

So long as any of the Bonds remains outstanding North British shall:

- (i) send to the Trustee, not later than six months after the end of each accounting period, a copy of its annual report and accounts for such period; and
- (ii) not later than 30th September in each year and commencing 30th September 1999, send to the Trustee a certificate as to all (if any) withdrawals, additions and substitutions of Property comprised in the Security made during the preceding twelve months, such certificate to include a description of such Property, including its address, and its Net Annual Income Receivable and Gross Annual Income Receivable as reported or certified in accordance with the Trust Deed for the purpose of each such transaction.

**13. Other Covenants in relation to Security**

North British will, *inter alia*, covenant during such time as the Security is in existence:

- (i) subject to Condition 11, to keep all Mortgaged Properties and all buildings and landlord's fixtures and fittings in or upon the same a good and tenantable state of repair and condition and where necessary or desirable to renew and replace the same when and as the same shall be worn out or destroyed;
- (ii) to insure all Mortgaged Properties against loss or damage by usual risks (with such exceptions as the Trustee may agree);

- (iii) save to the extent otherwise approved by the Trustee, to insure the full rent payable under any lease or agreement for lease under which it for the time being holds any of such Mortgaged Properties and the full rent payable under any lease or agreement for lease granted by it in respect of any of such Properties, in both cases in an amount which is not less than the equivalent of the lesser of one year's full rent and 15 per cent. of the rebuilding costs of the relevant Property;
- (iv) not, save as required by law or regulatory requirement of the Housing Corporation (without the prior written consent of the Trustee), to create or agree to create any tenancies or licences in respect of any Mortgaged Property other than tenancies or licences for periods not exceeding 21 years (other than periodic tenancies) or shared ownership leases created by North British in the ordinary course of its business as a Registered Social Landlord;
- (v) not to create or permit to subsist over any of the Security any mortgage or charge or any other security interest ranking in priority to, or *pari passu* with, the security created by or pursuant to the Trust Deed or any trust deed supplemental thereto;
- (vi) to comply in all material respects with any covenants relating to the Mortgaged Properties which are binding on it, including, without limitation, all covenants and obligations assumed by it in any lease relating thereto;
- (vii) to take all reasonable steps to enforce the covenants on the part of any tenants of the Mortgaged Properties;
- (viii) forthwith upon becoming aware thereof to give the Trustee notice in writing of the occurrence of a Rescheduling Event; and
- (ix) to procure that an Expenditure Certificate is provided to the Trustee at least once in any five-year period.

#### **14. Defaults**

##### *(A) Defaults*

The occurrence of any of the following events in respect of North British shall be an event constituting a Default (provided that, in the case of any such event, other than that described in sub-Condition (i) below, the Trustee shall have certified in writing that such event is in its opinion materially prejudicial to the interests of the Bondholders). The said events are as follows:

- (i) North British shall fail to pay any principal monies or premium owing on any of the Bonds, any interest owing by it on any of the Bonds or any other monies payable under the Trust Deed within 5 Business Days of the due date therefor (or, in respect of any such other monies payable on demand, within 14 days of the date of first demand therefor); or
- (ii) a distress, execution or other similar process shall be levied or enforced upon or sued out against any material asset of North British and shall not be removed, discharged or paid out within thirty days; or
- (iii) without the prior written consent of the Trustee (such consent not to be unreasonably withheld), North British shall cease, or shall take any formal action, or shall make any public announcement of its intention to cease, to be a Registered Social Landlord whose principal business is carried on in the United Kingdom or otherwise cease to carry on business; or
- (iv) North British shall be unable to pay its debts generally within the meaning of section 123 of the Insolvency Act 1986 (assuming, if necessary, such section applied to North British); or
- (v) the security constituted by any mortgage, charge or other security document other than under the Trust Deed executed by North British upon the whole or any material part of the undertaking or assets of North British shall become enforceable and any steps whatsoever are taken to enforce the same; or
- (vi) default shall be made by North British in the performance or observance of any covenant, condition or provision contained in the Trust Deed and on its part to be performed or observed (other than (1) any covenant for the payment of principal monies, interest or premium owing on any of the Bonds or any other monies payable under the Trust Deed and (2) Condition 3(E) above) and (except if the Trustee shall certify in writing that in its opinion any delay would be materially prejudicial to the interests of the Bondholders) North British

shall fail to perform fully or make good the breach of such covenant, condition or provision within twenty-one days (or such longer period as the Trustee may agree) from receipt of notice in writing from the Trustee requiring it to do so (unless such default is incapable of remedy when no such notice shall be required); or

- (vii) (a) any debenture stock, loan stock or other securities or any other Borrowings of North British in an amount of at least £1,000,000 (as increased proportionately by any increase in the Index since the Closing Date) shall become repayable prior to the due date for repayment thereof by reason of default by North British, or not be paid when due (or within any period of grace originally applicable thereto) and steps are taken to obtain repayment thereof; or
- (b) any guarantee of, or any indemnity in respect of, any loan or debt of any third party for a sum exceeding £1,000,000 (as increased proportionately by any increase in the Index since the Closing Date) given by North British shall not be honoured when due and called upon and steps are taken to enforce the same; or
- (viii) any representation, statement or undertaking contained in the Trust Deed or in any report or certificate given by North British pursuant thereto or in connection with the Bonds shall prove to be untrue when made or shall not be fulfilled, in each case, in any material respect; or
- (ix) without the prior written consent of the Trustee, steps are taken to appoint an administrator of, wind up or dissolve North British (save for any such steps which North British is, in good faith, contesting with, in the reasonable opinion of the Trustee, a good prospect of success); or
- (x) any of the Security is not, or ceases to be, binding or is, or becomes, unenforceable provided that it shall not be a Default under this Condition 14(A)(x) if (1) the Security which is not, or ceases to be, binding or is, or becomes, unenforceable, is over Mortgaged Properties in respect of which North British satisfies the Trustee that the Net Annual Income Receivable in respect of such Mortgaged Properties during the twelve month period ending on the date on which the Default would otherwise have occurred is less than 50 per cent. of the Net Annual Income Receivable in respect of all Mortgaged Properties for such period and (2) within sixty days of the date on which the Default would otherwise have occurred North British grants such further security in favour of the Trustee over such other Property of North British as may be approved by the Trustee (such approval not be unreasonably withheld); or
- (xi) other than during a Payment Guarantee Period, as shown by the relevant Income Cover Statements, the Net Annual Income Cover Ratio is less than the Required Ratio or, the Gross Annual Income Cover Ratio is less than the Required Ratio, in either case, in respect of two successive Interest Payment Dates; or
- (xii) other than during a Payment Guarantee Period, North British shall fail to comply with Condition 3(E) above.

*(B) Notice of Default*

So long as any of the Bonds remain outstanding North British will, forthwith upon becoming aware of the occurrence of any Default, give notice in writing thereof to the Trustee.

*(C) Consequence of a Default*

If any Default shall have occurred the Trustee in its discretion may, and upon the request in writing of the registered holders of at least one-fifth in aggregate outstanding nominal amount of the Bonds or upon being so directed by an Extraordinary Resolution of the Bondholders shall (subject in each case so being indemnified to its satisfaction), declare by notice to North British (a "Default Notice") that the Bonds have become due and repayable, whereupon the Bonds shall become immediately due and repayable at the outstanding nominal amount of the Bonds together with accrued interest, and the security therefor shall become immediately enforceable.



## **15. Enforcement Proceedings**

If the security constituted under the Trust Deed becomes enforceable as a result of a Default having occurred, the Trustee may, at its discretion, take such action to ensure the continuation of payment of principal and interest on the Bonds as it deems appropriate, including, without limitation, the transfer of the Bonds to another Registered Social Landlord and the appointment of a receiver to manage the Security, provided that the Trustee shall, if so requested in writing by the holders of at least one-fifth in aggregate outstanding nominal amount of the Bonds or if so directed by an Extraordinary Resolution of the Bondholders (subject in each case to being indemnified to its satisfaction), take action to realise the security and/or (if applicable) take such action against North British as may be permitted under applicable laws and (if applicable) as may have been so directed or requested to enforce the obligations of North British.

## **16. Listing**

North British will use its best endeavours to obtain a listing for the Original Bonds on The London Stock Exchange Limited and, for so long as any of the Original Bonds remain outstanding, North British will maintain a listing for the Original Bonds on The London Stock Exchange Limited.

## **17. Meeting of Bondholders, Modification and Waiver**

### *(A) Meetings of Bondholders*

The quorum for any meeting convened to consider an Extraordinary Resolution is two or more persons holding or representing one quarter in principal amount of the outstanding Bonds or, at any adjourned meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented by them, unless the business of such meeting includes consideration of proposals (i) to change any date fixed for payment of principal or interest in respect of the Bonds, to reduce the amount of principal or interest payable on any date in respect of the Bonds or to alter the method of calculating the amount of any payment in respect of the Bonds or the date for such payment, (ii) to effect any exchange of the Bonds for, or the conversion of the Bonds into, shares, bonds or other obligations of North British or any other person or to approve the substitution of any person for North British as principal obligor under the Bonds, (iii) to change the currency in which amounts due in respect of the Bonds are payable, (iv) to change the quorum required at any meeting of Bondholders or the majority required to pass an Extraordinary Resolution or, (v) to amend any of the above reserved matters (in which case the necessary quorum will be two or more persons holding or representing not less than three quarters or, at any adjourned meeting, not less than one quarter in principal amount of the outstanding Bonds). Any Extraordinary Resolution duly passed shall be binding on all Bondholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

### *(B) Modifications*

The Bondholders will have power by Extraordinary Resolution, inter alia, to sanction any modification, abrogation or compromise of or arrangement in respect of their rights against North British or in respect of the Security and to sanction any modification of the provisions of the Trust Deed proposed or agreed to by North British. In addition, the Trustee will have power, without the sanction of an Extraordinary Resolution, to concur with North British in making any modification to, or to waive or authorise any breach or anticipated breach of, the Trust Deed or determine that any event or omission which would, or would with the issue of a certificate or the passage of time, become a Default shall not do so, provided always that such modification, breach or determination is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or such modification is made to correct a manifest error or is required to obtain or maintain a listing for any series of the Bonds on The London Stock Exchange Limited or is of a formal, minor or technical nature. Any such modification, waiver, authorisation or determination and any consents given or discretions exercised by the Trustee may be made, given or exercised on such terms and subject to such conditions as the Trustee thinks fit.

## **18. Trustee and Paying Agents**

### *(A) Payment of Trustee*

The Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Bondholders.

*(B) Exercise of Discretion*

In the exercise of its power and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Holders as a class and will not have regard to the consequences of such exercise for individual Bondholders or Couponholders and the Trustee shall not be entitled to require from North British nor shall any Bondholder or Couponholder be entitled to claim from North British or the Trustee, any indemnification or other payment in respect of any consequence (including, without limitation, any tax consequence) for individual Bondholders or Couponholders of any such exercise.

*(C) Indemnification*

The Trust Deed contains provisions governing the responsibility of the Trustee and providing for its indemnification in certain circumstances, including provisions relieving it from taking proceedings against North British and/or any other person, unless indemnified and/or secured to its satisfaction.

*(D) Paying Agents*

In acting under the Paying Agency Agreement and in connection with the Bonds, the Coupons and the Talons, the Paying Agents act solely as agents for North British and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders or Couponholders.

*(E) Validity etc. of Security*

The Trustee has not investigated the validity, value, sufficiency or enforceability of the security created by the Trust Deed and shall accept without investigation, requisition or objection such right and title as North British has to such security. The Trustee will not be responsible for any deficiency which may arise because the Trustee is liable to tax in respect of such security.

*(F) Certificates*

The Trustee will rely on the certificates signed by two authorised officers of North British on its behalf and any certificates of the Auditors, in each case delivered to it pursuant to these Conditions and the Trust Deed and shall not be responsible for any failure otherwise to monitor compliance with the obligations imposed on North British under these Conditions.

*(G) Change of Paying Agent*

The initial Paying Agents and their initial specified offices are listed below. North British reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent and to appoint successor or additional paying agents, provided that North British shall at all times maintain a Principal Paying Agent in London and a Paying Agent in Continental Europe. Notice of any change in the Paying Agents or in the specified office of any Paying Agent will promptly be given by North British to the Bondholders.

## **19. Contracts with North British**

Notwithstanding its fiduciary position, the Trustee will be entitled to enter into contracts or other transactions with North British (or its affiliates) including contracts for the purchase or sale of or other dealing with any land, without accounting for any profit resulting therefrom, and the Trustee may exercise its discretions as Trustee notwithstanding any such interest.

## **20. Replacement of the Trustee**

The Trustee may resign at any time on giving not less than 30 days' prior written notice to North British without assigning any reason and without being responsible for any expenses thereby occasioned but in each case its resignation or removal shall not take effect unless and until another trustee is appointed. The statutory power of appointing a new trustee will be vested in North British. A new trustee shall be approved by an Extraordinary Resolution before its appointment shall become effective.

## **21. Form, Denomination and Title**

*(A) Form and Denomination*

The Bonds are in bearer form in denominations of £1,000 numbered serially, each with Coupons and Talons attached at the time of issue.

(B) *Title*

Title to the Bonds, Coupons and Talons will pass by delivery. The Holder of any Bond, Coupon or Talon (as the case may be) will (except as otherwise required by law) be treated at all times by all persons and for all purposes as its absolute owner (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the Holder.

(C) *Status*

The Bonds constitute direct, general, secured and unconditional obligations of North British and shall at all times rank *pari passu* and without any preference among themselves and otherwise in accordance with the provisions of the Trust Deed.

**22. Certificates Binding**

Any certificate, determination or report from the Auditors, Surveyors or other experts or persons approved by the Trustee for the purpose of giving or making such certificate, determination or report (including, without limitation, in relation to the Property Condition Surveys and the Income Cover Statements) required by the Trust Deed shall, in the absence of manifest error, be conclusive and binding upon North British, the Trustee, the Bondholders and all other persons.

**23. Prescription**

Claims for principal and/or interest shall become void unless the relevant Coupons and/or the relevant Bonds (as the case may be) are presented for payment within ten years (in the case of principal) or five years (in the case of interest) of the appropriate due date.

**24. Replacement of Bonds, Coupons and Talons**

If any Bond, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as North British or the Principal Paying Agent may reasonably require. Mutilated or defaced Bonds, Coupons or Talons must be surrendered before replacements will be issued.

**25. Notices**

Notice to the Bondholders will be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times). Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Bondholders. A copy of every notice to Bondholders will be supplied to Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System and Cedel Bank, société anonyme for so long as the Bonds are cleared and settled through those clearing systems.

**26. Governing Law**

The Trust Deed and the rights of the Bondholders will be governed by and construed in accordance with English law.

## SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE IN GLOBAL FORM

The Original Bonds will initially be represented by a Temporary Global Bond in bearer form, without coupons or talons, to be deposited with a common depositary for Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") and Cedel Bank, société anonyme ("Cedel Bank") on the issue date of the Original Bonds (the "Closing Date"). The Temporary Global Bond will be exchangeable not earlier than 40 days after the Closing Date and upon certification of non-U.S. beneficial ownership, for interests in a Permanent Global Bond in bearer form without coupons or talons, which will also be deposited with such common depositary for Euroclear or Cedel Bank. The Permanent Global Bond will be exchangeable for definitive Bonds only in the circumstances described below. Upon deposit of the Temporary Global Bond with such common depositary, Euroclear or Cedel Bank will credit each subscriber with a principal amount of the Bonds equal to the principal amount thereof for which it has subscribed and paid. The Temporary Global Bond and Permanent Global Bond are herein together referred to as the "Global Bonds".

Each of the persons shown in the records of Euroclear or Cedel Bank as the holder of a Bond represented by a Global Bond must look solely to Euroclear or Cedel Bank (as the case may be) for his share of each payment made by North British to the bearer of such Global Bond and in relation to all other rights arising under such Global Bond, subject to and in accordance with the respective rules and procedures of Euroclear and Cedel Bank. Such persons shall have no claim directly against North British in respect of payments due on the Bonds for so long as the Bonds are represented by such Global Bond and the relevant obligations of North British will be discharged by payment to the bearer of such Global Bond in respect of each amount so paid.

The Global Bonds contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Terms and Conditions of the Bonds (the "Conditions") set out in this document. The following is a summary of those provisions:

1. Exchange: The Permanent Global Bond will be exchanged in whole but not in part for definitive Bonds if (a) the Bonds become immediately due and payable pursuant to Condition 14 or (b) either Euroclear or Cedel Bank is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business and no alternative clearing system satisfactory to the Trustee is available or (c) as a result of any amendment to, or change in, the laws, regulations or administrative practices of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws, regulations or administrative practices which becomes effective on or after 10th June 1998, North British or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Bonds which would not be required were the Bonds in definitive bearer form or (d) North British (with the prior approval of the Trustee) so elects by notice to the Bondholders. Any definitive Bonds will be made available for collection by the person(s) entitled thereto at the specified office of any Paying Agent. If North British makes the required delivery of such definitive Bonds, then the Permanent Global Bond will void and the bearer will have no further rights thereunder.
2. Payments: Payments will only be made in respect of the Temporary Global Bond to the extent that North British has failed to procure the exchange of the Temporary Global Bond for the Permanent Global Bond. Payments of principal and interest in respect of Bonds represented by the Permanent Global Bond will be made against presentation and endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Permanent Global Bond at the specified office of any Paying Agent. A record of each payment so made will be endorsed in the appropriate schedule to the Permanent Global Bond, which endorsement will be *prima facie* evidence that such payment has been made.
3. Notices: So long as the Bonds are represented by a Global Bond and such Global Bond is held on behalf of a clearing system, notices to Bondholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions except that, so long as the Bonds are listed on the London Stock Exchange and the rules of that exchange so require, notices shall also be published in a leading newspaper having general circulation in London (which is expected to be the Financial Times).

4. Prescription: Claims against North British in respect of principal and interest on the Bonds which are represented by a Global Bond will become void unless presented for payment within a period of 10 years (in the case of principal) or 5 years (in the case of interest) from the due date for the payment thereof.
5. Meetings: The holder of a Global Bond will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at such meetings, as having one vote in respect of each Bond for which such Global Bond may be exchanged.
6. Cancellation: Cancellation of any Bond required by the Conditions to be cancelled will be effected by reduction in the principal amount of the relevant Global Bond.
7. Trustee's powers: In considering the interests of Bondholders while any Global Bond is held on behalf of Euroclear or Cedel Bank, the Trustee may have regard to any information provided to it by such clearing system as to the identity (either individually or by category) of its accountholders with entitlement to such Global Bond and may consider such interests as if such accountholders were the holders of the Bonds represented by such Global Bond.

## SECTION 4: DTZ PIEDA CONSULTING REPORT

28th May 1998

The North British Housing Association Limited  
4 The Pavilions  
Portway  
PRESTON PR2 2YB

Kleinwort Benson Limited/Dresdner Bank AG  
20 Fenchurch Street  
LONDON EC3P 3DB

Prudential Trustees Company Limited  
142 Holborn Bars  
London EC1N 2NH

Dear Sirs

### **The North British Housing Association Limited £100 million Secured Bonds**

In accordance with our letter of engagement dated 26 February 1998 and information supplied on 13 March 1998, we have performed a review of the management and maintenance costs for the properties scheduled to this letter, which are an indicative list of properties, which may be charged by The North British Housing Association Limited ("North British") as security for the Bonds.

It should be emphasised that these lists are indicative. The actual list of properties to be charged is subject to amendment as set out in Section 3 10(b) of the Offering Circular, with sufficient properties only being charged to meet the initial coverage ratios. Furthermore pursuant to the Trust Deed, the properties are not required to be charged until 18 months after the date of the Trust Deed (or such later date as North British and the Trustee shall agree).

### **Introduction**

Our appraisal has been prepared from a sample inspection of the properties to provide an assessment of the minimum level of annual expenditure required to manage and maintain the property in good and tenable condition taking into consideration the following:

- (i) service and care costs;
- (ii) management provision;
- (iii) property insurance (contents insurance where appropriate for communal furnishings and fittings);
- (iv) maintenance costs to retain the stock in a satisfactory and lettable condition (no provision has been made for a sinking fund for repair works likely to occur more than five years in the future);
- (v) ground and head rents, water rates and rental apportionments or agreements where notified by the Association.

The assessment of expenditure levels should be read in conjunction with the full definitions and limitations outlined within the report Terms and Conditions. In preparing our estimates we have not considered the financial status of North British and therefore have assumed that they will remain in a position to honour their financial obligations at the time of assessment.

We can confirm that all inspections have been carried out by qualified RICS or ISVA employees of DTZ Piedad Consulting.

### **Assumptions**

Certain assumptions have been made in order to arrive at the expenditure forecasts of the properties.

1. Expenditure on reactive repairs have been estimated based on actual costs and our assessment of future costs over a period of five years.

2. Management costs have been estimated taking into consideration the Association's actual and proposed future management costs.
3. The expenditure estimate for each scheme or cluster has been appraised assuming economies of scale through it forming part of the subject portfolio.
4. Service and care costs, where applicable, are levied in addition to the management provision and are assumed to be self financing with a neutral budget impact. They are specifically excluded from our scheme management provision within the schedule.
5. All roads and services within each scheme or cluster on which the properties are dependent are assumed to be made up to an adoptable standard and maintained by the respective local authority and statutory undertaker, unless otherwise stated.

## **Terms and Conditions**

### **1. Tenancy Agreements**

Written enquiries were made to North British and no information was provided to us regarding the existence of any non-standard assured or regulated tenancy agreements. We have assumed all units are let on standard agreements unless noted to the contrary in the respective reports.

### **2. Title**

We have not been provided with access to Title Deeds of the properties and have assumed that the subjects are free from any onerous or unusual covenants, restrictions or statutory notices that would affect the estimates unless specifically advised to the contrary by North British or their legal advisers.

### **3. Planning and Statutory Requirements**

We have assumed that the existing houses on site have been built in full compliance with valid town planning and building regulations approvals and that the properties are not subject to any outstanding statutory notices as to their construction, use or occupation. Unless our enquiries reveal to the contrary, we have also assumed that the existing use of the properties is duly authorised or established and that no adverse planning proposals or restrictions apply.

### **4. Plant, Machinery and Common Facilities**

No allowance has been made in this appraisal for any item of plant or machinery not forming part of the services installations of the building. Specifically excluded have been all items of plant, machinery and equipment installed wholly or primarily in connection with the tenants' occupation of the premises, furnishings and fixtures and fittings.

Where there are common facilities within the schemes and their usage is reflected in the rental levels and agreements, we have assumed that these facilities will form part of the security.

### **5. Condition of Structure and Services, Deleterious Materials**

A structural survey of all properties on each development has not been undertaken. We have not arranged for investigation to be carried out to determine whether high alumina cement concrete, calcium chloride additive or any other deleterious materials have been used in the construction and we are therefore not able to confirm that the property is free from risk in this regard.

To assist in determining our opinion of the properties' condition we have undertaken an external inspection of all units and an internal inspection of a sample unit on each scheme. North British has provided details of their proposed maintenance costs and estimates from stock condition surveys undertaken on the stock.

The inspections were not undertaken in order to provide a detailed statement as to the condition of the housing stock, but to identify outgoings for inclusion in the estimates of expenditure.

We have been specifically informed by North British that the majority of the units have the benefit of NHBC, HAPM or similar warranty cover and that none of the subject properties are designated 'Defective' under the Housing Act 1988.

## 6. Contamination

No mining, geological or other investigation has been undertaken to certify that the site is free from any defects as to foundations nor have any investigations been undertaken into environmental pollution or human health hazards caused by the accumulation, emission or discharge of noxious gases or liquids caused by deposits of controlled or uncontrolled wastes.

We have been instructed not to make any investigations in relation to the presence or potential presence of contamination in land or buildings. We have assumed that if investigations were made to an appropriate extent then nothing would be discovered sufficient to affect the nett cashflow.

Enquiries were made directly to North British and no information was provided to us indicating that there has been pollution/contamination. In these circumstances the assumption we have been instructed to make is in our opinion a reasonable one, provided that searches undertaken by your legal advisers do not indicate any further matters of concern in this regard. Where there is an exception and North British has made us aware of this, we have made further comment in the respective reports.

## 7. Restrictive Covenants and Easements

Our appraisal assumes that there are no unknown burdens pecuniary or otherwise affecting the subject properties, which would have an adverse effect on the cashflow. In particular, there are no servitudes, 'Rights of Way' or outstanding repair liabilities of which we have not been informed by North British.

Yours faithfully  
**DTZ Pidea Consulting**

Alan H Prole BSc Hons ARICS  
Director



# NORTH BRITISH HOUSING ASSOCIATION LIMITED

## Proposed Security Portfolio to Bond Issue

Scheme Code	Scheme Address	Practical Completion Date	Property Type	No. of Units	Gross Annual Rental Income	Annual Management Costs	Annual Maintenance Costs
00023	Ebridge Court, Ebridge House, Fenncliffe Road, Bingley	Dec-85	8 x 2 bed houses, 32 x 1 bed flats	40	£75,811.84	£7,400	£11,720
00025	Glenroyd Avenue, Odsal House, Cleck Heaton Road, Bradford	Dec-94	16 x 1 bed flats, 30 x 2 bed flats, 16 x 3 bed houses	62	£117,375.96	£11,470	£22,382
00149	Mowlands Close, Sutton-in-Ashfield	Jul-96	10 x 2 bed houses, 2 x 3 bed houses	12	£34,992.88	£2,220	£3,228
00178	Manningham Mills, Bradford (25 units - New Build)	Jul-97	25 x 1 bed flats	25	£58,045.00	£4,625	£6,375
00185	Crowther Village, Huddersfield	Aug-97	39 x 1 bed houses, 13 x 3 bed houses, 59 x 2 bed flats	111	£359,379.28	£20,535	£28,416
00194	Abundance Nurseries, Milton Keynes	Apr-97	10 x 2 bed houses, 3 x 3 bed houses	13	£42,723.20	£2,405	£3,497
00197/20316	Westlands Avenue, Phase 2a & 2b, Hedon	Feb-97	10 x 2 bed houses, 8 x 3 bed houses, 1 x 5 bed house, 1 x 3 bed house	20	£61,192.56	£3,700	£5,500
00199	Mill Lane, Warton, Phase 1	Jul-97	17 x 2 bed houses, 5 x 3 bed houses	22	£67,397.72	£4,070	£5,786
00227	Mill Lane, Warton, Phase 3a	Jul-97	3 x 2 bed houses, 4 x 2 bed bungs, 3 x 3 bed houses	10	£30,757.48	£1,850	£2,580
00268	Larchfield Street, Darlington	Jun-96	22 x 2 bed flats	22	£54,696.72	£4,070	£5,016
00269	Bransdale Road, Clifton, Notts.	Apr-97	1 x 1 bed bung, 4 x 2 bed bung	5	£14,666.08	£925	£1,100
00271	Carlton House, Front Street, Newbiggin by the Sea	May-97	8 x 1 bed flats	8	£18,378.88	£1,480	£1,864
00277	Cherry Avenue, Swanley	Aug-97	18 x 2 bed houses, 8 x 3 bed houses	26	£96,119.92	£4,810	£7,072
00281/00282	Norton Grange, Phase 1a & 1b	Sep-97	8 x 1 bed flats, 12 x 2 bed houses, 7 x 2 bed bungs, 14 x 3 bed houses, 4 x 4 bed houses	45	£129,936.56	£8,325	£11,880
00283	Hollin Street, Blackburn	Apr-97	4 x 2 bed houses, 2 x 3 bed houses	6	£18,559.84	£1,110	£1,608
00298	Aspley Rehab, Nottingham	Jun-97	10 x 3 bed houses	10	£27,567.80	£1,850	£2,970
00319	Longford Road, etc, Bognor Regis	May-97	1 x 2 bed houses, 2 x 4 bed houses, 1 x 3 bed houses, 4 x 2 bed flats	8	£24,665.16	£1,480	£2,424
00321	Station Road, Keadby	Dec-97	4 x 2 bed houses, 2 x 3 bed houses	6	£18,085.60	£1,110	£1,614
00328	Metro Property Exchange, Failsworth, Oldham	Feb-97	5 x 2 bed houses	5	£10,967.84	£925	£1,545
00339	Shenley Brooke End, Milton Keynes	Dec-97	12 x 1 bed flats, 20 x 2 bed houses, 6 x 3 bed houses, 2 x 4 bed houses	40	£127,721.88	£7,400	£10,360
00340	Taylor Street, Phase 2, Gorton	Jul-97	2 x 2 bed bungs, 7 x 2 bed houses, 22 x 3 bed houses	31	£94,296.28	£5,735	£8,928
00348	Bute Street, Manchester, Phase 4	May-97	5 x 2 bed houses, 1 x 3 bed houses	6	£16,815.24	£1,110	£1,866
00396	Langney Point, Eastbourne	Aug-97	4 x 1 bed flats, 4 x 2 bed flats	8	£29,715.92	£1,480	£1,896
00407	Crosby House, Bolton	Mar-98	18 x 1 bed flats, 22 x 2 bed flats	40	£95,799.00	£7,400	£9,600
00413	Fitzhubert Road, Sheffield Phase 2b	Oct-97	4 x 1 bed flats, 1 x 1 bed bung, 1 x 2 bungs 6 x 2 bed houses, 20 x 3 bed houses	32	£92,507.48	£5,920	£10,912
00414	Fitzhubert Road, Sheffield Phase 2c	Oct-97	2 x 3 bed houses, 5 x 3 bed houses	7	£21,426.08	£1,295	£2,457
00428/00446	Blackfell Phases 1 & 2, Washington, Tyne & Wear	Dec-97	37 x 2 bed houses, 5 x 3 bed houses, 12 x 2 bed flats, 10 x 3 bed flats, 2 x 3 bed bungs, 2 x 2 bed bungs	68	£186,982.12	£12,580	£17,612
00449	Thorpe Edge, Bradford	Feb-98	23 x 2 bed houses, 1 x 4 bed house	24	£75,429.12	£4,440	£6,648
00499	Scotia Close, Sheffield	Oct-97	8 x 2 bed houses, 6 x 3 bed houses	14	£43,174.56	£2,590	£4,774
00501	Poulton Road, Fleetwood	Mar-98	7 x 1 bed flats, 3 x 2 bed flats	10	£23,539.00	£1,850	£2,370
00516	Ribble Court, Douglas Street, Preston	Dec-80	24 x 1 bed flats, 15 x 2 bed flats	39	£69,717.96	£7,215	£17,628
00522	Rivington House, Lord Street, Horwich	Dec-81	30 x 1 bed flats	30	£51,564.76	£5,550	£11,220
00527	De Lacy House, Preston New Road, Blackburn	Dec-84	8 x bedsits, 30 x 1 bed flats, 1 x 2 bed flat	39	£64,893.40	£7,215	£14,196
00537/00562	Lucerne Road, Clifton House, Watling Street, Preston	Dec-80	114 x 1 bed flats, 4 x 2 bed flats, 19 x 3 bed houses, 3 x 5 bed houses, 1 x 4 bed house	144	£283,664.16	£26,640	£48,384
00546	Hornby Court, Lancaster Street, Blackburn	Dec-86	40 x 1 bed flats	40	£76,456.64	£7,400	£11,920
00592	Denbigh Place, Salford, Manchester	Feb-98	17 x 2 bed houses, 15 x 3 bed houses	32	£97,065.80	£5,920	£9,056
00756	Windermere Drive Phase 5(1)	Feb-97	4 x 1 bed flats, 3 x 2 bed houses, 2 x 3 bed houses, 4 x 4 bed houses	13	£38,753.52	£2,405	£3,471
00767	Meadowsweet Drive, Bedford	Aug-97	8 x 2 bed houses, 4 x 3 bed houses	12	£43,425.72	£2,220	£3,216
00784	Earle Gardens, Kingston upon Thames	Apr-95	9 x 3 bed houses, 7 x 4 bed houses, 2 x 5 bed houses	18	£52,001.76	£3,330	£5,418
00926	Meadowell Estate, North Shields, Phase 2b	Apr-97	4 x 2 bed flats, 9 x 2 bed houses, 15 x 3 bed houses	28	£80,221.96	£5,180	£7,896
00941	The Avenues, Hull (P8)	Apr-97	6 x 1 bed flats, 16 x 2 bed houses, 4 x 3 bed houses	26	£61,688.12	£4,810	£7,540
00962	The Avenues (P9)	Dec-97	7 x 2 bed houses, 2 x 3 bed houses	9	£21,712.08	£1,665	£2,781
00963	The Avenues, Hull (P10)	Jun-97	2 x 2 bed houses, 7 x 3 bed houses	9	£18,794.88	£1,665	£2,745
01552	Cheetham Hill & Crumpsall, Manchester	Apr-98	17 x 2 bed houses, 33 x 3 bed houses	50	£186,814.04	£12,250	£15,650
01560	Watton Grove, etc. Hull	Sep-97	22 x 2 bed houses, 4 x 3 bed houses	26	£62,667.80	£4,810	£8,528
14438	Willows Lane, etc, Daubhill	Apr-96	2 x 2 bed houses, 4 x 2 bed houses	6	£13,875.16	£1,110	£1,926

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15658	Mottram Road, Tameside	Aug-96	16 x 1 bed flats	16	£39,674.44	£2,960	£3,552
15664/15665	Brookfields, Croston, Phase 1 & 2	Jul-97	6 x 2 bed houses, 3 x 3 bed houses	9	£27,732.12	£1,665	£2,412
15669	Woodstock Green Phase 1, Oldham	Oct-97	16 x 2 bed houses, 12 x 3 bed houses	28	£84,884.80	£5,180	£7,728
15670	Woodstock Green Phase 2, Oldham	Oct-97	9 x 2 bed bungs	9	£27,228.24	£1,665	£2,196
15675	Garforth Street, Oldham (NWRHA)	Nov-96	5 x 1 bed flats	5	£15,767.44	£925	£1,165
15680	34/36 Highfield Road (Rawsthorne Avenue)	Sep-96	2 x 3 bed houses	2	£6,477.12	£370	£586
15685	Monsall Infill Sites, Phases 1, 2, 3 & 4, Manchester	Jan-98	10 x 1 bed flats, 2 x 2 bed houses, 24 x 3 bed houses, 2 x 4 bed houses	38	£114,892.88	£7,030	£10,488
17265	14 & 16 Thornlea Avenue, (NWRHA), Oldham	Jun-95	5 x 3 bed houses	5	£13,200.20	£925	£1,195
18487	Ashby High Street, Scunthorpe	Oct-95	3 x 2 bed houses, 4 x 3 bed houses	7	£21,522.80	£1,295	£1,974
18822	15-19 Station Street, Mansfield Woodhouse (LOTS)	Aug-96	3 x 1 bed flats, 2 x 2 bed flats	5	£10,131.16	£925	£1,470
19109	Ingham Grange, South Shields (7 units - New Build)	May-93	7 x 2 bed flats	7	£17,309.24	£1,295	£1,673
19110/19113	Ingham Infirmary, South Shields (63 units - NB)	Aug-93	21 x 1 bed flats, 32 x 2 bed flats, 10 x 3 bed houses	63	£150,209.80	£11,655	£15,435
19121	Moor View Park Site 5/3, Newcastle (13 units - Rehab)	Aug-93	2 x 2 bed houses, 11 x 3 bed houses	13	£32,849.96	£2,405	£3,991
19122	Moor View Park Site 5, Newcastle (20 units - New Build)	Nov-93	10 x 2 bed houses, 8 x 3 bed houses, 2 x 2 bed flats	20	£58,478.68	£3,700	£5,440
19124	Framlington Phase 4, Newcastle	Sep-95	8 x 1 bed flats, 5 x 2 bed flats	13	£29,367.52	£2,405	£3,224
19128	6 Victoria Square, Newcastle (5 units - Rehabilitation)	Jul-93	3 x 1 bed flats, 2 x 2 bed flats	5	£9,639.24	£925	£1,240
19134/							
12455/19133	Edendale Court, Blyth (32 units)	Mar-94	16 x 1 bed flats, 16 x 2 bed flats (incl all phases)	32	£64,214.80	£5,920	£8,000
19140	Ullswater Cl./Windermere Ct., Spennymoor (14 units - New Build)	Sep-94	12 x 2 bed houses, 2 x 3 bed houses	14	£38,945.92	£2,590	£3,766
19153	Bessemer Rehabs. (Block 1), Spennymoor (13 units - New Build)	Dec-94	13 x 3 bed houses	13	£34,608.60	£2,405	£3,666
19157	Melland Street, Darlington (30 units - New Build)	Nov-95	30 x 1 bed flats	30	£68,966.56	£5,550	£7,980
19161	Bessemer Park Block 2, Spennymoor (6 units - Rehabs)	Feb-95	6 x 3 bed houses	6	£16,357.64	£1,110	£1,890
19164	Framlington Place, Phase 5, Newcastle	Apr-96	1 x 1 bed house, 1 x 2 bed house, 9 x 1 bed flats, 4 x 2 bed flats	15	£35,002.76	£2,775	£3,660
19165	Acorn Close, Sacriston (10 units - New Build)	Apr-96	10 x 1 bed flats	10	£26,101.92	£1,850	£2,690
19169	York Drive, Wallsend (12 units - New Build)	Dec-95	10 x 1 bed flats, 2 x 2 bed flats	12	£27,915.68	£2,220	£2,772
19178	Meadowell Estate, North Shields, Phase 1a	Apr-97	3 x 1 bed flats, 1 x 2 bed house, 16 x 3 bed houses	20	£60,131.76	£3,700	£5,680
19179	Meadowell Estate, North Shields, Phases 1b & 2a	Apr-97	7 x 1 bed flats, 15 x 2 bed houses, 8 x 3 bed houses	30	£83,023.20	£5,550	£8,370
19181	Parkfield, Ryton	Jul-96	6 x 1 bed flats, 4 x 2 bed flats	10	£23,479.04	£1,850	£2,510
19210	Wykebeck Valley Road, Leeds (20 units - Rehab)	Nov-91	20 x 1 bed flats	20	£38,396.80	£3,700	£5,740
19236	4 Currer Street, Bradford (38 units - Rehab)	Jul-96	37 x 1 bed flats	37	£84,526.00	£6,845	£9,842
19242	Browbridge Phase 2, Halifax (31 units - New Build)	Nov-94	32 x 1 bed flats (incl. 1 warden)	31	£71,021.60	£5,735	£6,572
19247/20223	Park Lodge Lane, Phase 1 & 2, Wakefield (26 units - New Build)	Mar-95	13 x 3 bed houses (plus 13 units Agency)	13	£39,460.72	£2,405	£3,666
19396	Saint Germain Street, Phase 2, Bolton (18 units - New Build)	Jun-95	10 x 1 bed flats, 8 x 2 bed houses	18	£48,100.00	£3,330	£4,572
19511	Water Street, Phase 2, Chorley (5 units - New Build)	Oct-91	5 x 2 bed houses	5	£12,813.84	£925	£1,655
19512	Handsworth Road, Phase 1, Blackpool (32 units - New Build)	Nov-91	32 x bedsits	32	£116,480.00	£5,920	£6,784
19532	8-14 West End Road, Morecambe (20 units - Rehab)	Aug-93	13 x 1 bed flats, 4 x 1 bed mais's, 3 x 2 bed flats	20	£40,243.32	£3,700	£5,220
19619	Crownhill A (2 units - New Build)	Jul-93	2 x 2 bed houses	2	£6,467.24	£370	£520
19620	Crownhill (LA Funded) Milton Keynes (13 units - New Build)	Jul-93	7 x 2 bed houses, 6 x 3 bed houses	13	£43,139.72	£2,405	£3,510
19625	Longforth Farm, Wellington, Phase 2 (8 units - New Build)	Aug-94	5 x 2 bed houses	8	£25,143.56	£1,480	£2,128
19638	Douglas Road, Aylesbury Vale (21 units - New Build)	Jul-94	6 x 2 bed houses, 15 x 3 bed houses	21	£73,434.40	£3,885	£5,796
19641	Longforth Farm, Wellington, Phase 3 (17 units - New Build)	May-95	11 x 2 bed houses, 5 x 3 bed houses, 1 x 4 bed house	17	£54,704.00	£3,145	£4,522
19644	Harvey Road, Aylesbury (11 units - New Build)	Sep-95	11 x 2 bed houses	11	£38,794.08	£2,035	£2,893
19645	Cranfield Road, Moulsoe (11 units - New Build)	May-95	2 x 2 bed bungs, 8 x 2 bed houses, 1 x 3 bed house	11	£33,698.08	£2,035	£2,871
19654	Frederick Place, Wokingham (33 units - New Build)(1 unit)	Jun-95	16 x 2 bed flats, 2 x 2 bed mais's, 15 x 3 bed houses	33	£129,846.08	£6,105	£9,669
19655	Bushy Park, Totterdown, Bristol (21 units - Rented)	Mar-96	10 x bed flats, 11 x 3 bed houses	21	£65,742.04	£3,885	£5,481
19666	Aylesbury Vale	Dec-94	3 x 2 bed houses, 6 x 3 bed houses	9	£27,474.20	£1,665	£3,006
19667	Hammersmith and Fulham Rehabs (26 units - New Build)	Feb-96	8 x 2 bed houses, 17 x 3 bed houses, 1 x 4 bed house	26	£125,995.48	£4,810	£8,476
19673	Aerodrome Road, Hawkinge	Feb-97	3 x 2 bed bungs, 9 x 2 bed houses, 18 x 3 bed houses, 3 x 4 bed houses	33	£121,833.92	£6,105	£9,108
19674	Netherfield Reserve Site 6, Milton Keynes (23 units)	Feb-96	21 x 2 bed houses, 2 x 3 bed houses	23	£73,976.24	£4,255	£6,049
19675	Villiers Place, Phase 1 Chelmsford	Mar-97	9 x 1 bed flats, 6 x 2 bed flats	15	£47,607.04	£2,775	£3,570
19679	Netherfield Existing Satisfactories (LA Funded)	Apr-96	2 x 1 bed flats, 5 x 2 bed houses, 16 x 3 bed houses, 1 x 4 bed house	19	£69,946.24	£3,515	£6,707

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19685

19 units

19685

£8472

<i>Scheme Code</i>	<i>Scheme Address</i>	<i>Practical Completion Date</i>	<i>Property Type</i>	<i>No. of Units</i>	<i>Gross Annual Rental Income</i>	<i>Annual Management Costs</i>	<i>Annual Maintenance Costs</i>
19680	Studley Knapp, Walnut Tree, Milton Keynes (45 units – New Build)	Apr-96	31 x 2 bed houses, 14 x 3 bed houses	45	£149,884.80	£8,325	£12,015
19681	Hogarth Road, Kensington	May-96	3 x bedsits, 3 x 1 bed flats, 9 x 2 bed flats	15	£73,374.60	£2,775	£4,455
19682	Walnut Tree Close 4, Milton Keynes (23 units – New Build)	May-96	4 x 2 bed flats, 13 x 2 bed houses, 5 x 3 bed houses, 1 x 4 bed house	23	£75,762.44	£4,255	£6,118
19685	Gorrick Square, Wokingham (5 units)	Oct-95	5 x 2 bed bungs	5	£15,862.60	£925	£1,140
19688	Latimer Road (8 units – Rented)	Jan-96	8 x 2 bed bungs	8	£25,495.08	£1,480	£1,824
19696	Villiers Place, Phase 2, Chelmsford	Mar-97	5 x 1 bed flats, 12 x 2 bed flats	17	£75,941.32	£3,145	£4,097
19706	Glebe End, Wokingham	Feb-96	5 x 2 bed houses	5	£18,033.60	£925	£1,330
19708	Lillie Road, London	Oct-97	3 x 1 bed flats, 9 x 2 bed flats, 2 x 4 bed Mais's	14	£67,518.36	£2,590	£3,472
19716	Pilands Wood, Phase 5, Eastleigh	Apr-97	14 x 2 bed houses, 8 x 3 bed houses	22	£81,132.48	£4,070	£5,896
19719	Glendare Street, Barton Hill, Bristol	Apr-97	2 x 2 bed bungs, 35 x 3 bed houses, 5 x 4 bed houses	42	£167,558.56	£7,770	£12,306
19725	Straight Road, Colchester	Sep-96	4 x 2 bed houses, 5 x 3 bed houses	9	£34,547.24	£1,665	£2,448
20179	Thornton Gardens Area C Phase 1, Hull (20 units – New Build)	Sep-94	10 x 1 bed flats, 10 x 3 bed houses	20	£53,213.68	£3,700	£5,160
20217	Holmewood Rehabs, Bradford (10 units – Rehab)	Aug-94	1 x 2 bed house, 7 x 3 bed houses, 2 x 4 bed houses	10	£25,684.36	£1,850	£3,560
20224	Thornton Gardens Area C Phase 2, Hull (36 units – New Build)	Nov-95	35 x 1 bed flats	35	£85,352.28	£6,475	£8,540
20232	Thornton Gardens Area D, Hull (12 units – New Build)	Nov-95	1 x 1 bed flat, 1 x 1 bed mais, 4 x 2 bed houses, 6 x 2 bed bungs	12	£33,711.60	£2,220	£3,096
20241	Melton & Mowbray, Holmewood, Bradford (18 units – Rehab)	Sep-95	12 x 1 bed flats, 6 x 2 bed flats	18	£37,133.20	£3,330	£4,950
20251	Thornton Gardens Area A, Hull (21 units – New Build)	Oct-95	8 x 2 bed houses, 11 x 3 bed houses, 2 x 4 bed bungs	21	£64,265.76	£3,885	£5,859
20263	Jumples Mill, Halifax	Sep-96	12 x 2 bed houses, 6 x 3 bed houses	18	£49,092.16	£3,330	£5,598
20281	Wilson Wood Street A, Batley (15 units – New Build)	Jun-97	15 x 3 bed houses	15	£46,109.96	£2,775	£4,320
20285	54 Sheldon Close, etc, Hull	Apr-96	2 x 2 bed houses, 5 x 3 bed houses	7	£16,631.68	£1,295	£2,464
20288	190 Axminster Close, etc, Hull	Apr-96	5 x 3 bed houses	5	£12,348.44	£925	£1,700
20300	Needwood Road, Bedford	Feb-96	2 x 1 bed houses, 9 x 2 bed houses, 5 x 3 bed houses, 6 x 4 bed houses, 2 x 5 bed houses, 2 x 2 bed bungs	26	£97,407.44	£4,810	£7,176
20308	Dufton Approach, Leeds (16 units – New Build)	May-94	16 x 3 bed houses	16	£50,560.64	£2,960	£4,672
20649	Upper Manor, Phase 4, Sheffield	Dec-95	8 x 1 bed bungs, 2 x 2 bed bungs, 10 x 1 bed houses, 38 x 3 bed houses	58	£169,539.76	£10,730	£19,372
20659	Kelvin Estate, Sheffield (incl. phase 2a)	Nov-97	6 x 2 bed flats, 9 x 2 bed houses, 9 x 3 bed houses, 3 x 4 bed houses	27	£80,531.36	£4,995	£6,453
21707	Strand Road, Phase 2, Preston (5 units – New Build)	Jan-95	5 x 2 bed houses	5	£14,086.80	£925	£1,380
21708	Flakefleet, Phase 3b, Fleetwood (12 units – New Build)	Sep-94	6 x 2 bed houses, 6 x 3 bed houses	12	£34,649.16	£2,220	£3,372
21709	Flakefleet, Phase 4, Fleetwood (3 units – New Build)	Sep-94	3 x 3 bed houses	3	£8,957.52	£555	£846
21711	Flakefleet, Phase 3a, Fleetwood (24 units – New Build)	Sep-94	9 x 2 bed houses, 13 x 3 bed houses, 2 x 4 bed houses	24	£62,114.52	£4,440	£6,864
21722	Charles Saer Site, Phases 1, 2 & 3, Fleetwood (35 units – New Build)	Feb-96	2 x 1 bed flats, 21 x 2 bed houses, 8 x 3 bed houses, 3 x 4 bed houses, 1 x 2 bed bung	35	£104,206.44	£6,475	£10,010
21725	Kincraig Road South, Blackpool (32 units – New Build)	Oct-95	1 x 3 bed bung, 8 x 2 bed houses, 19 x 3 bed houses, 4 x 4 bed houses	32	£93,316.60	£5,920	£8,896
21726	Kincraig Road, Phase 2, Blackpool (29 units – New Build)	Aug-95	13 x 2 bed houses, 12 x 3 bed houses, 4 x 4 bed houses	29	£82,175.60	£5,365	£7,975
21732	Derby Road, Wesham	Apr-96	14 x 2 bed houses, 5 x 3 bed houses	19	£57,241.08	£3,515	£5,035
21747	James Street, Hyndburn (12 units – New Build)	Aug-95	6 x 2 bed houses, 6 x 3 bed houses	12	£38,859.60	£2,220	£3,192
21753	Gressingham Drive, Lancaster	Dec-95	12 x 2 bed houses, 8 x 3 bed houses	20	£62,410.92	£3,700	£5,340
21754	Rutland Close, Hyndburn (9 units – Off The Shelf)	Oct-95	9 x 3 bed houses	9	£28,926.56	£1,665	£2,511
21756	Cameron Croft, Chorley	Feb-97	6 x 2 bed houses, 10 x 3 bed houses	16	£48,207.64	£2,960	£3,304
21758	Mackenzie & Killkerron Close, Chorley	Feb-97	4 x 2 bed houses, 5 x 3 bed houses, 4 x 4 bed houses, 1 x 3 bed bung	14	£45,477.12	£2,590	£3,766
21764/21766	Low Moor Road, Phase 1 & 3, Blackpool	Aug-96	10 x 2 bed flats, 14 x 2 bed houses, 11 x 3 bed houses, 2 x 4 bed houses	37	£111,660.64	£6,845	£9,805
21799	Haynes Street, Bolton	Oct-96	5 x 3 bed houses	5	£15,932.80	£925	£1,355
23018	Welwyn Walk, Miles Platting (S.S.A.F.A.)(8 units – New Build)	Sep-95	7 x 2 bed houses, 2 x 1 bed flats	9	£12,275.12	£1,665	£2,718
23023	Lodge Street, Monsall, Phase 2 (48 units – New Build)	Mar-96	20 x 1 bed flats, 4 x 1 bed houses, 16 x 2 bed houses, 3 x 3 bed houses, 5 x 2 bed bungs	48	£131,333.80	£8,880	£12,240
23024	Elgin Street, Bolton (16 units – New Build)	Nov-95	6 x 2 bed houses, 10 x 3 bed houses	16	£51,302.16	£2,960	£4,336
23026	Crown Lane, Horwich (39 units – New Build)	Apr-96	23 x 2 bed bungs, 6 x 2 bed houses, 10 x 3 bed houses	39	£117,629.20	£7,215	£9,750
23029	Bolton Rehabs (6 units – Rehab)	Dec-95	5 x 2 bed houses, 1 x 3 bed house	6	£14,311.96	£1,110	£1,986
23031	Carr Street, Bury (32 units – New Build)	Feb-97	17 x 2 bed houses, 15 x 3 bed houses	32	£99,173.88	£5,920	£8,320
23032	New Allen Street, Phase 1, Manchester (25 units – New Build)	Feb-96	9 x bed flats, 10 x 2 bed houses, 6 x 3 bed houses	25	£67,963.48	£4,625	£7,175
23033	New Allen Street, Phase 2, Manchester (New Build)	Feb-96	9 x bed flats, 10 x 2 bed houses, 6 x 3 bed houses	25	£69,323.28	£4,625	£7,175
23038	Mancor Voids, Phase 4, Manchester	Jul-96	2 x 2 bed houses, 2 x 3 bed houses	5	£8,926.84	£925	£1,730

<i>Scheme Code</i>	<i>Scheme Address</i>	<i>Practical Completion Date</i>	<i>Property Type</i>	<i>No. of Units</i>	<i>Gross Annual Rental Income</i>	<i>Annual Management Costs</i>	<i>Annual Maintenance Costs</i>
23040	Randal Street, Bolton	Oct-96	6 x 4 bed houses	6	£21,386.56	£1,110	£1,788
24063	Sneinton Railway Lands, Nottingham (18 units – New Build)	Mar-96	6 x 1 bed flats, 4 x 2 bed houses, 4 x 3 bed houses, 4 x 2 bed bungs	18	£52,736.32	£3,330	£4,572
24074	Windermere Drive Phase 2a, Wellingborough (5 units – New Build)	Jan-96	2 x 2 bed houses, 2 x 3 bed houses, 1 x 6 bed house	5	£16,990.48	£925	£1,330
24089	Queen Mary Road, Lincoln (formerly Welland Road)	Jan-96	6 x 2 bed bungs	6	£14,846.52	£1,110	£1,302
24091	Anderby Drive, Lincoln (8 units – New Build)	Jan-96	8 x 2 bed houses	8	£23,301.20	£1,480	£1,952
24092	Laughton Way, Lincoln (5 units – New Build)	Jan-96	5 x 2 bed bungs	5	£14,971.84	£925	£1,085
24093	Walcot Close, Lincoln (9 units – New Build)	Jan-96	9 x 2 bed bungs	9	£26,224.64	£1,665	£1,953
24094	Windermere Drive, Phase 4, Wellingborough	Feb-96	12 x 1 bed flats, 11 x 2 bed houses, 14 x 3 bed houses, 2 x 4 bed houses	39	£114,304.84	£7,215	£10,257
24105	Three Score, Norwich (34 units – New Build)	Jan-96	4 x 2 bed flats, 16 x 2 bed houses, 12 x 3 bed houses, 2 x 4 bed houses	34	£106,062.84	£6,290	£9,146
24106	Chapel Break, Norwich (24 units – New Build)	Nov-95	4 x 2 bed flats, 8 x 2 bed houses, 10 x 3 bed houses, 2 x 3 bed bungs	24	£74,524.84	£4,440	£6,432
40712	Clifton Court, Olney, Berks. (New Build)(aka Malakind Rd)	Jul-92	6 x 2 bed bungs, 6 x 2 bed houses, 4 x 3 bed houses	16	£45,259.24	£2,960	£4,608
60330	St Johns Lane, Bedminster, Bristol	May-93	7 x 2 bed houses	7	£21,309.60	£1,295	£1,974
				<u>3,279</u>	<u>£9,338,077.92</u>	<u>£606,615</u>	<u>£923,186</u>

## SECTION 5: UNITED KINGDOM TAXATION

The following is a summary of the Issuer's understanding of current United Kingdom law and Inland Revenue practice. This section is general in nature, does not purport to be a complete analysis of all United Kingdom tax considerations relating to the Bonds, and should be treated with appropriate caution. Some aspects do not apply to certain classes of person (such as dealers in securities). Additionally, this section only applies to Bondholders who are the beneficial owners of the Bonds and the related interest and in circumstances where the interest on the Bonds is not, by virtue of United Kingdom tax law, deemed to be the income of any other person. Prospective Bondholders who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the United Kingdom should seek their own professional advice.

### 1. United Kingdom Withholding Tax

Interest on the Bonds will constitute United Kingdom source income. Subject to the various conditions set out below, interest may be paid by the Issuer without withholding for, or on account of, United Kingdom income tax if the Bonds in respect of which the interest is paid either:

- (a) constitute "quoted Eurobonds"; or
- (b) are owned by a Bondholder whose usual place of abode is within the United Kingdom.

The Bonds will constitute "quoted Eurobonds" within the meaning of section 124 of the Income and Corporation Taxes Act 1988 ("TA 1988"), so long as the Bonds remain in bearer form and continue to be listed on a "recognised stock exchange" within the meaning of section 841 TA 1988 (the London Stock Exchange is currently a "recognised stock exchange" for this purpose).

#### (A) Paying Agents

- (1) While the Bonds in respect of which the interest is paid are in Temporary or Permanent Global Form and are quoted Eurobonds (see above), payments of interest may be made without withholding or deduction for, or on account of, United Kingdom income tax provided that:
  - (a) payment is made by or through a person who is not in the United Kingdom.
  - (b) the Bonds are held in a "recognised clearing system" (within the meaning of section 841A TA 1988 (Euroclear and Cedel Bank are each designated as a "recognised clearing system")); and
    - (i) payment is made direct to the "recognised clearing system"; or
    - (ii) payment is made to, or at the direction of, a depository for the "recognised clearing system" and the paying agent has obtained a valid declaration PA3 from that depository; or
    - (iii) the paying agent has obtained a notice from the Inland Revenue instructing the paying agent to pay interest with no tax deducted or withheld.
- (2) If the Permanent Global Bond is exchanged for definitive Bonds which are (and continue to be) quoted Eurobonds, then payment of interest on such Bonds (for the purposes of this paragraph the "Definitive Bonds") may be made without United Kingdom withholding or deduction for, or on account of, United Kingdom income tax where:
  - (a) the person by or through whom the payment is made is not in the United Kingdom; or
  - (b) the payment is made by or through a person who is in the United Kingdom and either:
    - (i) a person who is not resident in the United Kingdom is beneficially entitled to the interest and is the beneficial owner of the Definitive Bonds on which the interest is paid and either:
      - (1) the paying agent obtains a valid declaration PA1 from the said person on the occasion of each payment; or

- (2) the paying agent obtains on the occasion of each payment a valid declaration PA2 from another person who holds the Definitive Bonds for the non-resident person and who is entitled to arrange for the interest to be paid with no United Kingdom income tax deducted or withheld; or
  - (3) the paying agent has obtained a notice from the Inland Revenue instructing the paying agent to pay the interest with no United Kingdom income tax deducted or withheld; or
- (ii) the Definitive Bonds are held in a “recognised clearing system” and one of the conditions described at Section 5.1(A)(1)(b)(i), (ii) or (iii) above is satisfied.

**(B) Registered Industrial and Provident Societies**

The Issuer is a “registered industrial and provident society” within the meaning of section 486 TA 1998. For so long as the Issuer remains a “registered industrial and provident society”, payments of interest may be made without withholding or deduction for, or on account of, United Kingdom income tax to a Bondholder where it is established to the satisfaction of the Issuer and the Paying Agent that that Bondholder is a person whose usual place of abode is within the United Kingdom.

**In all other cases, interest will be paid under deduction of United Kingdom income tax at the lower rate, currently 20 per cent., subject to any direction to the contrary by the Inland Revenue pursuant to the provisions of any appropriate double taxation treaty. If interest is paid under deduction of United Kingdom income tax, the Issuer is obliged to pay an additional amount to any Bondholder in respect of such deduction in accordance only with Condition 4(J) and subject to the exceptions set out in sub-paragraphs (a) to (c) thereof.**

**(C) Collecting Agents**

If the Bonds are and continue to be quoted Eurobonds (see above), any person in the United Kingdom who, in the course of a trade or profession:

- (i) acts as a custodian of the Bonds and receives any interest or such interest is paid to another person at his direction or with his consent; or
- (ii) by means of coupons, warrants or bills of exchange collects or secures payment of or receives interest on the Bonds for another person;
 

(in either case, other than merely by clearing or arranging to clear a cheque) may be required to account for (and therefore may withhold) United Kingdom income tax at the lower rate (currently 20 per cent.) from such interest. No such withholding will be required, however if:

  - (a) a person who is not resident in the United Kingdom for UK tax purposes beneficially owns the Bond and is beneficially entitled to the interest; or
  - (b) the Bonds are held in a recognised clearing system (see above) and the interest is paid directly or indirectly to the recognised system; or
  - (c) the Bonds are held in a recognised clearing system (see above) and the interest is paid to a depository for that recognised clearing system;

and, in each of (a), (b) and (c) above, the person concerned has received a declaration in the form required by regulations made by the Inland Revenue or the Inland Revenue has given notice that it considers that one or more of (a), (b) and (c) above is satisfied.

Additionally, no withholding will be required where a collecting agent pays interest to, *inter alia*, one of the following persons (provided that a valid declaration or notice from the Inland Revenue under the Income Tax (Paying and Collecting Agents) Regulations 1996 as amended by the Income Tax (Paying and Collecting Agents) (Amendment) Regulations 1997 has been obtained):

- (i) banks which are resident in the United Kingdom and which are beneficially entitled to the interest and beneficial owners of the Bonds;
- (ii) trustees of qualifying discretionary or accumulation trusts;
- (iii) UK charities;

- (iv) certain UK pension funds and schemes which are approved for UK tax purposes;
- (v) sovereign powers and their governments;
- (vi) international organisations of which two or more sovereign powers or their governments are members;
- (vii) certain superannuation funds;
- (viii) managers of Personal Equity Plans;
- (ix) certain common investment funds;
- (x) persons with diplomatic or consular immunity; and
- (xi) local authorities and health service bodies.

#### **(D) Declarations**

In all cases declarations made on or before the fourteenth day of the month will be effective from the first day of the previous month. Declarations received after the fourteenth day of the month are effective from the first day of the month in which they are received.

Any declaration referred to above will not have effect in relation to any interest payments or receipts where either:

- (a) the person who made the declaration has notified the paying agent or collecting agent that the declaration does not apply, or has ceased to apply, to the payment or receipts in question; or
- (b) the paying agent or collecting agent has reason to believe that the declaration is or has become incorrect as respects the relevant payments or receipts; or
- (c) the paying agent or collecting agent has subsequently received notice from the Inland Revenue directing that such payments or receipts are chargeable payments or receipts (as the case may be).

### **2. Income Profits and Capital Gains**

Generally, interest which has a United Kingdom source will be within the charge to United Kingdom tax even if paid without withholding or deduction. By way of exception to this, if interest is received by a Bondholder who is not resident for tax purposes in the United Kingdom without withholding or deduction for or on account of United Kingdom income tax (as described in section 5.1 above) that Bondholder will not be chargeable to tax on such interest in the United Kingdom, unless such Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Bonds held by the Bondholder are attributable. There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers) which are not a "UK representative" of that Bondholder for the purposes of section 126 of, and schedule 23 to, the Finance Act 1995.

Exemption from, or a reduction or refund of, such United Kingdom tax liability may be available under the provisions of an applicable double taxation treaty.

The Bonds will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, neither a chargeable gain nor an allowable loss will arise on a disposal or redemption of the Bonds for the purposes of United Kingdom taxation of chargeable gains.

### **3. Corporation Tax Payers**

A Bondholder within the charge to United Kingdom corporation tax in respect of a Bond (including a Bondholder so chargeable in relation to a branch or agency in the United Kingdom) will, generally, be liable to corporation tax on any profits (and obtain relief for permitted losses) on the Bonds under the provisions relating to "Loan Relationships" contained in Chapter II, Part IV of the Finance Act 1996. Profits for these purposes will include interest, any discount and any premium paid on redemption. Any such profits or permitted losses on the Bonds will generally be chargeable in accordance with either an authorised accruals or mark to market basis of accounting by reference to accounting periods.

For such Bondholders, the “accrued income scheme” (described in Section 5.5 below) and the exemption relating to “qualifying corporate bonds” (described in Section 5.2 above) will not apply.

#### **4. Income Tax Payers (individuals)**

A Bondholder who is an individual resident or ordinarily resident for tax purposes in the United Kingdom will be chargeable to United Kingdom tax on income in respect of any interest payable on the Bonds and on any premium payable on redemption.

#### **5. Accrued Income Scheme**

A Bondholder (other than a Bondholder within the charge to corporation tax in respect of the relevant Bond as described in Section 5.3 above) who is resident or ordinary resident in the United Kingdom or carrying on a trade in the United Kingdom through a branch or agency with which the ownership of the Bond is connected may be chargeable to United Kingdom tax on income of an amount treated (by rules known as the “accrued income scheme” contained in Chapter II of Part IV of TA 1988) as representing interest accrued on the Bond at the time of disposal (determined on a daily accruals basis).

#### **6. Stamp Duty**

No United Kingdom stamp duty or stamp duty reserve tax (“SDRT”) is payable on the issue of the Temporary or Permanent Global Bond or on the issue or transfer by delivery of a Bond in definitive bearer form. A written transfer of Bonds while they are represented by the Temporary or Permanent Global Bond may give rise to liability to United Kingdom stamp duty depending on the nature of the arrangements made by a Bondholder with Euroclear or Cedel Bank, although a transfer of Bonds in such form should not give rise to a liability to SDRT.



## SECTION 6: PURCHASE AND SALE

Pursuant to a subscription agreement (the "Subscription Agreement") dated 27th May 1998, Dresdner Bank A.G. London Branch (the "Manager") has agreed to purchase and subscribe for the Original Bonds at a price equal to the issue price of 100.521 per cent. of the nominal amount of the Original Bonds. The Manager will be paid, in respect of the Original Bonds, a combined management and underwriting and selling commission of 0.625 per cent. of the nominal amount of the Original Bonds. The Manager is entitled to be released and discharged from its obligations under the Subscription Agreement in certain circumstances prior to payment to the Issuer. The Issuer has agreed to indemnify the Manager against certain liabilities in connection with the subscription and purchase of the Original Bonds.

The Manager has represented and agreed, *inter alia*, that:

- (a) it has not offered or sold and will not offer or sell any Original Bonds to persons in the United Kingdom prior to admission of the Original Bonds to listing in accordance with Part IV of the Financial Services Act 1986 (the "FSA") except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the FSA;
- (b) it has complied and will comply with applicable provisions of the FSA with respect to anything done by it in relation to the Original Bonds in, from or otherwise involving the United Kingdom; and
- (c) it has only issued or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the Original Bonds, other than any other document which consists of or any part of listing particulars, supplementary listing particulars or any other document required or permitted to be published by listing rules under Part IV of the FSA, to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 (as amended) or is a person to whom such document may otherwise lawfully be issued or passed on.

The Original Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the "Securities Act") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Original Bonds, (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering of the Original Bonds and the Closing Date (except in accordance with Rule 903 of Regulation S), and it will have sent to each distributor, dealer or other person to which it sells Original Bonds during the restricted period a confirmation or other notice setting forth the restrictions on offers and sales of the Original Bonds within the United States or to, or for the account or benefit, of U.S. persons. In addition, until 40 days after the commencement of the offering of the Original Bonds, an offer or sale of Original Bonds within the United States by a dealer that is not participating in the offering may violate the requirements of the Securities Act.

The Original Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a U.S. person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by U.S. Internal Revenue Code and regulations thereunder.

Save for having obtained the approval of the Offering Circular as listing particulars by the London Stock Exchange in accordance with Part IV of the Financial Services Act 1986 and for having procured the delivery of a copy of the Offering Circular for registration to the Registrar of Companies in England and Wales, no action has been taken by the Issuer or the Manager which would or is intended to permit a public offering of Original Bonds, or possession or distribution of the Offering Circular or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that

purpose is required. The Manager has undertaken to comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Bonds or has in its possession or distributes the Offering Circular or any such other material.

This document 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.

Reference should be made to the Subscription Agreement for a complete description of the restrictions on offers and sales of Original Bonds and on distribution of documents. Attention is also drawn to the information set out on the inside front cover of this document.

## **SECTION 7: OTHER INFORMATION**

### **1. Documents available for inspection**

Copies of the following documents will be available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the registered office of The North British Housing Association Limited and at the offices of Trowers & Hamlins, 6 New Square, Lincoln's Inn, London WC2A 3RP for 14 days from the date hereof:

- (a) the Rules of The North British Housing Association Limited and its annual reports and accounts for the three years ended 31 March 1997;
- (b) a draft, subject to amendment, of the Trust Deed to constitute and secure the Bonds;
- (c) a draft, subject to amendment, of the Paying Agency Agreement;
- (d) the Subscription Agreement; and
- (e) the Report of DTZ Piedad Consulting set out in Section 4 and their written consent referred to in paragraph 2(d) below.

### **2. Miscellaneous**

- (a) Neither North British nor any of its subsidiaries is involved in any legal or arbitration proceedings (including any such proceedings which are pending or threatened of which North British is aware) which may have, or have had during the past twelve months, a significant effect on the financial position of North British and its subsidiaries;
- (b) Save as disclosed herein, there has been no significant change in the financial or trading position of North British and its subsidiaries since 31 March 1997, being the date to which its latest published audited accounts were made up. In addition, save as disclosed, there has been no material adverse change in the financial position or the prospects of North British and its subsidiaries since 31 March 1997;
- (c) The Auditors of North British, who have audited the annual accounts of North British without qualification for the three financial years to 31 March 1997, are Coopers & Lybrand, Chartered Accountants, 8 Princes Parade, St Nicholas Place, Liverpool L3 1QJ.
- (d) DTZ Piedad Consulting has given and has not withdrawn its written consent to the issue of this document with its letter and references thereto included herein in the form and context in which it appears and have authorised the contents of that part of the listing particulars for the purposes of Section 152(1)(e) of the Financial Services Act 1986.
- (e) The Trustee is a trust corporation whose registered office is at 142 Holborn Bars, London EC1N 2NH.

## THE ISSUER

### **The North British Housing Association Limited**

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## LEGAL ADVISERS

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*To the Listing Agent, Manager  
and Underwriter*

**Wilde Sapte**  
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## TRUSTEE

### **Prudential Trustee Company Limited**

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London EC1N 2NH

## LISTING AGENT

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London EC3P 3DB

## MANAGER AND UNDERWRITER

**Dresdner Bank A.G. London Branch**  
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London EC3P 3DB

## PAYING AGENT

### **The Chase Manhattan Bank N.A.**

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9 Thomas More Street  
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## AUDITORS

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