

## PROGRAMME MEMORANDUM



### MORHOMES PLC

(incorporated in England and Wales with limited liability under the Companies Act 2006 with registration number 10974098)

**£5,000,000,000**

### **Secured Euro Medium Term Note Programme**

Under this £5,000,000,000 Secured Euro Medium Term Note Programme (the **Programme**), MORhomes PLC (the **Issuer**) may from time to time issue notes (the **Notes**) denominated in Sterling.

Notes may be issued in bearer or registered form (respectively **Bearer Notes** and **Registered Notes**). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed £5,000,000,000, subject to increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Programme Memorandum to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

**An investment in Notes issued under the Programme involves certain risks. For a discussion of these risks see "*Risk Factors*".**

Subject as set out below, the net proceeds from each issue of Notes will be advanced by the Issuer to one or more (a) Registered Providers of Social Housing in England (**Registered Providers**), Registered Social Landlords in Wales (**Welsh RSLs**) or Registered Housing Associations in Northern Ireland (**RHAs** and, together with Registered Providers and Welsh RSLs, **Direct RP Borrowers** and each a **Direct RP Borrower**) and/or (b) finance subsidiary undertakings of the parent entity within a group of which one or more Registered Providers, Welsh RSLs or RHAs are a member of such group (**Finance Subsidiary Borrowers** and each a **Finance Subsidiary Borrower** and, together with each Direct RP Borrower, each a **Borrower**) who shall on-lend such funds pursuant to intra-group loan agreements (**Intra-Group Loan Agreements** and each an **Intra-Group Loan Agreement**) to one or more Registered Providers, Welsh RSLs or RHAs within such group (**Indirect RP Borrowers** and each, an **Indirect RP Borrower** and, together with each Direct RP Borrower, each an **RP Borrower**), in the case of paragraph (a) and (b) above, pursuant to one or more loan agreements (each, a **Loan Agreement** and the loan pursuant to a Loan Agreement, a **Loan**). The Issuer's obligations in respect of all series (**Series**) of Notes issued under the Programme will be secured by a first floating charge over the whole of the assets and undertaking of the Issuer (other than, *inter alia*, the money representing the ordinary share capital of the Issuer) in favour of The Law Debenture Trust Corporation p.l.c. (the **Trustee**) for the benefit of the holders of all Series of Notes.

Application has been made to the London Stock Exchange plc (the **London Stock Exchange**) for Notes issued by the Issuer under the Programme during the period of 12 months from the date of this Programme Memorandum to be admitted to the London Stock Exchange's International Securities Market (**ISM**). The ISM is not a regulated market for the purposes of Directive 2014/65/EU (as amended, **MiFID II**).

**The ISM is a market designated for professional investors. Notes admitted to trading on the ISM are not admitted to the Official List of the UK Listing Authority. The London Stock Exchange has not approved or verified the contents of this Programme Memorandum.**

References in this Programme Memorandum to Notes being **admitted to trading** (and all related references) shall mean that such Notes have been admitted to trading on the ISM, so far as the context permits.

The Programme provides that Notes may be listed and/or admitted to trading on such other or further stock exchange or stock exchanges as may be agreed between the Issuer and the relevant Dealer.

Notice of the aggregate principal amount of Notes, interest (if any) payable in respect of Notes and the issue price of Notes and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set forth in a pricing supplement (the **Pricing Supplement**) which, with respect to Notes to be admitted to trading on the ISM, will be delivered to the London Stock Exchange. Copies of Pricing Supplements in relation to Notes to be admitted to trading on the ISM will also be published on the website of the London Stock Exchange through a regulatory information service or will be published in such other manner permitted by the International Securities Market Rulebook effective as of 8 May 2017 (as may be modified and/or supplemented and/or restated from time to time, the **ISM Rulebook**).

This Programme Memorandum does not constitute a base prospectus for the purposes of a listing or an admission to trading on any market in the European Economic Area (the **EEA**) which has been designated as a regulated market for the purposes of MiFID II. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the **Securities Act**) or any U.S. State securities laws and may not be offered or sold in the United States or, if Category 2 is specified in the Pricing Supplement, to, or for the account or the benefit of, U.S. persons as defined in Regulation S under the Securities Act unless an exemption from the registration requirements of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction.

The Issuer has been rated "A-" by Standard & Poor's Credit Market Services Europe Limited (**S&P**). The Programme has been rated "A-" by S&P. Notes issued under the Programme may be rated or unrated by S&P. Where a Tranche of Notes is rated, such rating will be disclosed in the Pricing Supplement and will not necessarily be the same as the rating assigned to the Programme by S&P. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

*Arranger*

**Barclays**

*Dealers*

**Barclays  
Citigroup  
Morgan Stanley  
Nomura**

**BofA Merrill Lynch  
J.P. Morgan  
NatWest Markets  
Santander**

The date of this Programme Memorandum is 11 January 2019.

## **IMPORTANT INFORMATION**

**This Programme Memorandum comprises admission particulars in respect of all Notes issued under the Programme and admitted to trading, in accordance with the ISM Rulebook.**

**The Issuer accepts responsibility for the information contained in this Programme Memorandum and the Pricing Supplement for each Tranche of Notes issued under the Programme. Having taken all reasonable care to ensure that such is the case, the information contained in this Programme Memorandum is, to the best of the Issuer's knowledge, in accordance with the facts and contains no omission likely to affect the import of such information.**

**None of the Arranger, the Dealers and the Trustee (as defined below) have independently verified (a) the information contained herein or (b) any matter which is the subject of any statement, representation, warranty or covenant of the Issuer contained in the Notes or any of the Programme Agreement, the Trust Deed or the Agency Agreement (together, the *Programme Documents*). Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers or the Trustee as to (a) the accuracy or completeness of the information contained in this Programme Memorandum or any other information provided by the Issuer in connection with the Programme or (b) the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of the Notes or any Programme Document. None of the Arranger, the Dealers and the Trustee accepts any liability in relation to the information contained in this Programme Memorandum or any other information provided by the Issuer in connection with the Programme.**

**No person is or has been authorised by the Issuer, the Arranger, any of the Dealers or the Trustee to give any information or to make any representation not contained in or not consistent with this Programme Memorandum or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger, any of the Dealers or the Trustee.**

**Neither this Programme Memorandum nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, the Arranger, any of the Dealers or the Trustee that any recipient of this Programme Memorandum or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Programme Memorandum nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer, the Arranger, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Notes.**

**Neither the delivery of this Programme Memorandum nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained in it concerning the Issuer is correct at any time subsequent to its date or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealers and the Trustee expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in Notes issued under the Programme of any information coming to their attention.**

**IMPORTANT – EEA RETAIL INVESTORS –** If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (EEA). For these purposes, a retail investor means a person who is

one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**MiFID II product governance / target market** – The Pricing Supplement in respect of any Notes will include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

## **IMPORTANT INFORMATION RELATING TO THE USE OF THIS PROGRAMME MEMORANDUM AND OFFERS OF NOTES GENERALLY**

This Programme Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Programme Memorandum and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Arranger, the Dealers and the Trustee do not represent that this Programme Memorandum may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger, the Dealers or the Trustee which is intended to permit a public offering of any Notes or distribution of this Programme Memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Programme Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Programme Memorandum or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Programme Memorandum and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Programme Memorandum and the offer or sale of Notes in the United States and the United Kingdom (**UK**) and, if applicable, a prohibition of the sale of Notes to EEA retail investors, see "*Subscription and Sale*".

## **PRESENTATION OF INFORMATION**

### **Certain Defined Terms and Conventions**

Capitalised terms which are used but not defined in any particular section of this Programme Memorandum will have the meaning attributed to them in "*Terms and Conditions of the Notes*" or any other section of this Programme Memorandum. In addition, the following terms as used in this Programme Memorandum have the meanings defined below:

references to **Sterling** and **£** refer to pounds sterling; and

references to a **billion** are to a thousand million.

Certain figures and percentages included in this Programme Memorandum have been subject to rounding adjustments; accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

### **SUITABILITY OF INVESTMENT**

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Programme Memorandum or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;
- (iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and
- (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

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## STABILISATION

**In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) acting as the Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in the applicable Pricing Supplement may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilisation Manager(s) (or persons acting on behalf of any Stabilisation Manager(s)) in accordance with all applicable laws and rules.**

## OVERVIEW OF THE PROGRAMME

*The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Programme Memorandum and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. The Issuer and any relevant Dealer may agree that Notes shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, and if appropriate, a new Programme Memorandum or a supplement to this Programme Memorandum will be published.*

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this Overview.

Issuer:	MORhomes PLC
Issuer Legal Entity Identifier (LEI):	213800YN2RFMRU87SB68
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under " <i>Risk Factors</i> " below and include factors which may affect the Issuer's ability to fulfil its obligations under the Notes, a Borrower's ability to fulfil its obligations under the relevant Loan Agreement and/or an Indirect RP Borrower's ability to fulfil its obligations under the relevant Intra-Group Loan Agreement. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme and risks relating to the structure of a particular Series of Notes issued under the Programme.
Description:	Secured Euro Medium Term Note Programme
Arranger:	Barclays Bank PLC
Dealers:	Banco Santander, S.A. Barclays Bank PLC Citigroup Global Markets Limited J.P. Morgan Securities plc Merrill Lynch International Morgan Stanley & Co. International plc NatWest Markets Plc Nomura International plc and any other Dealers appointed in accordance with the Programme Agreement.
Trustee:	The Law Debenture Trust Corporation p.l.c.
Issuing and Principal Paying Agent:	The Bank of New York Mellon, London Branch
Registrar and Transfer Agent:	The Bank of New York Mellon SA/NV, Luxembourg Branch
Certain Restrictions:	Each issue of Notes will only be issued in circumstances which comply with all applicable laws, guidelines, regulations, restrictions or reporting requirements from time to time (see

"*Subscription and Sale*") including the following restrictions applicable at the date of this Programme Memorandum.

**Notes having a maturity of less than one year**

Notes having a maturity of less than one year will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (**FSMA**) unless they are issued to a limited class of professional investors and have a denomination of at least £100,000, see "*Subscription and Sale*".

- Programme Size: Up to £5,000,000,000 outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
- Distribution: Notes may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.
- Currencies: Notes will be denominated in Sterling only (although the Issuer may issue Notes denominated in other currencies in the circumstances specified in Condition 7(m)).
- Maturities: The Notes will have such maturities as may be agreed between the Issuer and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Issuer or Sterling.
- Issue Price: Notes may be issued on a fully-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
- Form of Notes: The Notes will be issued in either bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and *vice versa*.
- Notes: Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
- Redemption: Unless redeemed early as described below, the Notes will be scheduled to be redeemed on the Expected Maturity Date specified in the applicable Pricing Supplement. However, if and to the extent that insufficient funds are available to the Issuer to make redemption in full on the Expected Maturity Date, the redemption of the Notes will be postponed to a date not later than the Legal Maturity Date specified in the applicable Pricing Supplement.
- The applicable Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than following an Associated Loan default or following an



Event of Default) or that such Notes will be redeemable at the option of the Issuer upon giving notice to the Noteholders on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

As further described in Condition 10.3, if an Associated Loan relating to the Notes of a Series is repaid prior to its scheduled repayment date as a result of a default thereunder by the relevant Borrower, the Issuer may (but is not obliged to) redeem all or some only of the Notes then outstanding, in an aggregate nominal amount not exceeding the principal amount of the Associated Loan so repaid, at par (together with accrued interest).

Notes having a maturity of less than one year may be subject to restrictions on their denomination and distribution, see "*Certain Restrictions – Notes having a maturity of less than one year*" above.

Denomination of Notes:

The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to Sterling, see "*Certain Restrictions - Notes having a maturity of less than one year*" above, and save that the minimum denomination of each Note will be £100,000.

Taxation:

All payments in respect of the Notes will be made without withholding or deduction for or on account of withholding taxes imposed by any tax jurisdiction unless such withholding or deduction is required by law as provided in Condition 11. In the event that any such withholding or deduction is made, the Issuer will not be obliged to pay any additional amounts to Noteholders or Couponholders in respect of any such withholding or deduction, nor will it be required to redeem the Notes.

Liquidity Facility Agreements:

The Issuer may have, but is not obliged to have, in place one or more liquidity facility agreements (if any).

Status of the Notes:

The Notes will constitute direct, unconditional, unsubordinated and secured obligations of the Issuer and will rank *pari passu* among themselves.

Security:

The Notes will be secured by a first floating charge on the Issuer's undertaking, property and assets.

Priority of Payments:

Payments on the Notes will be made in accordance with the Pre-enforcement Priority of Payments, pursuant to which (i) Issuer Expenses and amounts due to Liquidity Facility Providers (if any) are paid ahead of payments on the Notes and (ii) certain payments on the Second Secured Debt and Subordinated Debt (which rank below the Notes) and payments of dividends to shareholders are subject to compliance by the Issuer with the Senior Note Buffer Amount Test and the Capital Percentage Test (as further described

below).

Covenants:

The Issuer will be subject to various covenants, including, but not limited to, the following:

- (i) not elect to redeem, repay, repurchase or otherwise acquire any Second Secured Debt or Subordinated Debt or any of its shares (of any class), declare, pay or make any dividend or other distribution to its shareholders or make any gift aid payment (i) unless and to the extent that immediately thereafter there will remain outstanding Second Secured Debt, Subordinated Debt, share capital and accumulated reserves with an aggregate outstanding principal amount at least equal to 5 per cent. of the aggregate outstanding principal amount of all Senior Notes or such greater or lesser percentage of the aggregate outstanding principal amount of all Senior Notes as is required from time to time to ensure that the then existing rating assigned by each Rating Agency of the Senior Notes is not adversely affected (the **Capital Percentage Test**) and (ii) (notwithstanding that the Capital Percentage Test may be satisfied) if such redemption, repayment, repurchase, acquisition, declaration or payment is funded in whole or in part by funds received from any Liquidity Facility Drawing;
- (ii) not declare, pay or make any dividend or other distribution to its shareholders or make any gift aid payment if an event of default or potential event of default under any Loan Agreement has occurred and is continuing;
- (iii) not declare, pay or make any dividend or other distribution to its shareholders or make any gift aid payment or make any distribution to holders of Subordinated Debt if the Issuer has made, and not repaid, a Liquidity Facility Drawing;
- (iv) (other than in the winding up of the Issuer) not make payments in respect of its Second Secured Debt, Subordinated Debt or share capital or any gift aid payment except to the extent that (assuming compliance by the Issuer with Condition 7 and without double counting) the sum of (i) the Available Liquidity Receipts; (ii) any other amounts capable of being drawn as Liquidity Facility Drawings at such time (and which the Issuer determines would, if left undrawn, be capable of continuing to be drawn during the following 12 months); and (iii) the Available Issuer Receipts then held by it or which it reasonably expects to receive during the following 12 months, are (in aggregate) expected to be sufficient to cover in full all amounts referred to in items 6.1(a) to (d) of the Pre-enforcement Priority of Payments

falling due during such 12-month period (the **Senior Note Buffer Amount Test**);

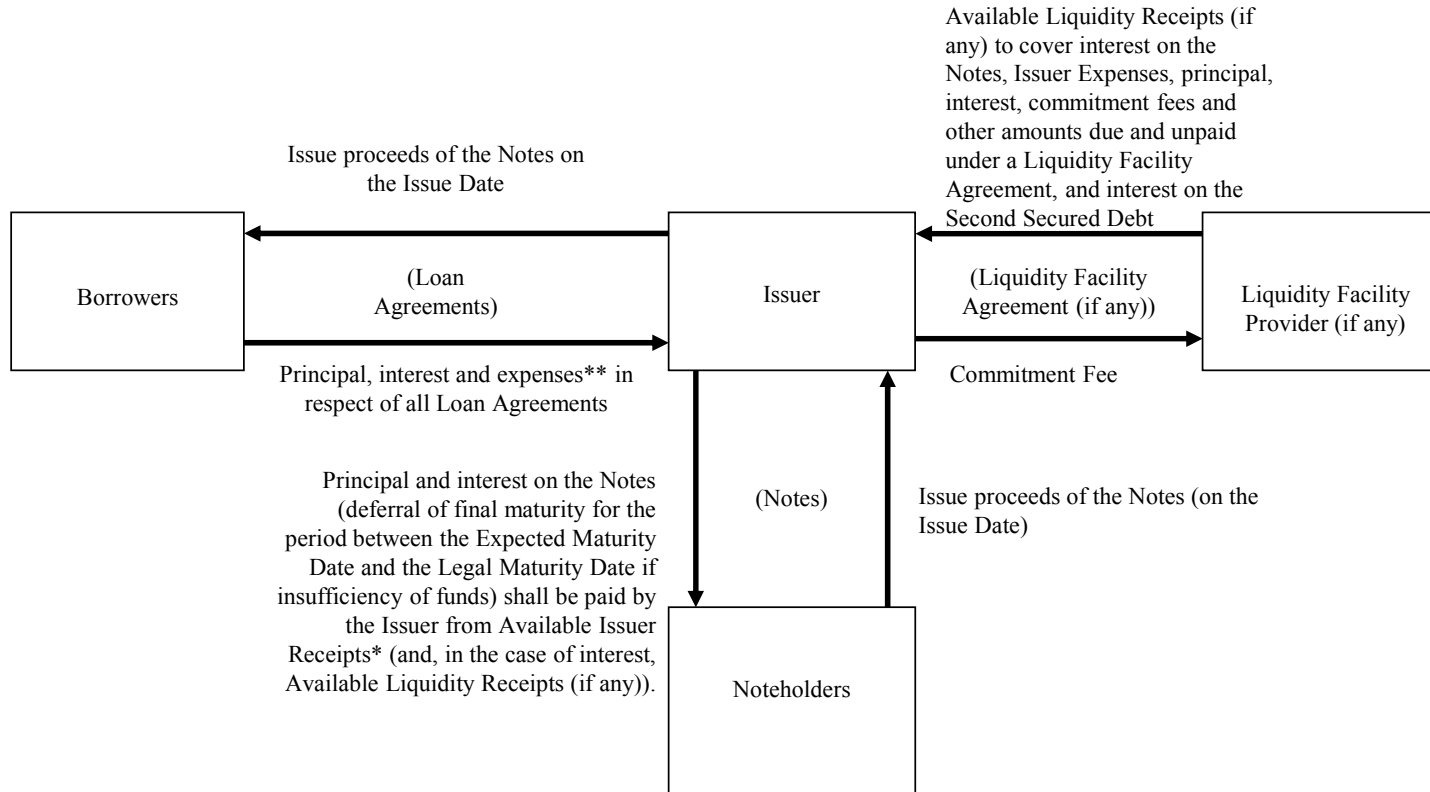
- (v) not incur any indebtedness except (i) Issuer Expenses, (ii) pursuant to one or more Liquidity Facility Agreements (if any), (iii) in the form of Senior Notes, Second Secured Debt or Subordinated Debt, or (iv) in another form if and to the extent that the Issuer is satisfied that such incurrence will not result in the then existing rating of the Senior Notes being adversely affected;
- (vi) not create any other security, other than, *inter alia*, a Second Secured Debt Floating Charge on terms that such Second Secured Debt Floating Charge ranks after the First Floating Charge and notwithstanding that such Second Secured Debt Floating Charge may have become enforceable in accordance with the terms of a document which creates such Second Secured Debt Floating Charge, the relevant chargee(s) will not, without the consent of the Trustee, take any steps to enforce such Second Secured Debt Floating Charge (A) until the satisfaction of a Second Secured Debt Enforcement Condition; or (B) at any time after the Trustee has commenced enforcement of the First Floating Charge in accordance with the Terms of the Trust Deed;
- (vii) not engage in any activity other than raising finance and on-lending such finance to Registered Providers, Welsh RSLs, RHAs and Finance Subsidiary Borrowers;
- (viii) not to enter into any derivative contracts, save for any "back to back" for the purposes of hedging liabilities under any Senior Notes or Liquidity Facility Agreements against receipts under Loan Agreements or other assets of the Issuer;
- (ix) not issue Notes unless, *inter alia*, the Issuer is satisfied that such issuance will not result in the then existing rating of the Senior Notes being adversely affected;
- (x) not to lend to any Borrower on terms less onerous to such Borrower than the then current Minimum Lending Terms, not to agree to a modification of any Loan Agreement which would have the effect of making the terms of such Loan Agreement less onerous to the Borrower than the then current Minimum Lending Terms (other than on a temporary basis, where "temporary" may not exceed six months) and not to amend the Minimum Lending Terms, in each case, except to the extent that the Issuer is satisfied that its then existing rating of the Senior Notes will not be adversely affected; and
- (xi) not to issue or incur any Second Secured Debt or Subordinated Debt except in certain specified

circumstances.

Rating:	<p>The Programme has been rated "A-" by S&amp;P. Series of Notes issued under the Programme may be rated or unrated. Where a Series of Notes is rated, such rating will be disclosed in the applicable Pricing Supplement and will not necessarily be the same as the rating assigned to the Programme. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.</p>
Admission to trading:	<p>Application has been made for Notes issued under the Programme to be admitted to trading on the ISM.</p> <p>Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the relevant Series. Notes which are neither listed nor admitted to trading on any market may also be issued.</p> <p>The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.</p>
Governing Law:	<p>The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.</p>
Selling Restrictions:	<p>There are restrictions on the offer, sale and transfer of the Notes in the United States, and the United Kingdom and, if the Notes are listed on the ISM or if otherwise applicable, a prohibition on the sale of Notes to EEA retail investors and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes, see "<i>Subscription and Sale</i>".</p>
United States Selling Restrictions:	<p>Regulation S, Category 1/2. TEFRA C/TEFRA D/TEFRA not applicable, as specified in the applicable Pricing Supplement.</p>

## TRANSACTION OVERVIEW

*The following transaction overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Programme Memorandum. Capitalised terms have the meanings ascribed to them in the Conditions.*



\* Available Issuer Receipts includes all amounts from time to time received or held, and available for use, by the Issuer. As such Available Issuer Receipts includes principal and interest received from the Borrowers under the Loan Agreements and reserves of the Issuer from the Second Secured Debt, the Subordinated Debt and share capital of the Issuer.

\*\*Each Borrower will be responsible for paying its share of the expenses and this will be factored into the interest rate payable under the relevant Loan Agreement. There will also be a separate obligation on each Borrower in the relevant Loan Agreement to pay any additional expenses to the extent that they are not covered by the interest that they are required to pay.

## **RISK FACTORS**

*In purchasing Notes, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Notes. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deems not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Programme Memorandum a number of factors which could materially adversely affect its business and ability to make payments due.*

*In addition, factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.*

*Prospective investors should also read the detailed information set out elsewhere in this Programme Memorandum and reach their own views prior to making any investment decision.*

### **FACTORS THAT MAY AFFECT THE ISSUER'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME**

#### **Purpose of the Issuer**

The sole purpose of the Issuer is to raise finance for the social housing sector with no business operations other than the incurrence of financial indebtedness, including the issuance of the Notes and on-lending the proceeds of the issue of Notes to Registered Providers, Welsh RSLs, RHAs and Finance Subsidiary Borrowers, the entry into and performance of its obligations under the Programme Documents and any act considered by the Issuer to be incidental or necessary in connection with the aforesaid. As such the Issuer is entirely dependent upon receipt of funds received from the Borrowers, any drawings it makes under its Liquidity Facility Agreements (if any) and any available cash balances in order to fulfil its obligations under the Notes, including the timely payment of interest and principal to Noteholders. A shortage of available cash funds from either the Borrowers or drawings under its Liquidity Facility Agreements (if any) may adversely affect the ability of the Issuer to meet its payment obligations under the Notes.

#### **Credit Risk**

The Issuer, and therefore payments by the Issuer in respect of the Notes, will be subject to the performance and credit risk of the Borrowers. The Issuer will be primarily subject to the risk of delays in the receipt, or risk of defaults in the making, of payments due from the Borrowers in respect of the Loan Agreements. In the case of Borrowers that are Finance Subsidiary Borrowers, the Issuer will also be subject to the credit risk of the Indirect RP Borrowers, see "*Factors which may affect the Borrowers' ability to fulfil their obligations under the Loan Agreements and the Indirect RP Borrowers' ability to fulfil their obligations under the Intra-Group Loan Agreements – Finance Subsidiary Borrowers are subject to the credit risk of their respective Indirect RP Borrower(s)*".

In addition, the access of the Issuer to equity and to liquidity via the availability of its own cash reserves or undrawn amounts on one or more of its Liquidity Facilities (if any) means that the Issuer may also be subject to the inadequacy of capital and/or liquidity. The Issuer is, accordingly, exposed to the willingness of shareholders of the Issuer, Borrowers and/or Indirect RP Borrowers to subscribe for additional equity and/or subordinated debt of the Issuer and the creditworthiness of its Liquidity Providers (if any) and the banks or financial institutions at which the Issuer deposits cash.

The Issuer's exposure to these credit risks may adversely affect the ability of the Issuer to meet its payment obligations under the Notes.

The aforementioned factors could impact the Issuer's credit rating and the credit rating of the Programme and of the Notes. In obtaining a credit rating, the Issuer has provided to S&P a base case financial plan and a range of scenarios illustrating the impact of defaults in payments due from RP Borrowers under the terms of the Loan Agreements. A summary of these scenarios, including the assumptions made in respect of such scenarios, and the results are set out in the tables below.

*The base case financial plan, the scenarios and the assumptions made in respect thereof:*

	Base Case	Scenario 1	Scenario 2	Scenario 3
Issuance for first 5 years	£1,000,000,000 per annum	£1,000,000,000 issuance for first 5 years	£1,000,000,000 issuance for first 5 years	£1,000,000,000 issuance in first year and none after default
Issuer's annual margin	0.10 per cent.	10 per cent. of RP Borrowers default	20 per cent. of RP Borrowers default	20 per cent. of RP Borrowers default
Long term management costs	£1,000,000 per annum	Default in year 6	Default in year 6	Default in year 2 No issuance thereafter
Distribution policy	No dividends until retained earnings are £2,000,000 and 25 per cent. payout thereafter	75 per cent. of the defaulting Loan Agreement interest received	60 per cent. of the defaulting Loan Agreement interest received	70 per cent. of the defaulting Loan Agreement interest received
Returns on cash	1 per cent.	Capital recovery 75 per cent. - on the defaulting loans	Capital recovery 100 per cent.	100 per cent. capital and interest recovery
Liquidity Facilities equal to	1 year's interest receivable	No default interest	No default interest	No default interest
		Management costs halved in year 7	Management costs halved in year 7	Management costs cut to £300,000

*Net revenue to interest payable in respect of the Notes:*

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 19
Base Case	1.17	1.15	1.15	1.14	1.14	1.14	1.14	1.16
Scenario 1	1.17	1.15	1.15	1.14	1.14	1.11	1.11	1.11
Scenario 2	1.17	1.15	1.15	1.14	1.14	1.05	1.05	1.07
Scenario 3	1.17	1.13	1.05	1.05	1.05	1.05	1.05	1.05

*Results:*

	Senior Notes	Secured Secured Debt	Subordinated Debt	Equity	Liquidity Facility Agreements
Base Case	Serviced on time and in full	Serviced on time and in full	Serviced on time and in full	Dividends paid in full	Not drawn
Scenario 1	Serviced on time and in full	Serviced on time and in full	Converts in year 6	No dividends from year 6	Not drawn
Scenario 2	Serviced on time and in full	Serviced on time and in full	Converts in year 6	No dividends from year 6	Not drawn
Scenario 3	Serviced on time and in full	Serviced on time and in full	Converts in year 2	No dividends from year 2	Drawn for two years - £1,300,000 peak

Neither the credit ratings in respect of the Issuer, the Programme or the Notes nor the scenarios should be used as an indicator of the likelihood, or the impact, of RP Borrower defaults on the Notes or the viability of the Issuer. The financial model provided to S&P is not a prediction or forecast but simply illustrates hypothetical cashflows and outcomes. There can be no assurance that the Issuer will perform in line with the base case in the financial model and the actual figures realised in these scenarios, including the base case, will almost certainly differ from and have no correlation to those presented to S&P. Noteholders should not regard the examples illustrated in the table above as a representation by the Issuer that any of such events or circumstances would result in the outcomes set out in the table.

## **RP Borrower Profiles**

The Issuer operates an overall lending policy which limits individual and collective credit exposures based on Lending Levels (see "*Description of the Borrowers and the RP Borrowers*") applied (a) to each individual RP Borrower and (b) on an aggregated basis to all RP Borrowers that ultimately borrow from the Issuer. However, the RP Borrowers that ultimately borrow the proceeds of a particular tranche of Notes may not be representative of all RP Borrowers that borrow from the Issuer as a whole. In addition, investors may not be notified of the identity of the RP Borrowers at the time of issue of any Notes and the RP Borrowers may change over the life of the Notes due to prepayments or merger activity. The Issuer is, accordingly, ultimately exposed to a varying group of RP Borrowers, whose creditworthiness may change over the life of the Notes. This exposure may adversely affect the ability of Borrowers to make repayments under their Loan Agreements and, in turn, the ability of the Issuer to meet its payment obligations under the Notes.

## **Liquidity Facility Agreements**

The Issuer may enter into one or more Liquidity Facility Agreements, to be used to meet Issuer Expenses, principal, interest, commitment fees and all other amounts due and unpaid to each Liquidity Facility Provider under each Liquidity Facility Agreement (if any), and interest payable in respect of the Notes and the Second Secured Debt. However, there is no obligation on the Issuer to enter into any Liquidity Facility Agreements and the duration and the amount of the loan provided under each Liquidity Facility Agreement (if any) may vary over the life of the Notes and may not cover the entire period that the Notes will be outstanding. In addition, a Liquidity Facility Agreement may be prepaid, cancelled or amended at any time without the consent of the Trustee or the holders of the Notes.

A failure to secure funding from one or more Liquidity Facility Agreements or to cover sufficient Issuer Expenses or interest payable in respect of the Notes could adversely affect the ability of the Issuer to meet its payment obligations under the Notes.

## **Effect of Losses on Loan on Interest Payments and Repayments on the Notes**

There can be no assurance that the levels or timeliness of payments of collections received in respect of the Loans will be adequate to ensure fulfilment of the Issuer's obligations in respect of the Notes on each Interest Payment Date, the Legal Maturity Date or the Expected Maturity Date. In addition, a default under a Loan Agreement could ultimately result in the enforcement of the security created in respect of such Loan Agreement. The proceeds of any such enforcement may be insufficient to cover the full amount due from a Borrower in respect of its Loan Agreement resulting in a shortfall in funds available to the Issuer to repay the Notes.

## **Collateral Risk**

Instead of providing Initial Full Security, in return for a fee (and having represented to the Issuer that it has identified sufficient unencumbered Eligible Properties to charge as security for its respective Loan Agreement to ensure compliance with the Asset Cover Ratio with effect from the Required Charging Date), the RP Borrowers may provide Initial *De Minimis* Security (by way of property) in respect of their respective Loans as a condition precedent to entering into the relevant Loan Agreement (in the case of Direct RP Borrowers) or in accordance with their guarantee and related security arrangements as a condition precedent to a Finance Subsidiary Borrower entering into the relevant Loan Agreement (in the case of Indirect RP Borrowers), which the RP Borrowers may request to be released once it is in compliance with the Asset Cover Ratio in the relevant Loan Agreement. The RP Borrowers will then be required to provide further security to ensure that the Asset Cover Ratio in the relevant Loan Agreement is fully satisfied within 18 months of the date of the relevant Loan Agreement (the **Required Charging Date**). If sufficient security is not in place to satisfy the Asset Cover Ratio by the Required Charging Date, the RP Borrower must pay a fee to the Issuer for failing to comply with the Asset Cover Ratio on and from the Required Charging Date.



However, a failure to comply with the Asset Cover Ratio after 18 months will not trigger an event of default under the relevant Loan Agreement.

If an RP Borrower has not charged a sufficient number of real property assets or cash that have an aggregate value that is sufficient to satisfy the Asset Cover Ratio by the second anniversary of the relevant Loan Agreement, an event of default under the relevant Loan Agreement will be triggered. During the period when the Asset Cover Ratio in respect of the relevant Loan Agreement is not fully satisfied, the Issuer will (in respect of substantially all of the amount of the Loan) effectively be an unsecured creditor of the relevant RP Borrower (save in respect of the moratorium provisions in the Housing and Regeneration Act 2008) and rank behind other secured creditors. In such circumstances, the Issuer may be unable to recover debts owed to it by the defaulting RP Borrower under the relevant Loan Agreement and, if the Issuer is unable to recover a material amount of debt in respect of one or more Loan Agreements, the ability of the Issuer to meet its payment obligations in respect of the Notes may be adversely affected.

### **Operational risk**

Operational risks for the Issuer may result from major systems failure or breaches in systems security and the consequences of theft, cyber attack, fraud, health and safety and environmental issues, natural disaster and acts of terrorism. The operations of the Issuer could also be adversely affected if it is unable to recruit suitably qualified staff or its outsourcing partners do not provide an adequate service or a service at an economically appropriate price.

Notwithstanding anything in this risk factor, the Issuer does not currently believe that it will be unable to comply with its obligations as an entity with securities admitted to trading on the ISM.

### **Risks related to litigation**

If the Issuer is subject to claims which have a material impact upon revenue or business, this could have an adverse impact on the Issuer's results of operations and affect the ability of the Issuer to meet its payment obligations under the Notes.

### **Issuer Board**

The articles of association of the Issuer state that the minimum number of directors of the Issuer is two and that the board shall include independent directors with relevant experience in accounting, risk and/or capital markets. The articles also include a process of retirement of directors by rotation, with the directors being considered for re-election at regular intervals. However, there is a risk of the voluntary resignation of multiple directors in addition to the rotation process. If the Issuer does not continue to attract and retain appropriate board members who possess the ability to run the business of the Issuer, this may affect the ability of the Issuer to meet its payment obligations under the Notes.

### **FACTORS WHICH MAY AFFECT THE BORROWERS' ABILITY TO FULFIL THEIR OBLIGATIONS UNDER THE LOAN AGREEMENTS AND THE INDIRECT RP BORROWERS' ABILITY TO FULFIL THEIR OBLIGATIONS UNDER THE INTRA-GROUP LOAN AGREEMENTS**

#### **Finance Subsidiary Borrowers are subject to the credit risk of their respective Indirect RP Borrower(s)**

Each Finance Subsidiary Borrower, and therefore payments by each Finance Subsidiary Borrower in respect of its Loan Agreement, will be subject to the performance and credit risk of the Indirect RP Borrower(s) to which it on-lends the funds it receives pursuant to its Loan Agreement. Each Finance Subsidiary Borrower will be primarily subject to the risk of delays in receipt, or risk of defaults in the making, of payments due from the relevant Indirect RP Borrower(s) in respect of the relevant Intra-Group Loan Agreement(s).

## **Operational risk**

Operational risks for the Borrowers may result from major systems failure or breaches in systems security and the consequences of theft, cyber-attack, fraud, health and safety, and environmental issues, natural disasters and acts of terrorism. The operations of the Borrowers could also be adversely affected if they are unable to recruit suitably qualified staff or their outsourcing parties do not provide an adequate service or a service at an economically appropriate price.

## **Risks related to Social Rental Income**

The tenants of the social housing (as defined in Part 2 of the Housing and Regeneration Act 2008) properties of the RP Borrowers are personally responsible for the rental payments on the relevant occupied properties, and consequently the RP Borrowers are exposed to the risk of arrears and bad debts. Any significant exposure to arrears and bad debts may adversely affect the ability of (a) a Direct RP Borrower to meet its payment obligations to the Issuer under its Loan Agreement and (b) an Indirect RP Borrower to meet its payment obligations to the relevant Finance Subsidiary Borrower under its Intra-Group Loan Agreement and, in turn, the ability of the relevant Finance Subsidiary Borrower to meet its payment obligations to the Issuer in respect of a Loan Agreement and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its payment obligations in respect of the Notes.

The RP Borrowers may receive a proportion of their social rental income from housing benefit payable by local authorities. The Welfare Reform and Work Act 2016 (or The Welfare Reform and Work (Northern Ireland) Order 2016 in Northern Ireland) incorporates a series of welfare reforms that make provisions on social housing rents, the household benefit cap and social security and tax credits that expose the RP Borrowers to the risk of a reduction in rental income and an increase in arrears, which, if material, could adversely affect the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the Issuer under their respective Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its payment obligations in respect of the Notes.

## **Risks related to Welfare Reform**

### ***Risks related to Social Housing Rents***

Until social housing rents are restored to the CPI plus 1 per cent. formula (see "*Description of the Social Housing Sector in England, Wales and Northern Ireland – Social Housing Rents*"), the rent reductions which will continue to apply may result in a decrease in the levels of rental income being available to the RP Borrowers. This could have an adverse impact on their cash flows that could adversely affect the ability of (a) Direct RP Borrowers to meet their respective payment obligations under their respective Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its payment obligations under the Notes.

The rent reductions could also impact the value of social housing properties of the RP Borrowers and therefore could result in the RP Borrowers needing to increase the size of their property security pools to ensure that they are satisfying the Asset Cover Ratio in the Loan Agreements, including the obligation, in the case of Direct RP Borrowers, to provide security to secure their obligations under their respective Loan Agreements or, in the case of Indirect RP Borrowers, to provide security in accordance with their guarantee and related security arrangements in respect of the relevant Loan Agreement of the relevant Finance Subsidiary Borrower. This could have an adverse impact on their cash flow that could adversely affect the

ability of (a) Direct RP Borrowers to meet their respective payment obligations under their respective Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its payment obligations under the Notes.

#### ***Risks related to the Household Benefit Cap***

The reduction in the household benefit cap (see "*Household Benefit Cap*" in the section entitled "*Description of the Social Housing Sector in England, Wales and Northern Ireland*") may have an adverse impact on the ability of those tenants impacted by the Welfare Reform and Work Act 2016 (or The Welfare Reform and Work (Northern Ireland) Order 2016 in Northern Ireland) to pay their rent, as, where the total amount of welfare benefits exceeds the benefit cap, the local authority will reduce a claimant's entitlement to housing benefits by the amount of that excess, meaning that affected tenants would have to pay a larger proportion of the rent themselves. Increasingly the benefit cap will be administered through Universal Credit (see "*Risks related to Universal Credit*"). In turn, this could have an adverse impact on the cash flow of the RP Borrowers and could adversely affect the ability of (a) Direct RP Borrowers to meet their payment obligations under their respective Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, affect the ability of the Issuer to meet its payment obligations under the Notes.

#### ***Risks related to Occupation Size Criteria***

Occupation size criteria (otherwise known as the "removal of the spare room subsidy" or "bedroom tax") may have an adverse impact on the ability of certain tenants with spare bedrooms to pay their rent (see "*Description of the Social Housing Sector in England, Wales and Northern Ireland – Occupation Size Criteria*"). In turn, this could have an adverse impact on the cash flow of the RP Borrowers and could adversely affect the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the Issuer under their respective Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, affect the ability of the Issuer to meet its payment obligations under the Notes.

#### ***Risks related to Universal Credit***

Until the transition to Universal Credit full service has been rolled out fully (which was initially expected to be completed in December 2018 for England, Wales and Northern Ireland, but has now been delayed until 2023) it is difficult to determine the impact on the RP Borrowers (see "*Universal Credit*" in the section entitled "*Description of the Social Housing Sector in England, Wales and Northern Ireland*"). However, housing associations have expressed concern that full implementation may result in tenants being more financially vulnerable. The RP Borrowers may need to increase tenant support in order to collect rental payments and may need to adjust the financial assessment of both existing and potential tenants' capability of paying rent. The receipt of rental payments by the RP Borrowers may be delayed by the failure of the tenant to apply for Universal Credit and/or regularly pay rent which is due in addition to the element previously known as housing benefit and/or, in circumstances where the housing benefit is not paid directly to an RP Borrower, a failure to pass on the housing benefit payments. In such circumstances, non-payment, partial payment or any delay in payment of rent could increase the RP Borrowers' rental income arrears and bad debts, and could affect the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements

and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its payment obligations under the Notes.

#### ***Risks related to Government Policy: "Right to Buy"***

Until legislation is in place to extend the right to buy to assured tenants of Registered Providers, it is difficult to determine with any certainty exactly how this proposal could impact on the RP Borrowers (see "*Description of the Social Housing Sector in England, Wales and Northern Ireland – Government Policy: Right to Buy*"). It could have an adverse impact on the rental cash flow of the RP Borrowers (in future years off-set against significant sales receipts in the first year and potentially operating margin) which could affect the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, affect the ability of the Issuer to meet its payment obligations under the Notes.

#### ***Risks related to the LHA Cap***

In the case of RP Borrowers who are Registered Providers in England involved in the sheltered housing, extra care and short-term supported housing sectors, the new funding model currently being considered by the Government could affect the cash flows of the relevant RP Borrowers and, therefore, the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its payment obligations under the Notes (see "*Description of the Social Housing Sector in England, Wales and Northern Ireland – LHA Cap and Sheltered Rent*").

#### **Risks related to Non Social Rental Income**

##### ***Risks related to Low-cost Home Ownership, Shared Equity and Asset Management***

Many RP Borrowers receive income from low-cost home ownership (also commonly known as shared ownership) sales, the redemption of shared equity properties and the sale of properties pursuant to their asset management arrangements, the amount of which is affected by housing market risk. As part of their provision of affordable housing, RP Borrowers receive low-cost home ownership income generated on the initial sale of a property (known as the "first tranche") which is sold to the "shared owner", on subsequent sales of further "tranches" or portions of the property (known as "staircasings") from the shared owner and in the form of subsidised rent. Household income eligibility thresholds have been increased to £80,000 outside London and £90,000 in London. Other restrictions, such as local authorities' right to set additional eligibility criteria, are in the process of being relaxed or removed.

Income is also generated from staircasings of shared ownership properties and income from the sale of fixed asset and investment properties.

Each of these markets are exposed to housing market risk, including both demand and pricing risks (see "*Risks related to the Housing Market*"), that could affect the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their

respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, affect the Issuer's ability to meet its payment obligations under the Notes.

### ***Risks related to Private Sale and Rental***

RP Borrowers may be exposed to cash flow and profits from the sale of properties that are dependent on economic conditions and the residential real estate market through private sale or private rental activities.

The RP Borrowers' ability to generate revenue and cash flow from outright sales programmes depends on the existence of buyers willing to pay appropriate prices for those properties at the point of sale. The existence of these buyers in turn depends upon overall economic conditions, the residential real estate market and other factors set out in "*Risks related to the Housing Market*", including the availability of mortgage finance. In difficult economic conditions, the RP Borrowers may not be able to sell properties for an appropriate price or on acceptable terms in a timely manner and may therefore be unable to realise projected receipts and profits. Additionally, as a consequence of cyclical and volatility in the prices of residential property, RP Borrowers may be exposed to counterparty risk and may acquire or construct properties in periods of higher prices and may be forced to sell them during periods of lower prices. There is no guarantee that the price achieved on the sale of such properties would realise the margin anticipated or would exceed the acquisition and/or development cost of the property. In addition, the length of time needed to find purchasers and to complete such sales may increase in periods of market uncertainty. Downward pressure on sales prices may occur in the future and volumes of property sales and the revenue and profits from such sales may also be adversely affected.

This could affect the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, affect the ability of the Issuer to meet its payment obligations under the Notes.

### ***Risks related to the Housing Market***

Residential property investment is subject to varying degrees of market and development risks. Market values of properties are generally affected by overall conditions in the local economy; political factors and systemic events, including the condition of the financial markets; the cost and availability of finance to businesses and consumers; fiscal and monetary policies; changes in Government legislation; political developments, including changes in regulatory or tax regimes; changes in unemployment, gilt yields, interest rates and credit spreads; levels of prevailing inflation; changes in consumer spending; an increase in the supply of, or a reduction in demand for, residential property; infrastructure quality; the returns from alternative assets as compared to residential property; environmental considerations; changes in planning laws and practices; and the perceived threat from terrorism.

Residential real estate values and rental revenues are also affected by factors specific to each local market in which the property is located, including the supply of available property and demand for residential real estate and the availability of mortgage finance to prospective purchasers. While the RP Borrowers are primarily providers of affordable housing, they are exposed to commercial pressures and therefore undertake diversified residential property investment and activities (often through subsidiaries) where income is subject to such commercial pressure, including both demand and pricing risks. Among other things, these market risks have been heightened as a result of the UK vote to leave the European Union (EU) on 23 June 2016 and these risks have the potential to impact upon the value of the RP Borrowers' assets, expenses incurred with existing residential properties, rental income produced by such properties, the ability to develop land acquired, the ability to sell properties and the ability to acquire additional sites (see "*Risks relating to the relationship of the United Kingdom with the European Union*"). This could impact on the cash flow of the RP Borrowers and the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the

Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, affect the ability of the Issuer to meet its payment obligations under the Notes.

## **Risks related to Housing Grant and the Regulatory Framework**

### ***Risks related to Regulation***

The regulation of housing associations has undergone significant and recent change. The Issuer is exposed to the creditworthiness of the RP Borrowers and any change in the relevant regulatory framework in England, Wales or Northern Ireland, (as the case may be, could lead to an RP Borrower facing increased costs to comply with the relevant framework (see "*Description of the Social Housing Sector in England, Wales and Northern Ireland – Regulation and the Regulatory Framework*").

Any breach by an RP Borrower in England, Wales or Northern Ireland, as the case may be, of new or existing regulations could lead to the exercise of statutory powers by the Regulator of Social Housing, the Welsh Ministers or the Department for Communities, as appropriate. A regulatory breach could also result in a default by an RP Borrower of its external funding agreements which, in turn, could cause a cross default under its Loan Agreement. Each regulator publishes guidance on how it regulates and each adopts a proportionate approach with an emphasis on self-regulation and co-regulation. In practice, use of statutory powers is rare. Serious economic non-compliance is more likely to lead to a downgrade in the published regulatory judgement (applicable in England or Wales) and agreement of the corrective action to be taken. Any such intervention by the relevant regulator in respect of the RP Borrowers may affect the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its obligations under the Notes.

The deregulatory measures, updated Regulatory Framework and new directions published by the Homes and Communities Agency (HCA) (see "*Description of the Social Housing Sector in England, Wales and Northern Ireland – Regulation and the Regulatory Framework*") changed the way that Registered Providers in England are regulated by the Regulator of Social Housing and it is possible that compliance may result in increased costs. With effect from October 2017, the Regulator of Social Housing charges fees to Registered Providers for regulation, following the granting of power to charge fees under the Housing and Regeneration Act 2008 and a consultation with Registered Providers which commenced in late 2016. The Issuer would not expect such fees to be material in the context of each RP Borrower's obligations in respect of its Loan Agreement or its Intra-Group Loan Agreement, as the case may be.

### ***Risks related to Housing Grant***

Registered Providers receive grant funding from a variety of sources (see "*Description of the Social Housing Sector in England, Wales and Northern Ireland – Housing Grant*"). Due to the nature of grant funding, there is a risk that following the approval of a grant, Homes England may revise the terms of such grant and reduce the entitlement or suspend or cancel any instalment of such grant. In certain circumstances, set out in the "Capital Funding Guide and the Recovery of Capital Grants and Recycled Capital Grant Fund General Determination", including but not limited to, failure to comply with conditions associated with the grant or a disposal of the property funded by a grant, the grant may be required to be repaid or reused. Any such reduction in, withdrawal of, requirement to repay or to re-use grant funding could affect the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance

Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, the ability of the Issuer to comply with its obligations under the Notes.

Any material repayment of historical grant funding held on an RP Borrower's balance sheet has the potential to impact on cash flow which could, in turn, materially increase such RP Borrower's net debt position and thus its ability to satisfy any obligations which they are required to comply with pursuant to the terms of existing financing arrangements. This could, in turn, affect the ability of (a) Direct RP Borrowers to meet their respective payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, affect the ability of the Issuer to meet its payment obligations under the Notes.

## **Risks relating to Security in respect of the Loan Agreements**

### ***Moratorium and special administration regime***

In order to protect the interest of tenants and to preserve the housing stock of a Registered Provider within the social housing sector and within the regulatory regime, a moratorium on the disposal of land (including the enforcement of any security) by an insolvent non-profit Registered Provider will apply, upon certain steps being taken in relation to that Registered Provider, such as presenting a winding up petition or appointing an administrator. Similar moratorium procedures apply in Wales. The Welsh Ministers have powers under Part 1 of, and Schedule 1 to, the Housing Act 1996. The Regulator of Social Housing will then seek to agree proposals about the future ownership and management of the Registered Provider's land with its secured creditors. The Welsh Ministers may appoint an interim manager of a Welsh RSL to manage during a moratorium on the sale of the land, pursuant to the Wales Measure 2011. The moratorium procedure may adversely affect the ability to enforce the security granted by the RP Borrowers as it stipulates actions that must be taken by a secured creditor prior to that secured creditor being able to enforce its security and gives powers to the Regulator of Social Housing in respect of certain secured assets.

In addition, a new special administration regime came into force on 5 July 2018 and is available in addition to the moratorium regime referred to above. This applies to Registered Providers, Welsh RSLs and RHAs.

This new regime provides for a court to appoint a qualified insolvency practitioner known as a "housing administrator" to manage the affairs, business and property of a Registered Provider, Welsh RSL or RHA (as applicable), following an application from the Secretary of State or (with the permission of the Secretary of State) the Regulator of Social Housing, the Welsh Ministers or the Department for Communities (as applicable).

An interim moratorium will run from the date of issue of an application for a housing administration order until the application is either dismissed or housing administration order takes effect and, upon the making of a housing administration order, a Registered Provider, Welsh RSL or RHA (as applicable) shall become subject to a moratorium, for so long as such a Registered Provider, Welsh RSL or RHA (as applicable) is subject to a housing administration order, that prevents secured creditors from enforcing their security and selling the assets of a Registered Provider, Welsh RSL or RHA without the consent of the housing administrator or the permission of a court.

Each housing administration order will last for 12 months (subject to certain exceptions), but may be extended. In certain circumstances a court may make an order enabling a housing administrator to dispose of property belonging to a Registered Provider, Welsh RSL or RHA (as applicable) which is subject to a fixed charge, albeit only on terms that the fixed charge holder receives the proceeds is sold for less than this.

The new regime could adversely affect the ability to enforce security granted by an RP Borrower for so long as any housing administration order is in place in respect of an RP Borrower or could result in a housing administrator disposing of charged property belonging to an RP Borrower at a time when proceeds are not sufficient to discharge the Issuer's obligations under the Notes.

## **Risks related to Resources, Business and Pensions**

### ***Risks related to Capital Resources***

The ability of the RP Borrowers to operate their businesses depends in part on being able to raise funds. An increase in the cost, or lack of availability, of finance (whether for macroeconomic reasons, such as a lack of liquidity in the debt markets or the inability of a financing counterparty to honour pre-existing lending arrangements, or reasons specific to an RP Borrower) could impact an RP Borrower's ability to progress its business objects, deliver the expected rates of return on investments and the day-to-day financing (or refinancing) requirements of an RP Borrower's business over the longer term. This could have a material adverse effect on (a) a Direct RP Borrower's ability to meet its payment obligations to the Issuer under its Loan Agreement and (b) an Indirect RP Borrower to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under its Intra-Group Loan Agreements and, in turn, the ability of a Finance Subsidiary Borrower to meet its payment obligations to the Issuer in respect of its Loan Agreement and, in the case of (a) and (b) above, in turn, the Issuer's ability to meet its payment obligations under the Notes.

In addition, RP Borrowers are subject to the risk that they may be unable to generate sufficient cash flows, or be unable to obtain sufficient funding, to satisfy obligations to service and/or refinance indebtedness. Further, any covenants contained in an RP Borrower's borrowing arrangements, including the Loan Agreements, may limit or prohibit operational and financial flexibility. Any event of default, cross default, breach of a covenant or the inability to vary or waive any covenants could generally have a material adverse effect on the business, results of operations, financial condition and/or prospects of an RP Borrower and the ability of (a) a Direct RP Borrower to meet its payment obligations to the Issuer under its Loan Agreement and (b) an Indirect RP Borrower to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under its Intra-Group Loan Agreements and, in turn, the ability of a Finance Subsidiary Borrower to meet its payment obligations to the Issuer in respect of its Loan Agreement and, in the case of (a) and (b) above, in turn, the Issuer's ability to meet its payment obligations under the Notes.

### ***Risks related to Interest Rates***

The RP Borrowers are subject to adverse interest rate movements which can create fluctuations in an RP Borrower's cash flow and net surpluses, and its balance sheet as a result of marking to market derivatives. In addition, there is a risk that, if an RP Borrower was to be unable to provide collateral against the mark-to-market position on its derivatives, this could result in a default by such RP Borrower under the relevant funding agreement which, in turn, could cause a cross default under the relevant Loan Agreement. In general, this could have a material adverse effect on its financial condition and affect the ability of (a) a Direct RP Borrower to meet its payment obligations to the Issuer under its Loan Agreement and (b) an Indirect RP Borrower to meet its payment obligations to the relevant Finance Subsidiary Borrower under its Intra-Group Loan Agreements and, in turn, the ability of a Finance Subsidiary Borrower to meet its payment obligations to the Issuer in respect of its Loan Agreement and, in the case of (a) and (b) above, in turn, the Issuer's ability to meet its payment obligations under the Notes.

### ***Risks related to Pensions***

The RP Borrowers provide retirement benefits to former and current employees through a number of defined benefit schemes. For further background, see "*Description of the Social Housing Sector in England, Wales and Northern Ireland – Pensions in the social housing sector*". If the market value of these pension schemes declines in relation to the assessed liabilities, which depends on, among other things, the real returns that can



be obtained from the assets, the longevity of its members, the rate of increase of salaries, discount rate assumptions and inflation, or if the trustees or the regulator of pensions (the **Pensions Regulator**) determines that the employer's liabilities require a different approach to contributions and deficit reduction, the relevant RP Borrower may be required to increase its contributions which could have an adverse impact on the ability of (a) a Direct RP Borrower to meet its payment obligations to the Issuer under its Loan Agreement and (b) an Indirect RP Borrower to meet its payment obligations to the relevant Finance Subsidiary Borrower under its Intra-Group Loan Agreement and, in turn, the ability of a Finance Subsidiary Borrower to meet its payment obligations to the Issuer in respect of its Loan Agreement and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its payment obligations under the Notes.

If a contribution notice or financial support direction were to be served on an RP Borrower, this could result in a shortfall of funds available to (a) a Direct RP Borrower to repay to the Issuer its Loan and (b) an Indirect RP Borrower to repay the relevant Finance Subsidiary Borrower its loan under the relevant Intra-Group Loan Agreement and, in turn, the ability of a Finance Subsidiary Borrower to repay its Loan Agreement and, in the case of (a) and (b) above, in turn, the ability of the Issuer to repay the Notes.

### ***Risks related to Legal and Compliance***

If any material failure by an RP Borrower to adhere to applicable health and safety or environmental law, litigation or breach of regulatory laws, or failure to comply with corporate, employee or taxation laws were to occur in the future, this could have an adverse impact on the RP Borrowers' results of operations and affect the ability of (a) Direct RP Borrowers to meet their payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of a Finance Subsidiary Borrower to meet its payment obligations to the Issuer in respect of its Loan Agreement and, in the case of (a) and (b) above, in turn, the Issuer's ability to meet its payment obligations under the Notes.

Following the Grenfell Tower fire on 14 June 2017, it is expected that there will be changes to building regulations which could lead to an increase in the cost of construction of new homes or to additional costs in relation to the refurbishment or adaptation of existing homes. The Final Report on the Independent Review of Building Regulations and Fire Safety was published on 17 May 2018 and contained a number of the recommendations to be implemented by RP Borrowers (including those in Wales and Northern Ireland), either on a mandatory or voluntary basis. Implementation of those recommendations and changes to building regulations could have an impact on the financial condition of the RP Borrowers and, in turn, the ability of (a) Direct RP Borrowers to meet their payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its payment obligations under the Notes.

The Welsh Government has also made it clear that, notwithstanding the Final Report on the Independent Review of Building Regulations and Fire Safety application to England, it will adopt the recommendations made in such report.

The Final Report of the Independent Review of Building Regulations and Fire Safety provides a reference point for a Northern Irish response, although the suspension of the Northern Ireland Assembly may mean that a legislative response for Northern Ireland may be some time away. In January 2018 a report into fire safety in tower blocks published by the Housing Executive Board Independent Reference Group recommended that both the Housing Executive and the Department for Communities consider carefully the outcomes of the report and noted that in future all participants in the regulatory system would need to "demonstrate beyond doubt" that current and future legislative provision concerning fire safety are met.

### ***Risks related to Litigation***

If RP Borrowers are subject to claims which has a material impact upon revenue or business, this could have an adverse impact on the RP Borrowers' results of operations and affect the ability of (a) Direct RP Borrowers to meet their payment obligations to the Issuer under the Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, the Issuer's ability to meet its payment obligations under the Notes.

### ***Risks related to mergers, acquisitions and formation of subsidiaries***

The Loan Agreements permit the RP Borrowers (without the consent of the Issuer or the Trustee) to acquire or form subsidiaries (including, without limitation, Registered Providers, Welsh RSLs, RHAs, unregulated non-charitable trading companies or partnerships) and/or undertake mergers, consolidations, transfers of engagements and amalgamations (and similar merger events) with other Registered Providers, Welsh RSLs or RHAs, as the case may be, where the successor entity takes on the obligations and liabilities of that RP Borrower, including that RP Borrower's Loan Agreement or Intra-Group Loan Agreement, as the case may be. In such circumstances, the resulting entity's credit risk may change. Such merger activity or formation or acquisition of a subsidiary may affect the total borrowings of an RP Borrower and this may therefore impact on the Lending Level attributed to that RP Borrower by the Issuer as part of the Issuer's credit process (including as a result of merger activity or the occurrence of a Lending Level Reassessment Event (see "*Description of the Borrowers and the RP Borrowers*"). There is provision in each Loan Agreement requiring an RP Borrower to deposit cash into a reserve account in certain circumstances where an RP Borrower's Lending Level is adversely affected. An adverse change in credit risk or a change in the RP Borrower's Lending Level could adversely affect (a) a Direct RP Borrower's ability to meet its payment obligations to the Issuer under its Loan Agreement on a timely basis and (b) an Indirect RP Borrower's ability to meet its payment obligations to the relevant Finance Subsidiary Borrower under its Intra-Group Loan Agreement and, in turn, a Finance Subsidiary Borrower's ability to meet its payment obligations to the Issuer under its Loan Agreement on a timely basis and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its payment obligations under the Notes.

### ***Risks relating to the relationship of the United Kingdom with the European Union***

On 29 March 2017, the UK invoked Article 50 of the Lisbon Treaty and officially notified the EU of its decision to withdraw from the EU. This commenced the formal two-year process of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the UK and the EU (the **article 50 withdrawal agreement**). As part of those negotiations, a transitional period has been agreed in principle which would extend the application of EU law, and provide for continuing access to the EU single market, until the end of 2020.

It remains uncertain whether the article 50 withdrawal agreement will be finalised and ratified by the UK and the EU ahead of the 29 March 2019 deadline. If it is not ratified, the Treaty on the European Union and the Treaty on the Functioning of the European Union will cease to apply to the UK from that date.

Due to the on-going political uncertainty as regards the terms of the UK's withdrawal from the EU and the structure of the future relationship, the precise impact on the business of the Issuer or the RP Borrowers is difficult to determine. As such, no assurance can be given that such matters would not adversely affect the ability of (a) Direct RP Borrowers to meet their respective obligations to the Issuer under their respective Loan Agreements and (b) Indirect RP Borrowers to meet their respective payment obligations to the relevant Finance Subsidiary Borrower under their respective Intra-Group Loan Agreements and, in turn, the ability of Finance Subsidiary Borrowers to meet their respective payment obligations to the Issuer in respect of their respective Loan Agreements and, in the case of (a) and (b) above, in turn, the ability of the Issuer to meet its

obligations under the Notes and/or the market value and/or the liquidity of the Notes in the secondary market.

## **FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME**

### **Risks applicable to all Notes**

#### ***Interest rate risks***

The Notes bear interest at a fixed rate and therefore involve the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

#### ***Redemption prior to maturity***

In the event that (a) all or some only of the Notes are repaid prior to maturity following an Associated Loan relating to the Notes becoming repayable as a result of a default by a Borrower in accordance with Condition 10.3 (*Redemption following an Associated Loan default*), the Notes may be redeemed in whole or in part at their principal amount, plus accrued interest or (b) following an Event of Default (as defined in Condition 13 (*Events of Default and Enforcement*)), the Notes will be redeemed in full at their principal amount, plus accrued interest. In such circumstances it may not be possible for an investor to reinvest the redemption proceeds at an effective rate of interest as high as the interest rate on the Notes.

***If the Issuer has the right to redeem any Notes at its option, this may limit the market value of the Notes concerned and an investor may not be able to reinvest the redemption proceeds in a manner which achieves a similar effective return.***

An optional redemption feature may limit the market value of Notes. During any period when the Issuer may elect to redeem Notes at the amount specified in the applicable Pricing Supplement or at the Modified Spens Amount, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

#### ***Taxation – No Gross Up***

The Issuer will not be obliged to pay any additional amounts to Noteholders to reimburse them for any tax, assessment or charge required to be withheld or deducted from payments in respect of the Notes by the Issuer or the Paying Agent. Accordingly, in the event of a change of tax law, there may be an effect on the amount of principal or interest receivable by Noteholders under the terms of the Notes. The Noteholders will therefore bear the risk of any such withholding or deduction.

#### ***Liquidation expenses***

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of *Leyland Daf* in 2004. Accordingly, it is now the case that the costs and expenses of a liquidation (including certain tax charges) will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to provisions set out in the Insolvency Rules 1986.

As a result of the changes described above, upon the enforcement of the floating charge security granted by the Issuer, floating charge realisations which would otherwise be available to satisfy the claims of secured creditors will be reduced by at least a significant proportion of any liquidation expenses. There can be no assurance that the Noteholders will not be adversely affected by such a reduction in floating charge realisations.

***The covenants require the Issuer to make certain calculations and determinations before certain other payments made be made***

The Conditions provide that certain payments may not be made by the Issuer, including on the Second Secured Debt, Subordinated Debt or any of the Issuer's shares, if certain tests are not met at the time of such proposed payment. One of these tests (referred to as the Senior Note Buffer Amount Test) requires the Issuer to determine (amongst other things) the amount of Available Issuer Receipts that the Issuer reasonably expects to receive, and any amount capable of being drawn as Liquidity Facility Drawings, during the following 12 months. In the event that the Issuer is incorrect in its calculations or is inaccurate in its determinations (including for the Senior Note Buffer Amount Test), this may mean that payments on Second Secured Debt and/or Subordinated Debt are made in situations where they ought not to have been made. A consequence of such miscalculation or inaccurate determination may be that the ability of the Issuer to meet its payment obligations under the Notes is affected.

***In certain circumstances, the security in respect of the Second Secured Debt may be enforced, even if the First Floating Charge has not yet been enforced.***

Whilst there are restrictions on the chargee(s) in respect of a Second Secured Debt Floating Charge enforcing its Second Secured Debt Floating Charge before the First Floating Charge, in the event that a Second Secured Debt Enforcement Condition is satisfied, the chargee in respect of the Second Secured Debt may enforce its second-ranking floating charge before the Trustee enforces the First Floating Charge. In such circumstances, the recovery of Noteholders in respect of the Notes may be impaired (whether prior to or in a winding-up of the Issuer) and this may adversely affect the value of the Notes and the amount received by Noteholders from the Issuer.

***The conditions of the Notes contain provisions which may permit their modification without the consent of all investors and confer significant discretions on the Trustee which may be exercised without the consent of the Noteholders and without regard to the individual interests of particular Noteholders.***

The conditions of the Notes and the Trust Deed contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. In respect of modifications to Condition 7 (*Covenants*), the Conditions permit defined majorities of the holders of all Series of Notes to bind holders of each individual Series of Notes outstanding (regardless of how the Noteholders of a particular Series of Notes voted in respect of such resolution).

The conditions of the Notes and the Trust Deed also provide that the Trustee may, without the consent of Noteholders, Couponholders or any Secured Party and without regard to the interests of particular Noteholders, agree to (i) any modification (except as stated in the Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes, the Trust Deed or any other Programme Document or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such, provided, in each case, that the Trustee is of the opinion that to do so would not be materially prejudicial to the interests of the Noteholders, in the circumstances described in Condition 18 (*Meetings of Noteholders, Modification and Waiver*).

***The value of the Notes could be adversely affected by a change in English law or administrative practice.***

The conditions of the Notes, and the ratings assigned to them, are based on English law, regulatory and administration practice in effect as at the date of this Programme Memorandum (including taxation). No assurance can be given as to the impact of any possible judicial decision or change to English law, regulatory or administrative practice in the United Kingdom, or to United Kingdom tax law, or the interpretation or administration thereof, or to the published practice of HM Revenue & Customs as applied in the United Kingdom after the date of this Programme Memorandum and any such change could materially adversely impact the value of any Notes affected by it.

***Investors who hold less than the minimum Specified Denomination may be unable to sell their Notes and may be adversely affected if definitive Notes are subsequently required to be issued.***

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in its account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in its account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed or issued) and would need to purchase a principal amount of Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If such Notes in definitive form are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

***Denominations involve integral multiples: definitive Notes***

The Notes have denominations consisting of a minimum of £100,000 plus one or more higher integral multiples of £1,000. It is possible that the Notes may be traded in amounts that are not integral multiples of £100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 in its account with the relevant clearing system at the relevant time may not receive a definitive Note in respect of such holding (should definitive Notes be printed or issued) and would need to purchase a principal amount of Notes such that its holding amounts to £100,000.

If definitive Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

**Risks related to the market generally**

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

***An active secondary market in respect of the Notes may never be established or may be illiquid and this would adversely affect the value at which an investor could sell its Notes.***

Notes may have no established trading market when issued, and one may never develop. If a market for the Notes does develop, it may not be very liquid and may be sensitive to changes in financial markets. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case

should the Issuer or one or more RP Borrowers be in financial distress, which may result in any sale of the Notes having to be at a substantial discount to their principal amount or for Notes that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors.

***If an investor holds Notes which are not denominated in the investor's home currency, he will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes.***

The Issuer will pay principal and interest on the Notes in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

***The value of Notes may be adversely affected by movements in market interest rates.***

Investment in Notes involves the risk that if market interest rates subsequently increase above the rate paid on the Notes, this will adversely affect the value of the Notes.

***Credit ratings assigned to the Issuer or any Notes may not reflect all the risks associated with an investment in those Notes.***

One or more independent credit rating agencies may assign credit ratings to the Issuer, the Programme and/or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Programme Memorandum. As with any rated entity, the rating of the Issuer (and, accordingly, the rating of the Notes) may be susceptible to further adjustments (whether upward or downward) and, in particular, any adjustments which may be made as a result of a rating agency's methodology as applied to the Issuer.

### **Risks related to Social Bonds**

***Notes issued as Social Bonds may not be a suitable investment for all investors seeking exposure to social assets***

The Notes are intended to be social bonds (**Social Bonds**). Prospective investors should have regard to the information set out in the relevant Pricing Supplement and must determine for themselves the relevance of such information for the purpose of any investment in such Notes together with any other investigation such investor deems necessary.

In particular no assurance is given by the Issuer that the use of such proceeds will satisfy, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates.

Furthermore, it should be noted that there is currently no clearly-defined definition (legal, regulatory or otherwise) of, nor market consensus as to what constitutes, a "social" or an equivalently-labelled project or as to what precise attributes are required for a particular project to be defined as "social" or such other equivalent label nor can any assurance be given that such a clear definition or consensus will develop over time. Accordingly, no assurance is or can be given to investors that any projects or uses of the proceeds will meet any or all investor expectations regarding such "social" or other equivalently-labelled performance objectives or that any adverse social and/or other impacts will not occur during the implementation of any projects or uses of the proceeds. In addition, no assurance can be given to investors that the Notes will comply with any future standards or requirements for being Social Bonds and, accordingly, the Social Bond status of the Notes could be withdrawn at any time.

No assurance or representation is given as to the suitability or reliability for any purpose whatsoever of any opinion or certification of any third party (whether or not solicited by the Issuer) which may be made available in connection with the issue of any Notes. For the avoidance of doubt, any such opinion or certification is not, nor shall be deemed to be, incorporated in and/or form part of this Programme Memorandum. Any such opinion or certification is not, nor should be deemed to be, a recommendation by the Issuer or any other person to buy, sell or hold any such Notes. Any such opinion or certification is only current as at the date that opinion was initially issued. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein and/or the provider of such opinion or certification for the purpose of any investment in such Notes. Currently, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight. Details of the provider(s) of any opinion, the date of such opinion and availability of such opinion and the details of any second party opinion(s) shall be set out in the applicable Pricing Supplement.

In the event that any such Notes are listed or admitted to trading on any dedicated "social" or other equivalently-labelled segment of any stock exchange or securities market (whether or not regulated), no representation or assurance is given by the Issuer or any other person that such listing or admission satisfies, whether in whole or in part, any present or future investor expectations or requirements as regards any investment criteria or guidelines with which such investor or its investments are required to comply, whether by any present or future applicable law or regulations or by its own by-laws or other governing rules or investment portfolio mandates, in particular with regard to any direct or indirect social impact of any projects or uses, the subject of or related to, any social projects. Furthermore, it should be noted that the criteria for any such listings or admission to trading may vary from one stock exchange or securities market to another. Nor is any representation or assurance given or made by the Issuer or any other person that any such listing or admission to trading will be obtained in respect of any such Notes or, if obtained, that any such listing or admission to trading will be maintained during the life of the Notes.

The Issuer has no direct control over the ultimate use of proceeds by the RP Borrowers and accordingly can provide no assurance that the relevant project(s) or use(s) will be capable of being implemented in, or substantially in, the manner and/or in accordance with any timing schedule intended by such RP Borrowers. Any such failure by the Issuer will not constitute an Event of Default under the Notes.

Any such event and/or withdrawal of any such opinion or certification or any such opinion or certification attesting that the Issuer is not complying in whole or in part with any matters for which such opinion or certification is opining or certifying on and/or any such Notes no longer being listed or admitted to trading on any stock exchange or securities market as aforesaid may have a material adverse effect on the value of

such Notes and also potentially the value of any other Notes and/or result in adverse consequences for certain investors with portfolio mandates to invest in securities to be used for a particular purpose.



## **DOCUMENTS INCORPORATED BY REFERENCE**

This Programme Memorandum should be read and construed in conjunction with future audited annual financial statements of the Issuer and future unaudited interim financial statements of the Issuer (if any) as and when such financial statements are published in accordance with the ISM Rulebook and such financial statements shall, upon publication, be incorporated in, and form part of, this Programme Memorandum.

Copies of such financial statements can be obtained from the registered office of the Issuer and from the specified office of the Principal Paying Agent for the time being in London and will be available for viewing on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Any documents themselves incorporated by reference in such financial statements shall not form part of this Programme Memorandum.

## FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S under the Securities Act (**Regulation S**) and Registered Notes will be issued outside the United States in reliance on the exemption from registration provided by Regulation S.

### **Bearer Notes**

Each Tranche of Bearer Notes will be in bearer form and will initially be issued in the form of a temporary global note (a **Temporary Bearer Global Note**) or, if so specified in the applicable Pricing Supplement, a permanent global note (a **Permanent Bearer Global Note**) and, together with a Temporary Bearer Global Note, each a **Bearer Global Note** which, in either case, will:

- (a) if the Bearer Global Notes are intended to be issued in new global note (**NGN**) form, as stated in the applicable Pricing Supplement, be delivered on or prior to the original issue date of the Tranche to a common safekeeper (the **Common Safekeeper**) for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**); and
- (b) if the Bearer Global Notes are not intended to be issued in NGN Form, be delivered on or prior to the original issue date of the Tranche to a common depositary (the **Common Depositary**) for Euroclear and Clearstream, Luxembourg (**Clearstream, Luxembourg**).

Where the Bearer Global Notes issued in respect of any Tranche are in NGN form, the applicable Pricing Supplement will also indicate whether such Bearer Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Bearer Global Notes are to be so held does not necessarily mean that the Bearer Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. Noteholders should note that whilst the European Central Bank has applied a temporary extension of Eurosystem eligibility to Sterling denominated securities, the effective date for this temporary extension being 9 November 2012, any Bearer Global Notes listed on the ISM are not recognised as eligible collateral as the ISM is not on the list of "certain acceptable non-regulated markets" maintained by the European Central Bank. Where Bearer Global Notes are recognised as eligible collateral, the Common Safekeeper for NGNs will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made (against presentation of the Temporary Bearer Global Note if the Temporary Bearer Global Note is not intended to be issued in NGN form) only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Temporary Bearer Global Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (i) interests in a Permanent Bearer Global Note of the same Series or (ii) for definitive Bearer Notes of the same Series with, where applicable, interest coupons and talons attached (as indicated in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given, provided that purchasers in the United

States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

The option for an issue of Bearer Notes to be represented on issue by a Temporary Bearer Global Note exchangeable for definitive Bearer Notes should not be expressed to be applicable in the applicable Pricing Supplement if the Bearer Notes are issued with a minimum Specified Denomination such as £100,000 plus one or more higher integral multiples of another smaller amount such as £1,000 (or its equivalent in another currency).

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg (against presentation or surrender (as the case may be) of the Permanent Bearer Global Note if the Permanent Bearer Global Note is not intended to be issued in NGN form) without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, interest coupons and talons attached upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 13) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Bearer Global Note in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 17 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes (other than Temporary Bearer Global Notes) and interest coupons relating to such Notes where TEFRA D is specified in the applicable Pricing Supplement:

"ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE."

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of Bearer Notes or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

## Registered Notes

The Registered Notes of each Tranche will initially be represented by a global note in registered form (a **Registered Global Note**).

Registered Global Notes will be deposited with a common depositary or, if the Registered Global Notes are to be held under the new safe-keeping structure (the **NSS**), a common safekeeper, as the case may be for Euroclear and Clearstream, Luxembourg, and registered in the name of the nominee for the Common Depositary of, Euroclear and Clearstream, Luxembourg or in the name of a nominee of the common safekeeper, as specified in the applicable Pricing Supplement. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Where the Registered Global Notes issued in respect of any Tranche is intended to be held under the **NSS**, the applicable Pricing Supplement will indicate whether or not such Registered Global Notes are intended to be held in a manner which would allow Eurosystem eligibility. Any indication that the Registered Global Notes are to be so held does not necessarily mean that the Notes of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any time during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. Noteholders should note that whilst the European Central Bank has applied a temporary extension of Eurosystem eligibility to Sterling denominated securities, the effective date for this temporary extension being 9 November 2012, any Registered Global Notes listed on the ISM are not recognised as eligible collateral as the ISM is not on the list of "certain acceptable non-regulated markets" maintained by the European Central Bank. Where Registered Global Notes are recognised as eligible collateral, the Common Safekeeper for Registered Global Notes held under the **NSS** will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 9.4 (*Payments – Payments in respect of Registered Notes*)) as the registered holder of the Registered Global Notes. None of the Issuer, any Paying Agent, the Trustee or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 9.4 (*Payments – Payments in respect of Registered Notes*)) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without interest coupons or talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default has occurred and is continuing, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Registered Global Note in definitive form and a certificate to that effect signed by two Directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 17 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg or any person acting on their behalf (acting on the instructions of any holder of an interest in such Registered Global Note) or the Trustee may give notice to the Registrar requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the

Issuer may also give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of Euroclear and Clearstream, Luxembourg, in each case to the extent applicable.

## **General**

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes at a point after the Issue Date of the further Tranche, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, (i) fails so to do within a reasonable period, or (ii) is unable for any reason so to do, and the failure or inability shall be continuing.

The Issuer may agree with any Dealer and the Trustee that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes, in which event a supplement to this Programme Memorandum or a new Programme Memorandum will be made available which will describe the effect of the agreement reached in relation to such Notes.

## APPLICABLE PRICING SUPPLEMENT

*Set out below is the form of Pricing Supplement which will be completed for each Tranche of Notes issued under the Programme.*

**[PROHIBITION OF SALES TO EEA RETAIL INVESTORS** – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Directive 2003/71/EC (as amended or superseded, the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIPs Regulation.]<sup>1</sup>

**MIFID II product governance / Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.

[Date]

### MORhomes PLC

**Legal entity identifier (LEI): 213800YN2RFMRU87SB68**

**Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]  
under the £5,000,000,000  
Secured Euro Medium Term Note Programme**

### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Programme Memorandum dated [date] and the supplement[s] to it dated [date] [and [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (the **Programme Memorandum**). This document constitutes the Pricing Supplement of the Notes described herein and must be read in conjunction with the Programme Memorandum. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Pricing Supplement and the Programme Memorandum. The Programme Memorandum has been published on [issuer's /financial Intermediaries'] website.

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<sup>1</sup> Legend to be included on front of the Pricing Supplement if the Notes potentially constitute "packaged" products and no key information document will be prepared or the issuer wishes to prohibit offers to EEA retail investors for any other reason, in which case the selling restriction should be specified to be "Applicable". The legend will always be included on the front of the Pricing Supplement if the Notes are to be admitted to trading on the London Stock Exchange's International Securities Market.

*Include whichever of the following apply or specify as "Not Applicable". Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs (in which case the sub-paragraphs of the paragraphs which are not applicable can be deleted). Italics denote directions for completing the Pricing Supplement.*

*If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000.*

1. (a) Series Number: [     ]  
(b) Tranche Number: [     ]  
(c) Date on which the Notes will be consolidated and form a single Series: [The Notes will be consolidated and form a single Series with [*identify earlier Tranches*] on [the Issue Date/the date that is 40 days after the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 11 below, which is expected to occur on or about [*date*]][Not Applicable]
  
2. Aggregate Nominal Amount:  
(a) Series: [     ]  
(b) Tranche: [     ]
  
3. Issue Price: [     ] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
  
4. (a) Specified Denominations: £[     ]  

*(N.B. Notes must have a minimum denomination in Sterling equivalent to €100,000)*

*(Note – where multiple Bearer denominations above the Sterling equivalent of €100,000 are being used the following sample wording should be followed:*

*"£[100,000] and integral multiples of £[1,000] in excess thereof up to and including £[199,000]. No Notes in definitive form will be issued with a denomination above £[199,000].")*

  
(b) Calculation Amount for Notes in definitive form (and in relation to Notes in global form see Conditions): [     ]  

*(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*

5. (a) Issue Date: [ ]
- (b) Interest Commencement Date: [*specify*/Issue Date]
6. (a) Legal Maturity Date: [ ]
- (b) Expected Maturity Date: [ ]
7. Date(s) [Board] approval for issuance of Notes obtained: [[ ] [and [ ], respectively]][Not Applicable] (*N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes*)

#### PROVISIONS RELATING TO INTEREST PAYABLE

8. (a) Rate(s) of Interest: [ ] per cent. per annum payable in arrear on each Interest Payment Date
- (b) Interest Payment Date(s): [ ] [and [ ]] in each year up to and including the Legal Maturity Date (*Amend appropriately in the case of irregular coupons*)
- (c) Coupon Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [ ] per Calculation Amount
- (d) Broken Amount(s) for Notes in definitive form (and in relation to Notes in global form see Conditions): [[ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]][Not Applicable]
- (e) Day Count Fraction: [Actual/Actual (ICMA)][Actual/365 (Fixed)] [Actual/365 (Sterling)]
- (f) Determination Date(s): [[ ] [and [ ]] in each year][Not Applicable] (*Only relevant where Day Count Fraction is Actual/Actual (ICMA). In such a case, insert regular interest payment dates, ignoring issue date or legal maturity date in the case of a long or short first or last coupon*)

#### PROVISIONS RELATING TO REDEMPTION

9. Issuer Call: [Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (b) Optional Redemption Date(s): [ ]
- (c) Optional Redemption Amount: [In relation to each Note, [ ] per cent. of its nominal amount][Modified Spens Amount]



(d) If Modified Spens Amount is applicable:

(i) Benchmark Gilt: [ ]

(ii) Spens Margin: [ ] per cent.

(e) If redeemable in part:

(i) Minimum Redemption Amount: [ ]

(ii) Maximum Redemption Amount: [ ]

(f) Notice periods:

(i) Minimum period: [15] days

(ii) Maximum period: [30] days

*(N.B. When setting notice periods, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems (which require a minimum of 5 clearing system business days' notice for a call) and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Trustee.)*

10. Redemption following an Associated Loan default:

(a) Minimum notice period: [15] days

(b) Maximum notice period: [30] days

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

11. Form of Notes:

(a) Form: [Bearer Notes:

[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes upon an Exchange Event]

[Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]

[Permanent Global Note exchangeable for Definitive Notes upon an Exchange Event]]

[Registered Notes:

[Global Note registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg]]

*(N.B. The option for an issue of Notes to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 4 includes language substantially to the following effect: "£[100,000] and integral multiples of £[1,000] in excess thereof up to and including £[199,000]." .)*

(b) New Global Note: [Yes][No]

12. Talons for future Coupons to be attached to Definitive Notes: [Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made][No]

**[THIRD PARTY INFORMATION]**

[[*Relevant third party information*] has been extracted from [*specify source*]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [*specify source*], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of MORhomes PLC:

By: .....

*Duly authorised*

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

(a) Listing and Admission to trading: [Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [the London Stock Exchange plc's International Securities Market] with effect from [ ].]

[Application is expected to be made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [the London Stock Exchange's International Securities Market] with effect from [ ].]

*(Where documenting a fungible issue need to indicate that original Notes are already admitted to trading.)*

(b) Estimate of total expenses related to admission to trading: [ ]

### 2. RATINGS

Ratings: [The Notes to be issued [[have been]/[are expected to be]] rated/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

*[insert details]] by [insert the legal name of the relevant credit rating agency entity(ies) and associated defined terms].*

*(The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)*

### 3. INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE

[Save for the fees [of *[insert relevant fee disclosure]*] payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business. - *Amend as appropriate if there are other interests]*

### 4. YIELD

Indication of yield: [ ]

The yield is calculated at the Issue Date on the basis

of the Issue Price. It is not an indication of future yield.

## 5. OPERATIONAL INFORMATION

- (a) ISIN: [ ]
- (b) Common Code: [ ]
- (c) CFI: [[ ]/Not Applicable]
- (d) FISN: [ ]/Not Applicable]

*(If the CFI and/or FISN is not required, requested or available, it/they should be specified to be "Not Applicable")*

- (e) Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]
- (f) Delivery: Delivery [against/free of] payment
- (g) Names and addresses of additional Paying Agent(s) (if any): [ ]
- (h) Use of proceeds: *[give details if additional to the "Use of Proceeds" section in the Programme Memorandum]*
- (i) Social Bonds: Yes
  - (i) Reviewer(s): *[Name of relevant rating agencies and name of third party assurance agent, if any and details of compliance opinion(s) and availability]*
  - (ii) Date of Second Party Opinion(s): *[give details]*

- (j) Intended to be held in a manner which would allow Eurosystem eligibility: [Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [*include this text for Registered Notes which are to be held under the NSS*] and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]/

[No. Whilst the designation is specified as "no" at the date of these Pricing Supplement, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [*include this text for Registered Notes*]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

## 6. DISTRIBUTION

- (a) Method of distribution: [Syndicated/Non-syndicated]
- (b) If syndicated, names of Managers: [Not Applicable/*give names*]
- (c) Date of [Subscription] Agreement: [ ]
- (d) Stabilisation Manager(s) (if any): [Not Applicable/*give name*]
- (e) If non-syndicated, name of relevant Dealer: [Not Applicable/*give name*]
- (f) U.S. Selling Restrictions: [Reg. S Compliance Category [1][2]; TEFRA D/TEFRA C/TEFRA not applicable]
- (g) Prohibition of Sales to EEA Retail Investors: [Applicable/Not Applicable]

*(If the Notes clearly do not constitute "packaged" products or the Notes do constitute "packaged" products and a key information document will be prepared, "Not Applicable" should be specified. If*

*the Notes may constitute "packaged" products and no key information document will be prepared, "Applicable" should be specified. If the Notes are admitted to trading on the London Stock Exchange's International Securities Market, "Applicable" shall be specified.))*

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Terms and Conditions of the Notes which will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Pricing Supplement (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Applicable Pricing Supplement" for a description of the content of Pricing Supplement which will specify which of such terms are to apply in relation to the relevant Notes.*

This Note is one of a Series (as defined below) of Senior Notes (as defined below) issued by MORhomes PLC (the **Issuer**) constituted and secured by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 11 January 2019 made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include any successor as Trustee).

References herein to the **Notes** shall be references to the Senior Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in Sterling;
- (b) any Global Note; and
- (c) any definitive Notes in bearer form (**Bearer Notes**) issued in exchange for a Global Note in bearer form; and
- (d) any definitive Notes in registered form (**Registered Notes**) (whether or not issued in exchange for a Global Note in registered form).

The Notes and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or replaced and/or restated from time to time, the **Agency Agreement**) dated 11 January 2019 and made between the Issuer, the Trustee, The Bank of New York Mellon, London Branch as issuing and principal paying agent (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the **Registrar**, which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents). The Principal Paying Agent, the Registrar, the Paying Agents and the other Transfer Agents are together referred to as the **Agents**.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**). References to the **applicable Pricing Supplement** are, unless otherwise stated, to Part A of the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

Interest bearing definitive Bearer Notes have interest coupons (**Coupons**) and, in the case of Bearer Notes which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Registered Notes and Global Notes do not have Coupons or Talons attached on issue.

Any reference to **Noteholders** or **holders** in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below. Any reference herein to **Couponholders** shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons. The Trustee acts for the benefit of the Noteholders (which expression shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Senior Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Senior Notes together with any further Tranche or Tranches of Senior Notes which (a) are expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

Copies of the Trust Deed, the Agency Agreement and each Liquidity Facility Agreement (as defined below) (if any) are available for inspection during normal business hours at the registered office for the time being of the Trustee being at 11 January 2019 at Fifth Floor, 100 Wood Street, London EC2V 7EX and at the specified office of each of the Paying Agents. If the Notes are to be admitted to trading on the London Stock Exchange's International Securities Market, the applicable Pricing Supplement will be published on the website of the London Stock Exchange through a regulatory information service or published in any other manner permitted by the International Securities Market Rulebook effective as of 8 May 2017 (as may be modified and/or supplemented and/or restated from time to time). The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement, each Liquidity Facility Agreement (if any) and the applicable Pricing Supplement which are applicable to them. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

## 1. DEFINITIONS

For the purposes of these Conditions:

**Associated Loan** means, in respect of a Series of Senior Notes, each loan to a Borrower financed (in whole or in part) by the proceeds of issuance of such Senior Notes and (to the extent that any such loan has been prepaid (in whole or in part) prior to its maturity date) each other loan to a Borrower which the Issuer has entered into as a replacement therefor, in each case as shown in the list of Associated Loans maintained and made publicly available by the Issuer pursuant to Condition 7(j) (*Covenants*);

**Available Issuer Receipts** means all amounts from time to time received or held, and available for use, by the Issuer (including, for the avoidance of doubt, amounts that have been retained by the Issuer as reserves) other than Available Liquidity Receipts;

**Available Liquidity Receipts** means all amounts from time to time received or held, and available for use, by the Issuer as a result of making a Liquidity Facility Drawing;



**Borrowers** means each Direct RP Borrower and each Finance Subsidiary Borrower;

**Capital Percentage Test** has the meaning set out in Condition 7 (*Covenants*);

**Chargeholders** means the Trustee and any Second Floating Chargeholder and **Chargeholder** means any of them;

**Corporate Services Agreement** means any corporate services agreement entered into from time to time between the Issuer and a Corporate Services Provider, pursuant to which the Corporate Services Provider provides corporate management, filing or administration services to the Issuer;

**Corporate Services Provider** means a corporate service provider appointed by the Issuer from time to time pursuant to any Corporate Services Agreement;

**Credit Analyst** means Edison Investment Research Limited or any successor or replacement credit analyst appointed from time to time under the Credit Analyst Agreement;

**Credit Analyst Agreement** means the memorandum of understanding dated 1 May 2018 between the Issuer and the Credit Analyst (as the same may be amended and/or supplemented and/or restated and/or novated and/or replaced and/or substituted from time to time);

**Current** means, in relation to payments on the Second Secured Debt, that all payments on the Second Secured Debt that at the relevant time have become due, or would otherwise have become due but for the provisions of the Pre-enforcement Priority of Payments, have been paid in full;

**Dealers** means Banco Santander, S.A., Barclays Bank PLC, Citigroup Global Markets Limited, J.P. Morgan Securities plc, Merrill Lynch International, Morgan Stanley & Co. International plc, NatWest Markets Plc and Nomura International plc and any other dealers appointed in accordance with the Programme Agreement from time to time;

**Direct RP Borrower** means an RP that borrows the proceeds of an issue of a Series of Notes pursuant to an Associated Loan;

**Early Redemption Amount** means, in relation to each Note, 100 per cent. of its nominal amount;

**Enforcing Chargeholder** means each Chargeholder to the extent that it is enforcing its Floating Charge;

**Final Redemption Amount** means, in relation to each Note, 100 per cent. of its nominal amount;

**Finance Subsidiary Borrower** means a finance subsidiary undertaking of the parent entity within a group that borrows the proceeds of an issue of a Series of Notes pursuant to an Associated Loan and on-lends such funds pursuant to intra-group loan agreements to one or more RPs;

**First Floating Charge** has the meaning set out in Condition 5 (*Security*);

**Floating Charges** means the First Floating Charge and any Second Secured Debt Floating Charge and **Floating Charge** means any of them;

**Indirect RP Borrower** an RP that borrows funds from a Finance Subsidiary Borrower pursuant to an intra-group loan agreement that, in turn, borrows the proceeds of an issue of a Series of Notes pursuant to an Associated Loan;

**Issuer Expenses** means all costs, charges, fees, liabilities and expenses due and payable by the Issuer other than: (a) principal and interest (including any gross-up amounts), commitment fees and all other amounts due and payable to the Liquidity Facility Providers under the Liquidity Facility Agreements; (b) principal and interest due and payable on the Senior Notes; (c) amounts due and payable on the Second Secured Debt (either to the holders of the Second Secured Debt or to the Second Secured Debt Guarantor in accordance with the Pre-enforcement Priority of Payments or the Enforcement Priority of Payments, as the case may be) and the Subordinated Debt; and (d) any dividends or other distributions and/or gift aid payments;

**Lending Level** means the lending level attributed to each RP Borrower by the Issuer as part of the Issuer's credit processes in respect of each RP Borrower;

**Liquidity Facility Agreement** means a liquidity facility agreement (if any) entered into between the Issuer and a Liquidity Facility Provider (as the same may be amended and/or supplemented and/or restated from time to time) allowing the Issuer to make drawings up to a maximum aggregate principal amount specified therein for the purpose of meeting any shortfall in the amount of funds available to the Issuer to pay Issuer Expenses, principal, interest, commitment fees and all other amounts due and unpaid to each Liquidity Facility Provider under each liquidity facility agreement (if any), or interest on the Senior Notes or the Second Secured Debt in accordance with the Pre-enforcement Priority of Payments;

**Liquidity Facility Drawing** means a drawing by the Issuer under a Liquidity Facility Agreement;

**Liquidity Facility Provider** means, in relation to a Liquidity Facility Agreement, the bank or other entity entering into such Liquidity Facility Agreement as liquidity facility provider;

**Loan Agreement** means each loan to a Borrower financed (in whole or in part) by the proceeds of issuance of Senior Notes and (to the extent that any such loan has been prepaid (in whole or in part) prior to its maturity date) each other loan to a Borrower which the Issuer has entered into as a replacement therefor;

**Minimum Lending Terms** means the set of minimum terms required to be included in the Issuer's loans to Borrowers, as set out in the Trust Deed relating to the Senior Notes or (subject to the requirements of Condition 7(j) and (k) (*Covenants*)) as may subsequently be amended at the discretion of the Issuer;

**Programme Agreement** means the Programme Agreement dated 11 January 2019 between the Issuer and the Dealers (as the same may be amended and/or supplemented and/or restated from time to time);

**Rating Agencies** means any internationally recognised rating agency or agencies which has or have assigned a rating to any of the Senior Notes at the request of the Issuer (or, in each case, any successor to its rating business);

**RPs** means (i) Registered Providers of Social Housing incorporated in England, Registered Social Landlords incorporated in Wales and Registered Housing Associations incorporated in Northern Ireland and (ii) (if and to the extent that each Rating Agency has confirmed to the Issuer that the lending by the Issuer to such institutions will not result in its then existing rating of the Senior Notes being adversely affected) institutions in other jurisdictions performing similar functions (as determined by the Issuer in its sole discretion);

**RP Borrowers** means each Direct RP Borrower and each Indirect RP Borrower;

**Scheduled Payment Date** means any date on which (i) a payment is due (or, but for the provisions of the Pre-enforcement Priority of Payments, would be due) pursuant to a Liquidity Facility Agreement (if any), the Senior Notes, the Second Secured Debt or the Subordinated Debt or (ii) a dividend or other distribution to the Issuer's shareholders is (or is intended to be) declared, paid or made;

**Second Secured Debt Floating Charge** means any floating charge granted to secure the Second Secured Debt in accordance with these Conditions and any person to whom such floating charge is granted being a **Second Floating Chargeholder**;

**Second Secured Debt** means indebtedness (whether under loan agreements or in the form of debt securities) from time to time incurred by the Issuer and for the time being outstanding, which has the benefit of one or more floating charges ranking behind the First Floating Charge and which is expressed to rank in point of priority junior to the Senior Notes but ahead of the Subordinated Debt;

**Second Secured Debt Guarantee** means (if any) a guarantee of the Issuer's payment obligations in respect of the Second Secured Debt by the Second Secured Debt Guarantor, whether by way of a guarantee, indemnity, agreement to purchase the Second Secured Debt from the holders from time to time of the Second Secured Debt upon a default by the Issuer in respect of the Second Secured Debt (or other similar arrangement) or otherwise;

**Second Secured Debt Guarantor** means a party (if any) which has agreed to provide a Second Secured Debt Guarantee;

**Senior Issuer Expenses** means all fees, costs, charges, expenses and liabilities then due and payable by the Issuer to the Agents under the Agency Agreement, the Credit Analyst under the Credit Analyst Agreement, any Corporate Services Provider under any Corporate Services Agreement;

**Senior Note Buffer Amount Test** has the meaning set out in Condition 7(d) (*Covenants*);

**Senior Notes** means notes, of any series, issued by the Issuer pursuant to the Trust Deed and for the time being outstanding;

**Shareholders Funds** means the aggregate of the share capital, share premium and reserves of the Issuer (in each case on an unconsolidated basis and as set out in its latest published audited accounts) as adjusted to reflect any changes in the share capital, share premium and reserves of the Issuer from time to time.

**Subordinated Debt** means indebtedness (whether under loan agreements or in the form of debt securities, and including without limitation indebtedness that is conditionally convertible into shares) from time to time incurred by the Issuer and for the time being outstanding and which is expressed to rank in point of priority junior to the Senior Notes and the Second Secured Debt; and

**Total Secured Debt** means the amount of the unconsolidated gross liabilities of the Issuer in respect of which a security interest has been granted, as derived from its latest published audited balance sheet, but adjusted for subsequent events in such manner as the Directors of the Issuer may determine.

## 2. FORM, DENOMINATION AND TITLE

The Notes are in bearer form or in registered form as specified in the applicable Pricing Supplement and, in the case of definitive Notes, serially numbered, denominated in Sterling and in the denominations (the **Specified Denomination(s)**) specified in the applicable Pricing Supplement.

Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and *vice versa*.

Definitive Bearer Notes are issued with Coupons attached.

Subject as set out below, title to the Bearer Notes and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Trustee and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking, S.A. (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Trustee and the Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Trustee and any Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Pricing Supplement.

### **3. TRANSFERS OF REGISTERED NOTES**

#### **3.1 Transfers of interests in Registered Global Notes**

Transfers of beneficial interests in Registered Global Notes will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note of the same series only in the authorised denominations set out in the applicable Pricing Supplement and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement.

### **3.2 Transfers of Registered Notes in definitive form**

Subject as provided in Condition 3.3, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Pricing Supplement). In order to effect any such transfer (a) the holder or holders must (i) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or its or their attorney or attorneys duly authorised in writing and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 1 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

### **3.3 Registration of transfer upon partial redemption**

In the event of a partial redemption of Notes under Condition 10 (*Redemption and Purchase*), the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

### **3.4 Costs of registration**

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

## **4. STATUS OF THE NOTES**

The Notes and any relative Coupons are direct, unconditional, unsubordinated and secured obligations of the Issuer and rank *pari passu* among themselves.

## **5. SECURITY**

The Issuer's obligations in respect of all Senior Notes are secured under the Trust Deed by a first floating charge (the **First Floating Charge**) over the whole of the assets and undertaking of the Issuer (other than, *inter alia*, the money representing paid up ordinary share capital of the Issuer) which will become enforceable upon (a) any of the Senior Notes becoming due and repayable pursuant to Condition 13 (*Events of Default and Enforcement*); (b) any failure for any reason of the Issuer to pay interest or principal on any of the Senior Notes when due; (c) formal notice being given of an intention to appoint an administrator in relation to the Issuer; or (d) an application being made to, or a petition being lodged or documents being filed, with the court for administration in relation

to the Issuer. All Senior Notes shall rank *pari passu* under the First Floating Charge (but without prejudice to Condition 7(m) (*Covenants*)).

## 6. ORDER OF PAYMENTS

### 6.1 Pre-enforcement Priority of Payments

Prior to the Notes having become due and repayable in full and the First Floating Charge being enforced as described in Condition 13 (*Events of Default and Enforcement*) and subject as provided in the Trust Deed, on each Scheduled Payment Date up to and including the date on which the Notes are redeemed in full, the Issuer shall apply the Available Issuer Receipts and (in the case of items (a) to (c) below and payments of interest on the Second Secured Debt pursuant to item (e) below) Available Liquidity Receipts (if any) in the order set out below (the **Pre-enforcement Priority of Payments**):

- (a) to the payment of any due and unpaid Issuer Expenses;
- (b) to the payment of any principal and interest (including any gross-up amounts), commitment fees and all other amounts due and unpaid to each Liquidity Facility Provider under each Liquidity Facility Agreement (if any);
- (c) to the payment, on a *pari passu* and *pro rata* basis, of any interest due and payable on the Senior Notes;
- (d) to the payment, on a *pari passu* and *pro rata* basis, of any principal due and payable on the Senior Notes;
- (e) subject to the Senior Note Buffer Amount Test and the Capital Percentage Test being satisfied in respect of such payment(s), to the payment of sums due and payable on the Second Secured Debt and the Subordinated Debt in accordance with their terms (including, without limitation, as to the order of such payments amongst themselves), provided that in respect of any payment of sums due and payable in respect of the Second Secured Debt, payment shall be made by the Issuer to the holders of the Second Secured Debt or, if and to the extent that the Second Secured Debt Guarantor has paid such holders pursuant to a Second Secured Debt Guarantee and all payments on the Second Secured Debt are Current, to the Second Secured Debt Guarantor, irrespective of whether the rights of the Second Secured Debt Guarantor to such payment arise (contractually or otherwise) from subrogation, a counter-indemnity, a reimbursement obligation or otherwise;
- (f) subject to the Senior Note Buffer Amount Test and the Capital Percentage Test being satisfied in respect of such payment(s), in payment of dividends and/or gift aid payments as the Issuer may determine; and
- (g) as to any balance, in the accumulation of reserves.

### 6.2 Payments of Issuer Expenses other than on a Scheduled Payment Date

Notwithstanding the terms of Condition 6.1, the Issuer may also apply Available Issuer Receipts to the payment of any due and unpaid Issuer Expenses on any day other than a Scheduled Payment Date.

### 6.3 Enforcement Priority of Payments

The Trust Deed requires that all monies received by or on behalf of the Trustee following enforcement with respect to any of the Senior Notes and/or the First Floating Charge shall be applied according to the following priority (the **Enforcement Priority of Payments**):

- (a) to the payment of the fees, costs, charges, expenses and liabilities incurred by any Enforcing Chargeholder, any appointee of any such Enforcing Chargeholder or any receiver in connection with the enforcement of security;
- (b) to the payment, on a *pari passu* and *pro rata* basis, of any other unpaid fees, expenses and liabilities of each Chargeholder or any appointee thereof (including, but not limited to, all amounts payable to such Chargeholder or any appointee thereof under the Trust Deed or other document creating a Second Secured Debt Floating Charge (as applicable));
- (c) to the payment of any due but unpaid Senior Issuer Expenses;
- (d) to the payment of any principal and interest (including any gross-up amounts), commitment fees and all other amounts due but unpaid to each Liquidity Facility Provider under each Liquidity Facility Agreement (if any);
- (e) to the payment, on a *pari passu* and *pro rata* basis, of any due but unpaid interest on the Senior Notes;
- (f) to the payment, on a *pari passu* and *pro rata* basis, of the principal due and payable on the Senior Notes; and
- (g) in respect of any remaining balance, to the Issuer for application towards payment of sums (if any) due and payable on the Second Secured Debt (including payments to the Second Secured Debt Guarantor) and any other due but unpaid Issuer Expenses and/or the Subordinated Debt in accordance with their terms (including, without limitation, as to the order of such payments amongst themselves).

## 7. COVENANTS

So long as any of the Notes remains outstanding (as defined in the Trust Deed), the Issuer covenants that, except to the extent that the Trustee otherwise consents in writing, it will:

- (a) not elect to redeem, repay, repurchase or otherwise acquire any Second Secured Debt or Subordinated Debt or any of its shares (of any class), declare, pay or make any dividend or other distribution to its shareholders or make any gift aid payment (i) unless and to the extent that immediately thereafter there will remain outstanding Second Secured Debt, Subordinated Debt, share capital and accumulated reserves with an aggregate outstanding principal amount at least equal to 5 per cent. of the aggregate outstanding principal amount of all Senior Notes or such greater or lesser percentage of the aggregate outstanding principal amount of all Senior Notes as is required from time to time to ensure that the then existing rating assigned by each Rating Agency of the Senior Notes is not adversely affected (the **Capital Percentage Test**) and (ii) in any event (notwithstanding that the Capital Percentage Test may be satisfied) if using, in whole or in part, funds received from any Liquidity Facility Drawing;
- (b) not declare, pay or make any dividend or other distribution to its shareholders or make any gift aid payment if an event of default or potential event of default under any Loan Agreement has occurred and is continuing;

- (c) not declare, pay or make any dividend or other distribution to its shareholders or make any gift aid payment or make any distribution to holders of Subordinated Debt if the Issuer has made, and not repaid, a Liquidity Facility Drawing;
- (d) (other than in a winding up of the Issuer) not make any payment on or in respect of (including a purchase of) Second Secured Debt or Subordinated Debt, declare, pay or make any dividend or other distribution to its shareholders, make any other payment in respect of (including a purchase of) any of its shares (of any class) or make any gift aid payment, except in each case to the extent that the Issuer determines, in good faith and in a commercially reasonable manner, that immediately thereafter (assuming compliance by the Issuer with this Condition 7 and without double counting) the sum of (i) the Available Liquidity Receipts; (ii) any other amounts capable of being drawn as Liquidity Facility Drawings at such time (and which the Issuer determines would, if left undrawn, be capable of continuing to be drawn during the following 12 months); and (iii) the Available Issuer Receipts then held by it or which it reasonably expects to receive during the following 12 months, are (in aggregate) expected to be sufficient to cover in full all amounts referred to in items 6.1(a) to (d) of the Pre-enforcement Priority of Payments falling due during such 12-month period (the **Senior Note Buffer Amount Test**);
- (e) not incur any indebtedness except (i) Issuer Expenses, (ii) pursuant to one or more Liquidity Facility Agreements (if any), (iii) in the form of Senior Notes, Second Secured Debt or Subordinated Debt, or (iv) in another form if and to the extent that the Issuer is satisfied that such incurrence will not result in the then existing rating of the Senior Notes being adversely affected (and, if applicable, the requirements of paragraphs (m) and (n) below are satisfied);
- (f) not create or permit to subsist any security over any of its assets, except (i) further floating charges in accordance with paragraph (m) below and (ii) a Second Secured Debt Floating Charge, where such security trustee has entered into an intercreditor agreement or otherwise agreed, to the satisfaction of the Trustee, to the effect that (x) such Second Secured Debt Floating Charge ranks after the First Floating Charge and (y) notwithstanding that such Second Secured Debt Floating Charge may have become enforceable in accordance with the terms of a document which creates such Second Secured Debt Floating Charge, such chargee(s) will not, without the prior written consent of the Trustee, take any steps to enforce such Second Secured Debt Floating Charge until (A) the satisfaction of a Second Secured Debt Enforcement Condition or (B) at any time after the Trustee has commenced enforcement of the First Floating Charge in accordance with the terms of the Trust Deed.

For the purposes of this Condition 7(f):

- (i) **Second Secured Debt Enforcement Condition** shall be satisfied if any one of the following conditions are met:
  - (A) if the First Floating Charge has continued to be enforceable for a continuous period of at least two years but has not been enforced in accordance with the terms of the Trust Deed; or
  - (B) the expiry of three months after the later to occur of:
    - (I) the first date (the **Shortfall Date**) on which an amount of Second Secured Debt Deferred Interest has remained unpaid in respect of any Second Secured Debt for a continuous period of at least two years (whether or not such Second Secured Debt Deferred Interest would originally have been due on the same date but for the relevant Deferral), provided that there continues to be Second



- Secured Debt Deferred Interest in respect of such Second Secured Debt from the Shortfall Date to (and including) the time of the enforcement of the Second Secured Debt Floating Charge; and
- (II) an Event of Default which is continuing unremedied at the time of enforcement of the Second Secured Debt Floating Charge (but, for the avoidance of doubt, irrespective of whether or not waived); or
  - (C) the Trustee has consented to the enforcement of the Second Secured Debt Floating Charge by the Second Floating Chargeholder; and
- (ii) **Second Secured Debt Deferred Interest** means, in respect of any Second Secured Debt, interest on such Second Secured Debt which the Issuer did not pay on its due date as permitted in accordance with the terms of such Second Secured Debt (any such non-payment being a **Deferral**);
- (g) not engage in any activity other than: (i) carry out (either directly or through one or more subsidiaries) the business of a company which has as its purpose raising finance and on-lending such finance for the benefit of Borrowers; and (ii) perform any act considered by the Issuer to be incidental to or necessary in connection with (i) above (including, for the avoidance of doubt, managing the assets of such Borrowers if considered appropriate by the Issuer for the protection of its exposure);
  - (h) not to enter into any derivative contracts, save for any "back to back" derivative contracts for the purposes of hedging liabilities under any Senior Notes or Liquidity Facility Agreements against receipts under Loan Agreements or other assets of the Issuer;
  - (i) not issue any Senior Notes unless: (i) the Issuer is satisfied that such issuance will not result in the then existing rating of the Senior Notes being adversely affected; (ii) the Issuer has positive Shareholders Funds at such time; and (iii) such Senior Notes are denominated in Sterling and bear interest at a fixed rate (but, for the avoidance of doubt, without prejudice to the ability of the Issuer to issue notes in accordance with paragraph (m) below other than pursuant to the Trust Deed which rank *pari passu* with the Senior Notes and are denominated in a currency other than Sterling). A report as to the Shareholders Funds of the Issuer by two Directors of the Issuer shall, in the absence of manifest error, be treated and accepted by the Issuer, the Trustee and the Noteholders as correct and sufficient evidence thereof;
  - (j) maintain accurate, complete and up-to-date lists of (i) the Associated Loans (including, without limitation, details of (A) the Series of Senior Notes with which each Associated Loan is associated for the purposes of Condition 10.3 (*Redemption and Purchase – Redemption following an Associated Loan default*), (B) the identity of the Borrower in respect of each Associated Loan and (C) details of a website on which each Borrower's audited annual financial statements for the two most recent financial years, together with the audit report thereon by such Borrower's independent auditors, may be obtained) and (ii) the Liquidity Facility Agreements (if any), and (without prejudice to its listing obligations) make such lists, and the then current Minimum Lending Terms, publicly available at all times;
  - (k) not: (i) lend to any Borrower on terms less onerous to such Borrower or less beneficial to the Issuer than the then current Minimum Lending Terms; (ii) agree to any modification, abrogation, waiver or release in respect of the obligations of a Borrower under any loan made to it if such modification, abrogation, waiver or release would have the effect of making the terms of such loan less onerous to the Borrower or less beneficial to the Issuer

than the then current Minimum Lending Terms, other than on a temporary basis (where “temporary” may not exceed six months); or (iii) amend the Minimum Lending Terms, in each case, except to the extent that the Issuer is satisfied that its then existing rating of the Senior Notes will not be adversely affected;

- (l) not issue or incur any Second Secured Debt or Subordinated Debt except on terms that (i) payments in respect thereof may be deferred or cancelled in the circumstances where such payments are not permitted under the Pre-enforcement Priority of Payments and (ii) the creditors thereunder agree that they will not be entitled to take any steps for the winding up or administration of the Issuer while any of the Senior Notes remain outstanding except with the consent of the Trustee;
- (m) not issue any securities or incur other indebtedness ranking senior to or *pari passu* with the Senior Notes (other than the Liquidity Facility Agreements (if any)), except that the Issuer may issue notes ranking *pari passu* with the Senior Notes and denominated in a currency other than Sterling (and enter into (x) liquidity facility agreements in relation thereto on terms substantially similar to the Liquidity Facility Agreements and (y) currency swaps in relation to the amounts due under such notes and liquidity facility agreements) provided that:
  - (i) the Issuer is satisfied that such issuance will not result in the then existing rating of the Senior Notes being adversely affected; and
  - (ii) appropriate modifications are made to the terms of the Senior Notes and the Trust Deed to enable (x) such notes (and the associated currency swaps) to have the benefit of a floating charge ranking *pari passu* with the First Floating Charge and to be subject to the same restrictions under the covenants of the Issuer, *mutatis mutandis*, as the Senior Notes and (y) amounts payable under such notes, liquidity facility agreements and currency swaps to rank *pari passu* with the amounts payable under the Senior Notes or the Liquidity Facility Agreement (if any) (as the case may be) in accordance with the Pre-enforcement Priority of Payments and the Enforcement Priority of Payments (and, accordingly, to be excluded from the definition of Issuer Expenses) (and the Trustee is authorised and instructed to and shall agree to such modifications, upon request by and at the expense of the Issuer, without the consent of holders of the Senior Notes, provided that the Trustee has received a certificate signed by two directors of the Issuer to the effect that the modifications give effect to such notes (and the associated currency swaps) having the benefit of a floating charge ranking *pari passu* with the First Floating Charge in accordance with this Condition 7(m)(ii));
- (n) not issue or incur any Second Secured Debt or Subordinated Debt in a currency other than Sterling unless:
  - (i) each Rating Agency has confirmed to the Issuer that such issue or incurrence will not result in its then existing rating of the Senior Notes being adversely affected; and
  - (ii) appropriate modifications are made to the terms of the Senior Notes and the Trust Deed to ensure that any associated currency swaps rank junior to the Senior Notes under the Pre-enforcement Priority of Payments and the Enforcement Priority of Payments (and, accordingly, are excluded from the definition of Issuer Expenses) (and the Trustee is authorised and instructed to agree such modifications, upon request by the Issuer, without the consent of the holders of the Senior Notes);
- (o) deliver to the Trustee the following:

- (i) within four months of its most recent financial year-end, a copy of its audited financial statements for such financial year, together with the audit report thereon by the Issuer's independent auditors;
  - (ii) at the same time as delivering the audited financial statements for each financial year to the Trustee, a certificate signed by two directors of the Issuer confirming compliance with each of the covenants contained in this Condition 7 or describing a breach and detailing the action being taken to remedy such breach;
  - (iii) within three months of the end of the first half of each financial year, a copy of its unaudited interim financial statements as at, and for the period ending on, the end of such period; and
  - (iv) forthwith upon the Issuer entering into a Liquidity Facility Agreement (if any), a copy of such Liquidity Facility Agreement.
- (p) make publicly available (which may include being made available on the Issuer's website) at all times the following:
- (i) within four months of its most recent financial year-end, a copy of its audited financial statements for such financial year, together with the audit report thereon by the Issuer's independent auditors;
  - (ii) within three months of the end of the first half of each financial year, a copy of its unaudited interim financial statements as at, and for the period ending on, the end of such period; and
  - (iii) within 30 days of the end of each financial quarter, an analysis of the portfolio of Loan Agreements, including, *inter alia*:
    - (A) the proportion and number of Loan Agreements attributed to each Lending Level as at the end of such financial quarter;
    - (B) the aggregate principal amount of the Loan Agreements outstanding in respect of which the relevant RP Borrower has yet to charge security over certain of its properties to satisfy the asset cover test specified in the relevant Loan Agreement as at the end of such financial quarter;
    - (C) in respect of the Loan Agreements, any early loan repayments made during such financial quarter or notified to the Issuer during such financial quarter and to be made following the end of such financial quarter;
    - (D) the aggregate amount of arrears, if any, in relation to the Loan Agreements as at the end of such financial quarter; and
    - (E) the amount of the Liquidity Facility Drawing (if any) as at the end of such financial quarter.

## **8. INTEREST**

### **8.1 Interest on the Notes**

The applicable Pricing Supplement contains provisions applicable to the determination of interest and must be read in conjunction with this Condition 8.1 for full information on the manner in which

interest is calculated on the Notes. In particular, the applicable Pricing Supplement will specify the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Legal Maturity Date, the Expected Maturity Date, the Coupon Amount, any applicable Broken Amount, the Calculation Amount, the Day Count Fraction and any applicable Determination Date.

Each Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Legal Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Interest Period ending on (but excluding) such date will amount to the Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Notes which are (i) represented by a Global Note or (ii) Registered Notes in definitive form, the aggregate outstanding nominal amount of (A) the Notes represented by such Global Note or (B) such Registered Notes; or
- (b) in the case of Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction. The resultant figure (including after application of any Broken Amount, as applicable, to the aggregate outstanding nominal amount of Notes which are Registered Notes in definitive form or the Calculation Amount in the case of Notes which are Bearer Notes in definitive form) shall be rounded to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

Where the Specified Denomination of a Note which is a Bearer Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 8.1:

- (a) if "Actual/Actual (ICMA)" is specified in the applicable Pricing Supplement:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number

of Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

- (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
  - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
  - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (b) if "Actual/365 (Fixed)" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date divided by 365; and
- (c) if "Actual/365 (Sterling)" is specified in the applicable Pricing Supplement, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366.

In these Conditions:

**Determination Period** means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

## 8.2 Accrual of interest

Each Note will cease to bear interest from the date for its redemption unless payment of principal is improperly withheld or refused or default is otherwise made in the payment thereof. In such event, interest will continue to accrue as provided in the Trust Deed.

## 9. PAYMENTS

### 9.1 Method of payment

Subject as provided below, payments will be made by credit or transfer to a Sterling account maintained by the payee with a bank in London.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

## 9.2 Presentation of definitive Bearer Notes and Coupons

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 9.1 (*Payments – Method of payment*) only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Notes in definitive bearer form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 12 (*Prescription*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 12 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Note in definitive bearer form becoming due and repayable prior to its Legal Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Long Maturity Note in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Note** is, in relation to any date, a Note on which the aggregate amount of interest remaining to be paid after that date (other than interest represented by Talons which have not been exchanged for further Coupons) is more than the principal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

## 9.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes or otherwise in the manner specified in the relevant Global Note, where applicable against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Note by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

## 9.4 Payments in respect of Registered Notes

Payments of principal in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due,

endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. For these purposes, **Designated Account** means the account maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** a bank in London.

Payments of interest in respect of each Registered Note (whether or not in global form) will be made by transfer on the due date to the Designated Account of the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**). Payment of the interest due in respect of each Registered Note on redemption will be made in the same manner as payment of the principal amount of such Registered Note.

No commissions or expenses shall be charged to the holders by the Registrar in respect of any payments of principal or interest in respect of Registered Notes.

None of the Issuer, the Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

## **9.5 General provisions applicable to payments**

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

## **9.6 Payment Day**

If the date for payment of any amount in respect of any Note or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

For these purposes, **Payment Day** means any day which (subject to Condition 12 (*Prescription*)) is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and, in the case of Notes in definitive form only, in the relevant place of presentation.

## **9.7 Interpretation of principal**

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

- (a) the Final Redemption Amount of the Notes;
- (b) the Early Redemption Amount of the Notes;
- (c) the Optional Redemption Amount(s) (if any) of the Notes; and
- (d) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

## **10. REDEMPTION AND PURCHASE**

### **10.1 Redemption at maturity**

Unless previously redeemed or purchased and cancelled as specified below, each Note will be redeemed by the Issuer in accordance with the Pre-enforcement Priority of Payments at its Final Redemption Amount in Sterling on each date on which the Issuer determines, in good faith, that it has available to it sufficient Available Issuer Receipts in the period from and including the Expected Maturity Date to and including the Legal Maturity Date, until redemption and payment in full of all amounts (including principal and interest) payable in respect of the Notes. All interest accrued on the Notes will be paid in accordance with the Pre-Enforcement Priority of Payments on each Interest Payment Date to and including the Legal Maturity Date, until redemption and payment in full of all amounts (including principal and interest) payable in respect of the Notes.

All outstanding Notes not redeemed in full prior to the Legal Maturity Date will be redeemed by the Issuer in accordance with the Pre-enforcement Priority of Payments in full on the Legal Maturity Date, together with interest accrued to (but excluding) the Legal Maturity Date.

The Issuer will give notice to the Noteholders in accordance with Condition 17 (*Notices*) at least 5 London business days prior to each date of payment pursuant to this Condition 10.1 of the relevant amounts to be paid on such payment date.

### **10.2 Redemption at the option of the Issuer (Issuer Call)**

If Issuer Call is specified as being applicable in the applicable Pricing Supplement, the Issuer may, having given not less than the minimum period nor more than the maximum period of notice specified in the applicable Pricing Supplement to the Noteholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in the applicable Pricing Supplement together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Pricing Supplement.

The Optional Redemption Amount will either be the specified percentage of the nominal amount of the Notes stated in the applicable Pricing Supplement or, if Modified Spens Amount is specified in the applicable Pricing Supplement, the higher of the following:

- (i) par; and
- (ii) the amount (as calculated by a financial adviser nominated by the Issuer and approved by the Trustee (the **Nominated Financial Adviser**) and reported in writing to the Issuer and the Trustee) which is equal to the principal amount of the Notes to be redeemed multiplied by the price (expressed as a percentage and calculated by the Nominated Financial Adviser)



(rounded to three decimal places (0.0005 being rounded upwards)) at which the Gross Redemption Yield on the Notes (if the Notes were to remain outstanding until their Legal Maturity Date) on the Determination Date would be equal to the sum of (i) the Gross Redemption Yield at 3.00pm (London time) on the Determination Date of the Benchmark Gilt (determined by reference to the middle market price) and (ii) the Spens Margin specified in the applicable Pricing Supplement,

together with any interest accrued up to (but excluding) the date of redemption.

For the purposes of this Condition:

**Benchmark Gilt** means the gilt specified as such in the applicable Pricing Supplement or such other conventional (i.e. not index-linked) UK Government Gilt as the Issuer (with the advice of the Nominated Financial Adviser) may determine to be the most appropriate benchmark conventional UK Government Gilt;

**Determination Date** means two Business Days prior to the dispatch of the notice of redemption; and

**Gross Redemption Yield** means a yield calculated by the Nominated Financial Adviser on the basis set out by the United Kingdom Debt Management Office in the paper "*Formulae for Calculating Gilt Prices from Yields*" page 5, Section One: Price/Yield Formulae (Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date) (published on 8 June 1998 and updated on 15 January 2002 and 16 March 2005) (as amended or supplemented from time to time).

### 10.3 Redemption following an Associated Loan default

If an Associated Loan relating to the Notes is repaid in whole or in part prior to its scheduled repayment date as a result of a default thereunder by a Borrower, the Issuer may redeem all or some only of the Notes then outstanding, at the Early Redemption Amount, in an aggregate nominal amount not exceeding the principal amount of the Associated Loan so repaid, together, if appropriate, with interest accrued to (but excluding) the redemption date. Notice of such redemption (which notice shall be irrevocable and shall specify the date fixed for redemption) shall be given by the Issuer to the Noteholders in accordance with Condition 17 (*Notices*) not less than the minimum number of days nor more than the maximum number of days specified in the applicable Pricing Supplement.

### 10.4 Partial redemption

In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 17 (*Notices*) not less than 15 days prior to the date fixed for redemption.

### 10.5 Purchases

The Issuer may at any time purchase Notes (provided that, in the case of definitive Bearer Notes, all unmatured Coupons and Talons appertaining thereto are purchased therewith) at any price in the

open market or otherwise. Such Notes may be held, resold or, at the option of the Issuer, surrendered to any Paying Agent and/or the Registrar for cancellation.

## **10.6 Cancellation**

All Notes which are redeemed in full will forthwith be cancelled (together with all unmatured Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 10.5 (*Redemption and Purchase – Purchases*) (together with all unmatured Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

## **11. TAXATION**

All payments of principal and interest in respect of the Notes and Coupons by or on behalf of the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature unless such withholding or deduction is required by law. In such event, the Issuer will not be obliged to pay any additional amounts to Noteholders or Couponholders in respect of any such withholding or deduction. Any such withholding or deduction will not constitute an Event of Default under Condition 13 (*Events of Default and Enforcement*), and will not trigger any obligation by the Issuer to redeem the Notes.

## **12. PRESCRIPTION**

The Notes (whether in bearer or registered form), and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date therefor.

As used herein, the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 17 (*Notices*).

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition 12 or Condition 9.2 (*Payments – Presentation of definitive Bearer Notes and Coupons*) or any Talon which would be void pursuant to Condition 9.2 (*Payments – Presentation of definitive Bearer Notes and Coupons*).

## **13. EVENTS OF DEFAULT AND ENFORCEMENT**

### **13.1 Events of Default**

If any Event of Default (as defined below) occurs and is continuing, the Trustee at its discretion may, and if so requested in writing by the holders of at least 25 per cent. in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction), (but in the case of the happening of any of the events described in paragraphs (b), (c), (d) (in relation to a Material Subsidiary) and (e) to (g) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at the Early Redemption Amount together with accrued interest as provided in the Trust Deed. Upon the occurrence of an Event of Default, the First Floating Charge shall become enforceable as referred to in Condition 5 (*Security*). Each of the following events

(including where applicable the certification of material prejudice by the Trustee as referred to above) is an **Event of Default**:

- (a) default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 7 days in the case of principal and 14 days in the case of interest; or
- (b) the Issuer fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where, in the opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) the Issuer fails to pay when due any amount of interest or principal in respect of any other Senior Notes (subject to any applicable grace periods or deferral provisions with respect thereto) or the First Floating Charge becomes enforceable in respect of any other Senior Notes; or
- (d) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Material Subsidiaries, save for the purposes of reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution; or
- (e) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution, or the Issuer or any of its Material Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) proceedings are initiated against the Issuer or any of its Material Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Material Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and (ii) in any case (other than the appointment of an administrator) is not discharged within 21 days; or
- (g) the Issuer or any of its Material Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

For the purposes of the above, **Material Subsidiary** means a Subsidiary (as defined in the Trust Deed) whose total assets represent at least ten per cent. of the consolidated total assets of the Issuer and its Subsidiaries taken as a whole, all as more particularly defined in the Trust Deed.

### **13.2 Enforcement**

The Trustee may at any time, at its discretion and without notice, take such proceedings and/or other action against the Issuer as it may think fit to enforce the provisions of the Trust Deed, the Notes and the Coupons (including without limitation enforcing the First Floating Charge after it has become enforceable), but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes or the Coupons unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least 25 per cent. in nominal amount of the Notes then outstanding and (b) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer (including without limitation enforcing the First Floating Charge) unless the Trustee, having become bound so to proceed, (i) fails so to do within a reasonable period, or (ii) is unable for any reason so to do, and the failure or inability shall be continuing.

### **14. REPLACEMENT OF NOTES, COUPONS AND TALONS**

Should any Note, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

### **15. AGENTS**

The initial Agents are set out below. If any additional Agents are appointed in connection with the Notes, the names of such Agents will be specified in Part B of the applicable Pricing Supplement.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

- (a) there will at all times be a Principal Paying Agent and Registrar;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes), which may be the Registrar, with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and
- (c) if at any time (i) any withholding or deduction of any amount for or on account of any taxes or duties upon the Notes or Coupons is required upon the Notes or Coupons being presented for payment in the United Kingdom unless such withholding or deduction is required by law; and (ii) such withholding or deduction would not be required were the Notes or Coupons to be presented for payment outside the United Kingdom, there will at such times be a Paying Agent in a jurisdiction within Europe, other than the United Kingdom.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency or trust with, any Noteholder or Couponholder. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

## **16. EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 12 (*Prescription*).

## **17. NOTICES**

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading including publication on the website of the relevant stock exchange or relevant authority if required by those rules. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, a notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee shall approve.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) or such websites or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published on the website of the relevant stock exchange or relevant authority and/or in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of

the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## 18. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Coupons or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than ten per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes or the Coupons or the Trust Deed (including modifying the Expected Maturity Date or Legal Maturity Date or any date for payment of interest on the Notes, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes or the Coupons, altering the priority of the First Floating Charge or any modification of Condition 6 (*Order of Payments*) and/or Condition 7 (*Covenants*)), the quorum shall be one or more persons holding or representing not less than 66 per cent. in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than 33 per cent. in nominal amount of the Notes for the time being outstanding. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than 75 per cent. of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Noteholders. An Extraordinary Resolution passed by the Noteholders will be binding on all the Noteholders, whether or not they are present at any meeting, and whether or not they voted on the resolution, and on all Couponholders. The Trust Deed contains provisions for convening a single meeting of the holders of two or more Series of Senior Notes in certain circumstances.

The Trust Deed contains provisions allowing for modification of Condition 6 (*Order of Payments*) and/or Condition 7 (*Covenants*) in respect of all Series of Notes by a meeting of the holders of all Series of Notes (provided that the relevant Condition(s) (or parts thereof) subject to modification are the same for all Series of Notes prior to such modification and shall be modified in the same manner in respect of all Series of Notes). For the purposes of any such modification in respect of all Series of Notes, the same provisions (including in relation to quorum) as for meetings of the Noteholders of one Series of Notes shall apply, save that all references to **Notes** shall be construed as references to "all Series of Notes" and all references to **Noteholders** or **holders of Notes** shall be construed as references to the "holders of all Series of Notes".

The Trustee may agree, without the consent of the Noteholders or Couponholders (but subject to the prior written consent of each Liquidity Facility Provider (if any) and confirmation from each Rating Agency that its then current rating of the Notes would not be adversely affected), to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or potential Event of Default shall not be treated as such, where, in any such

case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven. The Trustee is also authorised and instructed to and shall agree, without the consent of the Noteholders or Couponholders, to modifications to the Senior Notes and the Trust Deed in the circumstances, and to the effect, set out in the Conditions 7(l) and (m) (*Covenants*). Any such modification shall be binding on the Noteholders and the Couponholders and if required by the Trustee shall be notified to the Noteholders in accordance with Condition 17 (*Notices*) as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders or Couponholders.

**19. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, any Liquidity Facility Provider, any borrowers from or lenders to the Issuer and their respective subsidiaries or associated companies, or any of them, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

**20. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders or the Couponholders (but subject to compliance with the requirements of Condition 7 (*Covenants*)) to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Notes and rank *pari passu* with, and share the same security as, the Notes.

**21. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **22. GOVERNING LAW AND SUBMISSION TO JURISDICTION**

### **22.1 Governing law**

The Trust Deed, the Agency Agreement, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with the Trust Deed, the Agency Agreement, the Notes and the Coupons are governed by, and construed in accordance with, English law.

### **22.2 Submission to jurisdiction**

- (a) Subject to paragraph (c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Notes and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Notes and/or the Coupons (a **Dispute**) and accordingly each of the Issuer and the Trustee and any Noteholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 22.2, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Trustee, the Noteholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

### **22.3 Other documents**

The Issuer has, in the Trust Deed and the Agency Agreement, submitted to the jurisdiction of the English courts.



## **USE OF PROCEEDS**

The net proceeds from each issue of Notes will be advanced by the Issuer to one or more Borrowers under the Loan Agreements.

See further "*Description of the Borrowers and the RP Borrowers*" and "*Description of the Loan Agreements*" below.

The Notes are intended to be "Social Bonds". Any additional information related to the use of proceeds will be set out in the applicable Pricing Supplement.

## DESCRIPTION OF THE ISSUER

### Incorporation and Status

MORhomes PLC (the **Issuer**) is a public limited company incorporated in England and Wales with registered number 10974098. It was incorporated as a private company limited by shares on 21 September 2017 under the Companies Act 2006 and converted to a public limited company under the Companies Act 2006 on 11 June 2018.

The registered address of the Issuer is Floor 8, 71 Queen Victoria Street, London EC4V 4AY. The telephone number of its registered address is +44 (0)20 7395 3000. The Issuer has no subsidiaries.

### Principal Activities of the Issuer

The Issuer has been established for the limited purpose of the issue of Notes and the making of loans to certain Borrowers in the social housing sector.

### Directors

The directors of the Issuer and their other principal activities are:

<b>Name</b>	<b>Other Principal Activities</b>
Neil Hadden (Chair) <i>Member of Socially Responsible Investment Committee</i>	Chair and director of Golden Lane Housing Limited Director of Neil Hadden Associates Limited
Malcolm Cooper <i>Member of Credit Committee and Socially Responsible Investment Committee</i> <i>Chair of New Issues Committee</i>	Non-executive director, chair of Audit Committee, member of Remuneration Committee and Senior Independent Director of CLS Holdings plc Non-executive director, chair of Audit Committee, Chair of HSE Committee, member of Remuneration and Nomination Committees of Morgan Sindall plc Member of audit committee of Local Pensions Partnership Limited
Andrew Kitchingman <i>Chair of Risk and Audit Committee</i> <i>Member of New Issues Committee</i>	Non-executive director of Lonpro Holdings plc Chair and director of MPac Group PLC Chair of The Leeds Festival Chorus Non-executive director and Chair of the Audit Committee of Incommunities Group Limited* Trustee and founding director of Ripon Cathedral Music Trust Canon treasurer and member of chapter of Ripon Cathedral Non-executive director of Andrew Sykes Group plc Director of Burton Leonard Opposition Group Limited
Ann Santry <i>Member of Credit Committee and Nomination and Remuneration Committee and Socially Responsible Investment Committee</i>	Trustee and Chair Designate of the Barnwood Trust Non-executive director, chair of the Remuneration Committee and member of the Audit Committee of the States of Jersey Development Company

Peter Shorthouse  
*Chair of Credit Committee*  
*Member of New Issues Committee*

Executive Director Treasury and Structured Finance  
at Paragon Banking Group

Charles Tilley  
*Member of Risk and Audit Committee*  
*Chair of Nomination and Remuneration Committee*  
*and Chair of the Socially Responsible Investment*  
*Committee*

Chair of CGMA Research Foundation, Association  
of International Certified Professional Accountants  
Member of the International Integrated Reporting  
Council  
Chair of Professional Accountants in Business  
Committee of the International Federation of  
Accountants

Robert Young  
*Member of Nomination and Remuneration*  
*Committee*

Director of Torus62 Ltd\*  
Director of Torus62 Commercial Services Limited  
Director of Torus62 Development Company Limited  
Chair of The Port Sunlight Village Trust  
Director of JV North

\* denotes shareholder of the Issuer or a group company of a shareholder of the Issuer.

The business address of each of the directors of the Issuer is 30 Stamford Street, London SE1 9LQ.

The company secretary of the Issuer is Patrick Symington whose business address is at 30 Stamford Street, London SE1 9LQ.

Subject as follows, there are no potential conflicts of interest between any duties to the Issuer of the directors of the Issuer and their private interests and/or duties. Andrew Kitchingman is a board member of an RP which is a current shareholder of the Issuer (as detailed above) and such shareholder may, in time, become an RP Borrower in the future. A conflict of interests could therefore arise if these directors of the Issuer are required to approve any transactions between the Issuer and such RPs, such as the Loan Agreement or the sale of shares. However, the Issuer's Articles of Association provide that, so long as those directors disclose the nature and extent of such a conflict, they may nevertheless vote on behalf of the Issuer in respect of such transactions.

## **Corporate Governance**

The Issuer is aware of the position it occupies as a non-traded public company, with listed debt instruments and a business model which specifically supports the social and affordable housing sectors. The Issuer's board (the **Board**) has a clear vision of the manner in which the Issuer should operate and a focussed understanding of the reasons for such conclusions. In addition to its shareholders, the Board is aware of the vital role of the Issuer's other key stakeholders, which importantly comprise its employees, its lenders, its creditors and those public organisations which also provide financial support to its borrowers.

Whilst the Issuer is under no legal or regulatory obligation to apply any code of corporate governance or practice, the Board has determined that a high level of corporate transparency, corporate responsibility and the highest standards of business ethics and probity are vital to the Issuer's success. Accordingly, the Board has determined to apply the provisions of the new UK Corporate Governance Code (as issued by the Financial Reporting Council on 16 July 2018 (the **UKCGC**)) to itself in an effective and proportionate manner from 1 August 2018.

The articles of association of the Issuer require it to include an annual corporate governance statement within the Issuer's annual report and accounts. The Board has also determined that equivalent information will be maintained on the Issuer's website.

The Board has determined that it will carry out an annual board evaluation and this will be externally facilitated at least once within the first two years of the Issuer's operation.

The Board has responsibility for overseeing performance. Specific responsibilities are delegated to committees that have their own terms of reference. The major committees that support the Board are:

- Credit Committee;
- New Issues Committee;
- Nomination and Remuneration Committee;
- Risk and Audit Committee; and
- Socially Responsible Investment Committee.

**Credit Committee:** the Credit Committee comprises Peter Shorthouse (Chair), Malcolm Cooper, Ann Santry, David Carton and Andrew Newberry. The Board considers each member of the Credit Committee to be independent of any potential RP Borrower or any shareholder of the Issuer. The Credit Committee's main functions include, *inter alia*, reviewing the overall policy and process for granting credit approval to potential RP Borrowers and/or RP Borrowers and making recommendations in respect of such policy to the Board and for credit approval in respect of such potential RP Borrowers and/or RP Borrowers in accordance with such policy.

**New Issues Committee:** the New Issues Committee comprises Malcolm Cooper (Chair), Andrew Kitchingman and Peter Shorthouse. The Board considers each of Malcolm Cooper and Peter Shorthouse to be independent of any RP Borrower or any shareholder of the Issuer. The New Issues Committee will be responsible for, *inter alia*, reviewing documentation relating to the Programme, Second Secured Debt and any other debt issuance programme and recommending its approval for the Board. The New Issues Committee will also receive reports from the Issuer's financial advisers on proposals for issuing new Notes, Second Secured Debt and/or Subordinated Debt including proposed timing of issues and proposed financial parameters for issues, and make recommendations to the Board.

**Nomination and Remuneration Committee:** the Nomination and Remuneration Committee comprises Charles Tilley (Chair), Ann Santry and Robert Young. The Board considers each member of the Nomination and Remuneration Committee to be independent of any RP Borrower or any shareholder. With respect to nominations, the Nomination and Remuneration Committee will be responsible for, *inter alia*, general governance and regularly reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes and keeping under review the leadership needs of the Issuer. With respect to remuneration, the Nomination and Remuneration Committee will be responsible for, *inter alia*, having responsibility for setting the remuneration policy for all executive directors and the Issuer's chair. In determining such policy, the committee shall take into account all factors which it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of its code of governance.

**Risk and Audit Committee:** the Risk and Audit Committee comprises Andrew Kitchingman (Chair) and Charles Tilley. The Board considers Charles Tilley to be independent of any RP Borrower or any shareholder. The Risk and Audit Committee's main functions include, *inter alia*, monitoring the Issuer's financial reporting, narrative reporting and internal controls and risk management.

**Socially Responsible Investment Committee:** the Socially Responsible Investment Committee comprises Charles Tilley (Chair), Neil Hadden, Ann Santry and Malcolm Cooper. The Board considers each member of the Socially Responsible Investment Committee to be independent of any RP Borrower or any shareholder. Its main function is to oversee the Issuer's status as a socially responsible investment.

A Rights Issue Committee was established by the Board in October 2018 in connection with a rights issue undertaken by the Issuer in December 2018. This Committee is no longer active, having discharged its responsibilities in full.

## **Share Capital and Major Shareholders**

As at the date of this Programme Memorandum, the entire issued share capital of the Issuer comprises 2,050,000 class A ordinary shares of £0.10 each (all of which are fully paid). The share capital of the Issuer is divided into class A ordinary shares (which can only be held by Candidate Borrowers) and class B ordinary shares. For these purposes Candidate Borrowers has the meaning in the Issuer's articles of association and means Registered Providers of Social Housing, Registered Social Landlords and Registered Housing Associations (or equivalent) anywhere in the United Kingdom which do not distribute profit to members.

The Issuer currently has 62 members (all of which are Candidate Borrowers). There are no major shareholders. No shareholder holds more than 3 per cent. of the shares of the Issuer in issue.

All Borrowers must be shareholders in the Issuer at all times while they have outstanding loans from the Issuer.

Malcolm Cooper is the senior independent director. In addition to all the functions and responsibilities of the senior independent director under the UKCGC the articles of association of the Issuer require the senior independent director to act as an additional point of contact and liaison between the Issuer and providers of finance to it in addition to any executive and/or the chair.

## **Second Secured Debt**

The Issuer will raise Second Secured Debt from various lenders while the Senior Notes are outstanding. The terms of each tranche of Second Secured Debt may vary. However, all Second Secured Debt will be secured by the Second Secured Debt Floating Charge (as defined below) which ranks behind the First Floating Charge. The rights of enforcement of the Second Secured Debt Floating Charge will be restricted, as explained in more detail below.

The principal amount of the first tranche of Second Secured Debt will be no less than 3.5 per cent. of the aggregate principal amount of the loans made by the Issuer to the Borrowers pursuant to the Loan Agreements.

The first tranche of Second Secured Debt will be borrowed pursuant to a note purchase agreement (the **NPA**) and the Issuer will issue notes (the **SSD Notes**) to the purchasers of the SSD Notes. The key terms of the NPA are as follows:

### **1. Purpose**

The proceeds of the issue of the SSD Notes must be used by the Issuer for general corporate purposes and to on-lend to the Borrowers.

### **2. Security**

All tranches of the Second Secured Debt will be secured by a single floating charge granted in favour of the Security Trustee (the **Second Secured Debt Floating Charge**) which ranks behind the First Floating Charge and which ranks in point of priority junior to the Senior Notes and ahead of the Subordinated Debt.

### 3. **Rights of Enforcement of Security**

Notwithstanding that the Second Secured Debt Floating Charge may have become enforceable in accordance with the terms of the Security Trust Deed, the Second Floating Chargeholder agrees that it shall not, without the prior written consent of the Trustee, take any steps to enforce the Second Secured Debt Floating Charge:

- (a) until the satisfaction of a Second Secured Debt Enforcement Condition; or
- (b) at any time after the Trustee has commenced enforcement of the First Floating Charge in accordance with the terms of the Trust Deed.

### 4. **Interest**

Interest on the Second Secured Debt will accrue at a fixed rate (the **Interest Rate**). Save as described below, interest will be payable at six monthly intervals.

If prior to an interest payment date, the Issuer determines that it will not have sufficient Available Issuer Receipts and Available Liquidity Receipts (having drawn all available amounts under the Liquidity Facility Agreements) to pay some or all of the interest due on any Second Secured Debt, the Interest Shortfall shall not be due on that interest payment date but shall be payable on the next interest payment date and interest shall continue to accrue at the same interest rate.

No Interest Shortfall may be deferred for more than two years. If any Interest Shortfall has not been paid at the end of that two year period, it will be an event of default under the NPA and interest will accrue at the default rate referred to in the NPA.

### 5. **Repayment**

Subject to the following paragraph, the SSD Notes will be repaid by the Issuer on the expected maturity date set out in the NPA (the **Expected Maturity Date**).

If, prior to the Expected Maturity Date, the Issuer determines that it will have insufficient Available Issuer Receipts to repay any tranche of the SSD Notes in full on its Expected Maturity Date, that tranche of SSD Notes must be repaid on the final repayment date set out in the NPA (the **Final Repayment Date**). Interest on those SSD Notes shall accrue at the Step Up Interest Rate from the Expected Repayment Date until the Final Repayment Date. On each date from the Expected Maturity Date until the Final Repayment Date on which the Issuer has Available Issuer Receipts to repay the SSD Notes in whole or in part, the Available Issuer Receipts must be credited by the Issuer to a defeasance account, and those monies will be held on trust for the holders of the relevant series of SSD Notes.

The **Step Up Interest Rate** means on and after the Expected Repayment Date, 2 per cent. per annum above the Interest Rate.

### 6. **Voluntary Prepayment**

The Issuer may, on not less than 10 business days' and not more than 30 business days' notice (subject to Covenant and Rating Compliance) repay any of the SSD Notes, in full or in part, at the Optional Early Repayment Amount plus accrued interest.

**Covenant and Rating Compliance** means on any day:

- (a) the Issuer, on such day, is in compliance with the cash lock up provisions referred to in paragraph 9 below;
- (b) the Issuer is satisfied that the credit rating of the SSD Notes which will remain outstanding after the prepayment will not be adversely affected by that prepayment; and
- (c) the Issuer does not expect, in its reasonable commercial judgement, to make a drawdown under a Liquidity Facility Agreement in the 12 month period following the prepayment.

The **Optional Early Repayment Amount** means the higher of the following:

- (a) 100 per cent.; and
- (b) the amount which is equal to the principal amount of the SSD Notes to be repaid multiplied by the price (expressed as a percentage) (rounded to three decimal places (0.0005 being rounded upwards)) at which the Gross Redemption Yield on the SSD Notes (if they were to remain outstanding until the relevant Final Repayment Date) on the relevant determination date would be equal to the sum of (x) the Gross Redemption Yield at 3pm (London time) on the determination date of the benchmark gilt referred to in the NPA (determined by reference to the middle market price) and (y) the margin referred to in the NPA.

**Gross Redemption Yield** means a yield calculated on the basis set out by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" page 5, Section One: Price/Yield Formulae (Conventional Gilts: Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date) (published on 8 June 1998 and updated on 15 January 2002 and 16 March 2005) (as amended or supplemented from time to time).

#### 7. **Prepayment following a Prepayment under a Loan Agreement**

Following a voluntary prepayment of a loan to a Borrower which was financed by monies borrowed under the NPA (an **Associated Loan**), the Issuer may (or, to the extent that the relevant early repayment amounts have not been on-lent to another Borrower within six months of receipt by the Issuer in accordance with the Minimum Lending Terms and the Re-Lending Criteria) (subject to Covenant and Rating Compliance) repay the relevant proportion of the related tranche of SSD Notes at the Optional Early Repayment Amount plus accrued interest.

#### 8. **Prepayment following an Associated Loan default**

Following early repayment of an Associated Loan as a result of a default by a Borrower under its Loan Agreement which the Issuer has failed (using all reasonable efforts) to on-lend to another Borrower on the same terms as the Minimum Lending Terms and in accordance with the Re-lending Criteria within six months of receipt of monies by the Issuer, the Issuer may (subject to Covenant and Rating Compliance and a Related Senior Note Redemption) repay the relevant proportion of the related tranche of SSD Notes, together with accrued interest, but excluding any Optional Early Redemption Amount.

**Related Senior Note Redemption** means a redemption of Senior Notes pursuant to Condition 10.3 following a default under an Associated Loan; and

**Re-lending Criteria** means, in respect of any on-lending to another Borrower following the early repayment of an Associated Loan (the **Repaid Associated Loan**), the Issuer is satisfied that:

- (a) such on-lending will be made in accordance with its then applicable credit approval processes; and

- (b) amounts to be received from the relevant Borrower (together with any make-whole or other early repayment fees paid by the Borrower under the Repaid Associated Loan upon such repayment) will be not less than the amounts required to fund the corresponding portion of payments due on the Senior Notes and the SSD Notes (or any other Second Secured Debt) which were issued (or entered into, as applicable) to fund the Repaid Associated Loan (or any prior Associated Loan, which the Repaid Associated Loan previously replaced).

## 9. General Covenants

The Issuer covenants as follows:

- (a) it shall not:
  - (i) elect to redeem, repay, repurchase or otherwise acquire any Second Secured Debt or Subordinated Debt or any of its shares (of any class); or
  - (ii) declare, pay or make any dividend or other distribution to its shareholders or make any gift aid payment,in each case:
  - (A) unless and to the extent that immediately thereafter the Capital Percentage Test will be satisfied; and
  - (B) in any event (and notwithstanding that the Capital Percentage Test may be satisfied) if using, in whole or in part, funds received from any Liquidity Facility Drawing;
- (b) the Issuer shall not declare, pay or make any dividend or other distribution to its shareholders or make any gift aid payment if a potential event of default or event of default under the NPA or an event of default or potential event of default under any Loan Agreement has occurred and is continuing;
- (c) the Issuer shall not declare, pay or make any dividend or other distribution to its shareholders or make any gift aid payment or make any distribution to holders of Subordinated Debt if the Issuer has made, and not repaid, any Liquidity Facility Drawing;
- (d) other than in a winding up of the Issuer, the Issuer shall not:
  - (i) make any payment on or in respect of (including a purchase of) Subordinated Debt;
  - (ii) declare, pay or make any dividend or other distribution to its shareholders;
  - (iii) make any other payment in respect of (including a purchase of) any of its shares (of any class); or
  - (iv) make any gift aid payment,

except, in each case, to the extent that the Issuer determines, in good faith and in a commercially reasonable manner, that immediately thereafter (assuming compliance by the Issuer with this clause and without double counting) the sum of (A) the Available Liquidity Receipts; (B) any other amounts capable of being drawn as Liquidity Facility Drawings at such time (and which the Issuer determines would, if left undrawn, be capable of continuing to be drawn during the following 12 months); and (C) the Available Issuer Receipts then held by it or which it reasonably expects to receive during the following 12 months are (in



aggregate) expected to be sufficient to cover in full all amounts referred to in items (a) to (f) of the Pre-enforcement Priority of Payments falling due during such 12 month period;

(e) the Issuer shall not, without the consent of all noteholders under the NPA (such consent not to be unreasonably withheld or delayed), increase its Dividend Payout Ratio. The **Dividend Payout Ratio** means, in each financial year of the Issuer, 25 per cent. of the Issuer's retained earnings, being the maximum amount which the Issuer shall declare, pay or make in dividends or other distributions to its shareholders (excluding, for the avoidance of doubt, payments of interest and principal on the Subordinated Debt) in such financial year;

(f) the Issuer shall not:

- (i) make any payment on or in respect of (including a purchase of) Subordinated Debt;
- (ii) declare, pay or make any dividend or other distribution to its shareholders; or
- (iii) make any other payment in respect of (including a purchase of) any of its shares (of any class),

unless immediately thereafter it has cash and/or the right to make Liquidity Facility Drawings in an amount equal to or greater than two times the next interest payment on the SSD Notes and any other Second Secured Debt;

(g) the Issuer shall not incur any indebtedness except:

- (i) Issuer Expenses;
- (ii) pursuant to Liquidity Facility Agreements;
- (iii) in the form of Senior Notes, Second Secured Debt or Subordinated Debt; or
- (iv) in another form if and to the extent that the Issuer is satisfied that such incurrence will not result in the then existing rating of the Senior Notes or the SSD Notes being adversely affected;

(h) the Issuer shall not issue any Senior Notes unless:

- (i) the Issuer is satisfied that such issuance will not result in the then existing rating of the outstanding Senior Notes and the SSD Notes being adversely affected;
- (ii) the Issuer has positive Shareholders Funds at such time (and a report as to the Shareholders Funds by two directors of the Issuer shall, in the absence of manifest error, be treated and accepted by the Noteholders as correct and sufficient evidence thereof); and
- (iii) such Senior Notes are denominated in sterling and bear interest at a fixed rate (but, for the avoidance of doubt, without prejudice to the ability of the Issuer to incur financial indebtedness in accordance with paragraph 9(j) below other than pursuant to the Trust Deed which rank *pari passu* with the Senior Notes and are denominated in a currency other than sterling);

(i) the Issuer shall not issue or incur Second Secured Debt (other than pursuant to the terms of the NPA) or Subordinated Debt except on terms that:

- (i) payments in respect thereof may be deferred or cancelled in the circumstances where such payments are not permitted under the Pre-enforcement Priority of Payments; and
  - (ii) the creditors thereunder agree that they will not be entitled to take any steps for the winding up or administration of the Issuer while any of the Senior Notes remain outstanding except with the consent of the Trustee;
- (j) the Issuer shall not issue any securities or incur other indebtedness ranking senior to or *pari passu* with the Senior Notes (other than pursuant to the Liquidity Facility Agreements), except that the Issuer may issue notes ranking *pari passu* with the Senior Notes and denominated in a currency other than sterling (and enter into currency swaps in relation to the amounts due under such notes and the NPA) provided that:
- (i) the Issuer is satisfied that such issuance will not result in the then existing rating of the Senior Notes and the SSD Notes being adversely affected; and
  - (ii) appropriate modifications are made to the terms of the Senior Notes and the Trust Deed to enable:
    - (A) such notes (and the associated currency swaps) to have the benefit of a floating charge ranking *pari passu* with the First Floating Charge and to be subject to the same restrictions under the covenants of the Issuer, *mutatis mutandis*, as the Senior Notes; and
    - (B) amounts payable under such notes, liquidity facility agreements and currency swaps to rank *pari passu* with the amounts payable under the Senior Notes or the Liquidity Facility Agreements (as the case may be) in accordance with the Pre-enforcement Priority of Payments and the Enforcement Priority of Payments (and, accordingly, to be excluded from the definition of Issuer Expenses);
- (k) the Issuer shall not issue any Second Secured Debt or any Subordinated Debt in a currency other than Pounds Sterling unless:
- (i) the Issuer is satisfied that such issue or incurrence will not result in the then existing rating of the Senior Notes being adversely affected; and
  - (ii) appropriate modifications are made to the terms of the Senior Notes and the Trust Deed to ensure that any associated currency swaps rank junior to the Senior Notes under the Pre-enforcement Priority of Payments and the Enforcement Priority of Payments (and, accordingly, are excluded from the definition of Issuer Expenses) (and the Trustee is authorised and instructed to agree such modifications, upon request by the Issuer, without the consent of the holders of the Senior Notes);
- (l) at any time during which the Issuer is prevented from making any payments pursuant to paragraph 9(a) above it shall:
- (i) not take any action to reduce the available commitment pursuant to any Liquidity Facility Agreement; and
  - (ii) use all reasonable endeavours to renew the availability period in respect of all Liquidity Facility Agreements which would otherwise expire;

- (m) the Issuer shall not to enter into any derivative contracts, save for any "back to back" derivative contracts for the purposes of hedging liabilities under the Senior Notes or Liquidity Facility Agreements against receipts under Loan Agreements or other assets of the Issuer;
- (n) the Issuer shall not create or permit to subsist any security interest over any of its assets, except:
  - (i) the First Floating Charge;
  - (ii) the Second Secured Debt Floating Charge; and
  - (iii) further floating charges in accordance with paragraph 9(j) above.
- (o) the Issuer shall not:
  - (i) lend to any Borrower on terms less onerous to such Borrower or less beneficial to the Issuer than the then current Minimum Lending Terms;
  - (ii) agree to any modification, abrogation, waiver or release in respect of the obligations of a Borrower under any loan made to it if such modification, abrogation, waiver or release would have the effect of making the terms of such loan less onerous to the Borrower or less beneficial to the Issuer than the then current Minimum Lending Terms, other than on a temporary basis (where "temporary" may not exceed six months);
  - (iii) modify the Minimum Lending Terms, in each case, except on a temporary basis (where "temporary" may not exceed six months) or to the extent that the Issuer is satisfied that the then existing rating of the Senior Notes and the SSD Notes will not be adversely affected; or
  - (iv) modify its credit approval processes, except to the extent that the Issuer is satisfied (having given prior notification of such modification, where appropriate to each rating agency which has assigned a rating to the Senior Notes and the SSD Notes) that the then existing rating of the Senior Notes and the SSD Notes will not be adversely affected.
- (p) the Issuer shall establish a defeasance account in respect of each Series of SSD Notes for which repayment is not made in full on the Expected Repayment Date no later than 30 Business Days following such Expected Repayment Date.
- (q) The Issuer and the holders of the SSD Notes acknowledge and agree that:
  - (i) each defeasance account shall be opened in the name of a corporate trustee and shall be subject to such terms and conditions as are satisfactory to the holders of the SSD Notes;
  - (ii) all costs and expenses of establishing and maintaining any defeasance account shall be borne by the Issuer;
  - (iii) amounts standing to the credit of each defeasance account shall be held on trust for the holders of the relevant series of SSD Notes and shall be released to such holders on a *pro rata* basis on the Final Repayment Date of those SSD Notes;

- (iv) release of any funds from a defeasance account shall be in satisfaction of the Issuer's obligation to pay such amounts pursuant to the NPA, but without limiting the obligation on the Issuer in respect of any shortfall in amounts owing on the Final Repayment Date of the SSD Notes; and
- (v) for the avoidance of doubt, amounts standing to the credit of any defeasance account shall not be "available for use" (in accordance with the definition of Available Issuer Receipts) for any other purpose and shall not be applied in accordance with the Pre-enforcement Priority of Payments or the Enforcement Priority of Payments; and
- (r) the Issuer also gives covenants relating to:
  - (i) maintenance of its status;
  - (ii) obtaining all requisite authorisations;
  - (iii) compliance with laws and agreements to which it is a party;
  - (iv) restrictions on mergers and other activities;
  - (v) maintaining a rating of the SSD Notes;
  - (vi) restrictions on amending its constitutional documents and other agreements to which it is a party;
  - (vii) maintaining adequate records and books;
  - (viii) compliance with anti-corruption laws; and
  - (ix) payment of taxes.

#### **10. Pre enforcement Priority of Payments**

Prior to the Second Secured Debt having become due and payable and the First Floating Charge being enforced as described in Condition 13 (*Events of Default and Enforcement*) of the Senior Notes and subject as provided in the Trust Deed, interest and principal on the Second Secured Debt shall be paid in accordance with the Pre-enforcement Priority of Payments as set out in the Senior Notes.

#### **11. Enforcement Priority of Payments**

All monies received by the Trustee following enforcement of the Second Secured Debt Floating Charge shall be paid in accordance with the Enforcement Priority of Payments as set out in the Senior Notes.

#### **12. Events of Default**

Each of the following will be an event of default under the NPA (provided that where any event referred to below relates to any of the Issuer's Subsidiaries only (and not to the Issuer) that event will not be an Event of Default unless it has or could reasonably be expected to have a Material Adverse Effect):

- (a) the Issuer defaults in the payment of any principal (which includes, where applicable, the Optional Early Redemption Amount) on any SSD Notes when due and payable, whether on

an interest payment date, at maturity or at a date fixed for prepayment or by declaration or otherwise, provided that such failure shall not be an Event of Default under the NPA if it occurs solely from any technical or administrative difficulties relating solely to the transfer of such amount and is remedied within two business days of the due date for payment;

- (b) the Issuer defaults in the payment of any interest (including any Interest Shortfall and interest thereon) on any SSD Notes or any amount payable pursuant to the tax gross up clause under the NPA for more than five business days after the same becomes due and payable;
- (c) the Issuer defaults in the performance of or compliance with any other term contained in the NPA, the Senior Notes or the Trust Deed and such default is not remedied within 30 days after the earlier of:
  - (i) the Issuer obtaining actual knowledge of such default; and
  - (ii) the Issuer receiving written notice of such default from any holder of the SSD Notes;
- (d) any representation, statement or warranty made and/or deemed to be repeated by or on behalf of the Issuer or by any officer of the Issuer in the NPA or in any writing furnished in connection with the transactions contemplated thereby proves to have been false, misleading or incorrect in any material respect on the date on which it was made;
- (e) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or any of its Subsidiaries, save for the purposes of reorganisation on terms previously approved in writing by the holders of the SSD Notes;
- (f) the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved in writing by the holders of the SSD Notes or the Issuer or any of its Subsidiaries stops or threatens to stop payment, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent;
- (g) proceedings are initiated against the Issuer or any of its Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or any of its Subsidiaries or, as the case may be, in relation to the whole or a substantial part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or a substantial part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a substantial part of the undertaking or assets of any of them and, in any case (other than the appointment of an administrator), is not discharged within 21 days; and
- (h) the Issuer or any of its Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors).

**Material Adverse Effect** means a material adverse effect on:

- (a) the business, financial condition or assets of the Issuer and its Subsidiaries taken as a whole;
- (b) the ability of the Issuer to perform and/or comply with any of its obligations under the NPA and/or the SSD Notes; or
- (c) the validity, legality or enforceability of the NPA and/or the SSD Notes or the rights or remedies of any holder of SSD Notes under the NPA and/or the SSD Notes.

**Subsidiary** has the meaning given to that term by section 1159 of the Companies Act 2006. Unless the context otherwise clearly requires, any reference to a Subsidiary is a reference to a Subsidiary of the Issuer.

### **Subordinated Debt**

Pursuant to the eligibility requirements for each RP Borrower as described in "*Description of the Borrowers and the RP Borrowers – Eligibility requirements for each Borrower*", if required by the Issuer in order to maintain the then current rating of the Programme an RP Borrower (or another member of such RP Borrower's group that is a Registered Provider, Welsh RSL or RHA) must, prior to or simultaneously with such RP Borrower's or its Finance Subsidiary Borrower's entry into a new Loan Agreement with the Issuer, subscribe for a principal amount of Subordinated Debt that is conditionally convertible into shares in the Issuer which is not less than 1.15 per cent. (or any other level set by the Issuer from time to time) of the principal amount that the RP Borrower or its Finance Subsidiary Borrower will borrow from the Issuer pursuant to such new Loan Agreement and any other Loan Agreement it has previously entered into with the Issuer.

The Subordinated Debt shall be constituted by a Convertible Loan Note Instrument pursuant to which the Issuer will create unsecured convertible loan notes (**Convertible Notes**) for subscription by an RP Borrower (or another member of its group that is a Registered Provider, Welsh RSL or RHA) as described above.

The redemption date of each series of Convertible Notes (to the extent that they have not already been converted into shares of the Issuer) shall be 30 days after the date on which all outstanding Notes of the associated Series have been redeemed in full (provided that no Convertible Notes will be redeemable until the 20th anniversary of the date of issue unless immediately thereafter there will remain in issue an aggregate principal amount of Convertible Notes and paid-up share capital of the Issuer sufficient to ensure that the then existing rating of the Notes outstanding is not adversely affected).

The Convertible Notes shall accrue a fixed rate of interest which shall accrue daily payable semi-annually in each year up to and including the redemption date. However, no accrued interest shall be payable on any Convertible Notes which have been converted into shares in the Issuer pursuant to the conversion terms (as summarised below). Furthermore, no accrued interest (or other payment in respect of the Convertible Notes) shall be payable if, and no further interest shall accrue during the period that, the Issuer is prevented from making payments in respect of the Convertible Notes under the Conditions of the Senior Notes (including any restriction in accordance with the Senior Note Buffer Amount Test) or the conditions of the Second Secured Debt, and no payment shall be made nor shall interest accrue during any period where the Issuer has made and not repaid a drawing under a Liquidity Facility Agreement.

Conversion of the Convertible Notes will occur upon the amount of the Shareholders Funds of the Issuer becoming zero or less.

Upon the first occasion on which the amount of the Shareholders Funds is zero or less (the **First Conversion**), 50 per cent. of the outstanding principal amount of the Convertible Notes shall convert into fully paid shares of £0.10 each in the capital of the Issuer of the same class as those shares already held by

the relevant RP Borrower (or another member of its group that is a Registered Provider, Welsh RSL or RHA) as at the date of conversion at a conversion price of £0.50 per share. If, immediately following and as a result of the First Conversion, the amount of the Shareholders Funds remains at a sum less than (or equal to) zero, then the remaining balance of 50 per cent. of the outstanding principal amount of the Convertible Notes shall also then immediately convert in full (on the same terms); otherwise, upon the next occasion (following the First Conversion) on which the amount of the Shareholders Funds is zero or less, the remaining balance of the outstanding principal amount of the Convertible Notes shall convert in full (on the same terms).

The outstanding principal amount (or, at the discretion of the directors of the Issuer, 50 per cent. of the outstanding principal amount) of the Convertible Notes shall also convert in full into shares of the Issuer of the same class as those shares already held by the relevant RP Borrower (or another member of its group that is a Registered Provider, Welsh RSL or RHA) as at the date of conversion (at a conversion price of £0.50 per share) where the directors of the Issuer consider (acting reasonably) that such conversion is necessary to prevent the amount of the Shareholders Funds of the Issuer being zero or less on the next annual or half-yearly financial reporting date or for the purposes of avoiding and/or remedying an event of default otherwise arising or subsisting under the Senior Notes and/or the Second Secured Debt.

The Convertible Notes will not be capable of transfer other than to a person to whom (with the consent of the Issuer) an RP Borrower has novated its related Loan Agreement.

The Convertible Notes are issued on a non-cumulative basis.

#### **Liquidity Facility Agreements (if any) available to the Issuer**

The Issuer may have, but is not obliged to have in place, one or more Liquidity Facility Agreements for the purposes of providing the Issuer with a liquidity facility (**Liquidity Facility**). If the Issuer does enter into a Liquidity Facility Agreement at any time, it can be amended, prepaid and/or cancelled at any time, without the consent of the Trustee or the holders of the Senior Notes. In addition, the duration of the loan provided under each Liquidity Facility Agreement (if any) may vary over the life of the Senior Notes and may not cover the entire period that the Senior Notes will be outstanding.

However, at the point of issue of the first Series of Notes, the Issuer intends to enter into a revolving Liquidity Facility Agreement with up to four Liquidity Facility Providers. It is expected that the aggregate principal amount that can be drawn under the Liquidity Facility will be at least equal to one year's interest receivable by the Issuer from the Borrowers under the Loan Agreements.

The initial Liquidity Facility provided pursuant to the initial Liquidity Facility Agreement must be used to fund Issuer Expenses, principal, interest, commitment fees and all other amounts due and unpaid to each Liquidity Facility Provider under each Liquidity Facility Agreement (if any), and interest due and payable on the Senior Notes and the Second Secured Debt and will be available for drawdown from the date of the initial Liquidity Facility Agreement. There is no restriction on the percentage of the Liquidity Facility that can be used for Issuer Expenses, principal, interest, commitment fees and all other amounts due and unpaid to each Liquidity Facility Provider under each Liquidity Facility Agreement (if any), or interest due and payable on the Senior Notes and the Second Secured Debt. The interest rate payable on the initial Liquidity Facility will be LIBOR plus a margin.

Each loan borrowed under the initial Liquidity Facility Agreement must be repaid on the last day of its interest period (which will be one month, three months or six months, as selected by the Issuer, or such shorter period as each Liquidity Facility Provider shall agree).

The initial Liquidity Facility must be repaid in full on the second anniversary of the date of the initial Liquidity Facility Agreement. The term of the initial Liquidity Facility Agreement may be extended by 12 months, with the prior consent of the Liquidity Facility Providers.

The Liquidity Facility Agreements will be unsecured but payments of interest and principal on those agreements will be paid ahead of the Senior Notes, in accordance with the Pre-Enforcement Priority of Payments or Enforcement Priority of Payments (as applicable).

The initial Liquidity Facility Agreement will contain similar covenants to those contained in Condition 7 (*Covenants*) of the Senior Notes.

Events of default will include non-payment, breach of other obligations, misrepresentation, cross-default, insolvency, unlawfulness and repudiation.

The initial Liquidity Facility Agreement permits the Liquidity Facility Providers to assign their rights or novate their rights under obligations under the Liquidity Facility Agreement to another bank or financial institution or to a trust, fund or other entity which is regularly engaged in making, purchasing or investing in loans, securities or other financial assets.

### **Credit processes carried out by the Issuer in relation to each RP Borrower**

The Issuer carries out certain credit processes in relation to each proposed RP Borrower (see "*Description of the Borrowers and the RP Borrowers – Credit processes carried out by the Issuer in relation to each RP Borrower*").

### **Operations**

Since its date of incorporation, the Issuer has commenced operations but has not, as at the date of this Programme Memorandum, lent any amount to any Borrower and it has no material assets or liabilities, and therefore no audited financial statements have been prepared as at the date of this Programme Memorandum. Following approval of such at its annual general meeting held on 19 December 2018, the Issuer has filed dormant accounts for the period to 28 February 2018. In addition, the Issuer has prepared an audited balance sheet in respect of its conversion from a private limited company to a public limited company (see "*Issuer's Balance Sheet*"). The Issuer's first audited financial statements are expected to be made up to 31 March 2019.

### **Recent Developments**

There have been no recent events particular to the Issuer that are, to a material extent, relevant to the evaluation of the Issuer's solvency.



## **ISSUER'S BALANCE SHEET**

The audited balance sheet, including the report of the auditors, for the period from incorporation to 30 April 2018 for the Issuer is set out below.

**Balance Sheet**  
*at 30 April 2018*

	Notes	2018 £
<b>Non-current assets</b>		
Property, plant and equipment	3	2,189
		<hr/> 2,189
<b>Current assets</b>		
Trade and other receivables	5	413,152
Cash and cash equivalents	6	468,781
		<hr/> 881,933
<b>Total assets</b>		<hr/> <b>884,122</b> <hr/>
<b>Current liabilities</b>		
Trade and other payables	7	345,338
		<hr/> 345,338
		<hr/> -
<b>Total liabilities</b>		<hr/> <b>345,338</b> <hr/>
<b>Net assets</b>		<hr/> <b>538,784</b> <hr/>
<b>Equity</b>		
Share capital	8	66,000
Retained earnings	8	472,784
		<hr/> 538,784
<b>Total equity</b>		<hr/> <b>538,784</b> <hr/>

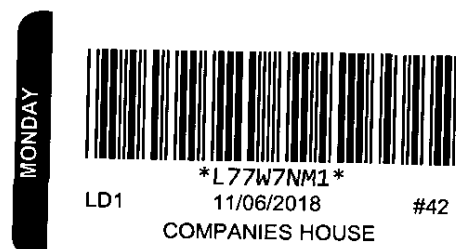
These financial statements were approved by the board of directors on

and were signed on its behalf by:

**Neil Hadden**  
 Director

**Patrick Symington**  
 Secretary

Company registered number: 10974098



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Directors

Neil John Hadden  
Matthew Roy Bailes  
Malcolm Charles Cooper  
Ann Santry  
Peter Shorthouse  
Robert Clive Young  
Andrew James Kitchingman  
Charles Basil Tilley

Auditor

KPMG LLP  
Chartered Accountants and Statutory Auditor  
One Snowhill  
Snow Hill Queensway,  
Birmingham  
B4 6GH

Registered Office

Floor 8, 71 Queen Victoria Street  
London  
EC4V 4AY

## Directors' report

### Business overview

MORhomes Limited, incorporated on 21 September 2017, has been set up as a borrowing vehicle for the social housing sector. By pooling the debt requirements of sponsoring housing associations, MORhomes is able to attract better terms from a wider range of lenders than would be available to individual borrowers.

MORhomes intends to raise finance through the issuance of bonds on the London stock exchange. To achieve this MORhomes are required to convert to a plc.

The purpose of this report and subsequent Balance Sheet and related notes is to support the following conversion requirements:

- a) A balance sheet prepared as at a date not more than seven months before the date on which the application to re-register is delivered to the Registrar.
- b) An unqualified report by the company's auditor on the balance sheet stating without material qualification the auditor's opinion that the balance sheet has been properly prepared in accordance with the requirements of the Companies Act 2006.
- c) A written statement by the company's auditor that, in his opinion, at the balance sheet date the amount of the company's net assets was not less than the aggregate of its called-up share capital (as defined in section 547 of CA 2006) and undistributable reserves.

### Directors

The directors who held office during the period were as follows:

Julian Barker	Appointed 21 September 2017	Resigned 19 February 2018
Neil John Hadden	Appointed 19 February 2018	
Matthew Roy Bailes	Appointed 2 March 2018	
Malcolm Charles Cooper	Appointed 2 March 2018	
Ann Santry	Appointed 2 March 2018	
Peter Shorthouse	Appointed 2 March 2018	
Robert Clive Young	Appointed 2 March 2018	
Andrew James Kitchingman	Appointed 27 March 2018	
Charles Basil Tilley	Appointed 2 May 2018	

### Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### Auditor

The Directors appointed KPMG LLP to fill a casual vacancy as auditor to the Company, under section 485 of the Companies Act 2006. Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

**Neil Hadden**  
*Director*

**Patrick Symington**  
*Secretary*

Date

Date

Floor 8, 71 Queen Victoria Street  
London  
EC4V 4AY

## **Statement of directors' responsibilities in respect of the directors' report and the financial statements**

The directors are responsible for preparing the balance sheet and related notes in accordance with the provisions of the Companies Act 2006 that would have applied if it had been prepared for a financial year of the company, with such modifications as are necessary by reason of that fact. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards, including International Financial Reporting Standards (IFRSs) as adopted by the EU.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of a balance sheet that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## **Independent auditor's report to MORhomes Limited for the purpose of section 92 (1) (b) and (c) of the Companies Act 2006**

### **Opinion**

We have audited the balance sheet and related notes of MORhomes Limited as at 30 April 2018, including the accounting policies in note 1.

### **Opinion concerning proper preparation of balance sheet**

In our opinion the balance sheet and related notes as at 30 April 2018 have been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied had the balance sheet been prepared for a financial year of the company.

### **Statement on net assets**

In our opinion, at 30 April 2018 the amount of the company's net assets (within the meaning given to that expression by section 831(2) of the Companies Act 2006) was not less than the aggregate of its called-up share capital and undistributable reserves.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### **Going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the balance sheet. We have nothing to report in these respects.

### **Directors' responsibilities**

As set out on page 3 the directors are responsible for preparing the balance sheet and related notes in accordance with the provisions of the Companies Act 2006 that would have applied if it had been prepared for a financial year of the company, with such modifications as are necessary by reason of that fact. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards, including International Financial Reporting Standards (IFRSs) as adopted by the EU.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of a balance sheet that is free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the balance sheet is free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

Our responsibilities also include forming an independent opinion concerning the relationship between the company's net assets and its called-up share capital and undistributable reserves at the balance sheet date.

### **The purpose of our work and to whom we owe our responsibilities**

This report is made solely to the company in accordance with section 92 (1) (b) and (c) of the Companies Act 2006. Our work has been undertaken so that we as the company's auditor might state to the company those matters we are

required to state to it in a report under section 92 (1) (b) and (c) of that Act and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our work under section 92 (1) (b) and (c) of that Act, for this report, or for the opinions we have formed.

**Matthew Rowell**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
One Snowhill  
Snow Hill Queensway,  
Birmingham  
B4 6GH



**Balance Sheet**  
*at 30 April 2018*

	Notes	2018 £
<b>Non-current assets</b>		
Property, plant and equipment	3	2,189
		<u>2,189</u>
<b>Current assets</b>		
Trade and other receivables	5	413,152
Cash and cash equivalents	6	468,781
		<u>881,933</u>
<b>Total assets</b>		<u><u>884,122</u></u>
<b>Current liabilities</b>		
Trade and other payables	7	345,338
		<u>345,338</u>
		-
<b>Total liabilities</b>		<u><u>345,338</u></u>
<b>Net assets</b>		<u><u>538,784</u></u>
<b>Equity</b>		
Share capital	8	66,000
Retained earnings	8	472,784
		<u>538,784</u>
<b>Total equity</b>		<u><u>538,784</u></u>

These financial statements were approved by the board of directors on \_\_\_\_\_ and were signed on its behalf by:

**Neil Hadden**  
 Director

**Patrick Symington**  
 Secretary

Company registered number: 10974098

## Notes

*(forming part of the financial statements)*

### 1 General Information

MORhomes Limited (the "Company") is a private company incorporated, domiciled and registered in England. The registered number is 10974098 and the registered address is Floor 8, 71 Queen Victoria Street, London, EC4V 4AY.

The Company financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods.

### 2 Accounting policies

The main accounting policies applied in the preparation of these financial statements are set out below. They have all been applied consistently throughout the period.

#### 2.1 Going concern

The directors have undertaken a thorough review of forecast cash flow models and scenarios for a period in excess of 12 months from the date of approval of these accounts. Following this review, and in the light of current cash availability, economic conditions and information available about future risks and uncertainties, they have concluded that it is appropriate to prepare the financial statements on a going concern basis.

#### 2.2 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

#### 2.3 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

##### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

##### *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits.

**Notes** *(continued)*

**2.4 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- plant and equipment 5 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

**2.5 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

On the basis of these financial statements no provision had been made for tax, reflecting the fact that the Company has not yet made a profit.

**Notes** *(continued)*

**3 Property, plant and equipment**

	<b>Plant and equipment £</b>	<b>Total £</b>
<b>Cost</b>		
Balance at 21 September 2017	-	-
Acquisitions	2,245	2,245
	<hr/>	<hr/>
Balance at 30 April 2018	2,245	2,245
	<hr/>	<hr/>
<b>Depreciation and impairment</b>		
Balance at 21 September 2017	-	-
Depreciation charge for the period	56	56
	<hr/>	<hr/>
Balance at 30 April 2018	56	56
	<hr/>	<hr/>
<b>Net book value</b>		
At 21 September 2017	-	-
	<hr/>	<hr/>
<b>At 30 April 2018</b>	<b>2,189</b>	<b>2,189</b>
	<hr/>	<hr/>

**4 Deferred tax assets and liabilities**

Deferred tax assets are not included in these financial statements as recovery is not sufficiently certain.

**5 Trade and other receivables**

	<b>2018 £</b>
Trade receivables	<b>10,000</b>
Other receivables	<b>826</b>
Prepayments	<b>402,326</b>
	<hr/>
Current	<b>413,152</b>
	<hr/>

**Notes** (continued)

**6 Cash and cash equivalents**

	<b>2018</b>
	<b>£</b>
Cash at bank	468,781
Cash and cash equivalents	<u>468,781</u>

**7 Trade and other payables**

	<b>2018</b>
	<b>£</b>
<b>Current</b>	
Trade payables	89,683
Non-trade payables and accrued expenses	255,655
	<u>345,338</u>

**8 Capital and reserves**

**Share capital**

	<b>Ordinary shares</b>
Number of shares	<b>2018</b>
On issue at 21 September 2017	1
Issued for cash	660,000
Share capital reduction	(594,001)
On issue at 30 April 2018	<u>66,000</u>
	<b>2018</b>
	<b>£</b>
<i>Allotted, called up and fully paid</i>	
Ordinary shares of £0.10 each	66,000
	<u>66,000</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During the period the company issued 660,000 £1 ordinary shares for a consideration of £1, settled in cash.

During the period, there was a capital reduction of share capital totalling £594,001 which was transferred to retained earnings. The capital reduction was approved by at least 75% of shareholders.

**Retained earnings**

	<b>2018</b>
	<b>£</b>
Net loss for the period	(121,217)
Share capital reduction	594,001
at 30 April 2018	<u>472,784</u>

**9 Subsequent events**

There have been no significant subsequent events since the balance sheet date.

## DESCRIPTION OF THE BORROWERS AND THE RP BORROWERS

### Eligibility requirements for each Borrower and the RP Borrowers

Each Borrower must be either:

- (a) (i) a registered society within the meaning of the Co-operative and Community Benefit Societies Act 2014 or a company limited by guarantee and (ii) a Registered Provider, a Welsh RSL or an RHA whose activities are regulated by the Regulator of Social Housing (in England), the Welsh Government or the Welsh Ministers (in Wales) or the Department For Communities (in Northern Ireland), as the case may be, (or, in each case, any successor thereto) (each, a **Direct RP Borrower**); or
- (b) a finance subsidiary undertaking of the parent entity within a group (each, a **Finance Subsidiary Borrower**) that shall on-lend the funds lent to it under a Loan Agreement to one or more entities within the scope of paragraph (a) above within the same group (each, an **Indirect RP Borrower** and, together with each Direct RP Borrower, each an **RP Borrower**).

The principal objects of each RP Borrower will be to carry on as a Registered Provider, a Welsh RSL or an RHA. Finance Subsidiary Borrowers will have been established with the primary purpose of borrowing and on-lending to RP Borrowers within their group.

Each RP Borrower must be prohibited by its constitution from trading for profit and any surplus which may result from its operations must not be distributed, either directly or indirectly, in any way whatsoever among its members. The RP Borrowers may have either charitable status (as a registered charity or exempt charity) or non-charitable status.

In addition, each RP Borrower must satisfy each of the following criteria:

- it or the relevant Finance Subsidiary Borrower must own and operate at least 2,000 homes (or such lower number as the Issuer may agree);
- it or the relevant Finance Subsidiary Borrower must be prepared to borrow at least £10,000,000 in aggregate principal amount from the Issuer (or such lower amount as the Issuer may agree);
- it must have at least 12 months' liquidity available to satisfy in full all of its contracted cash flow requirements during that period;
- it must own sufficient unencumbered real property to enable it to comply with the Asset Cover Test on or before the Required Charging Date;
- it must complete the credit process referred to in "*Description of the Borrowers and the RP Borrowers – Credit processes carried out by the Issuer in relation to each RP Borrower*";
- it must have an objective to develop new housing or deliver other assets with high social impact (for example, care homes or extracare accommodation);
- if required by the Issuer, it (or a member of its group that is a Registered Provider, Welsh RSL or RHA) must, prior to or simultaneously with such RP Borrower or the relevant Finance Subsidiary Borrower entering into a new Loan Agreement with the Issuer, subscribe for ordinary shares in the Issuer to a value which is not less than 0.50 per cent. (or any other level set by the Issuer) of the principal amount that such RP Borrower or the relevant Finance Subsidiary Borrower will borrow from the Issuer pursuant to such Loan Agreement.

- if required by the Issuer, it (or a member of its group that is a Registered Provider, Welsh RSL or RHA) must, prior to or simultaneously with such RP Borrower or the relevant Finance Subsidiary Borrower entering into a new Loan Agreement with the Issuer, subscribe for a principal amount of Subordinated Debt that is conditionally convertible into shares in the Issuer which is not less than 1.15 per cent. (or any other level set by the Issuer from time to time) of the principal amount that such RP Borrower or the relevant Finance Subsidiary Borrower will borrow from the Issuer pursuant to such new Loan Agreement.

### **Credit processes carried out by the Issuer in relation to each RP Borrower**

If a proposed RP Borrower satisfies the eligibility criteria set out in "*Description of the Borrowers and the RP Borrowers – Eligibility requirements for each Borrower*" it will also need to fulfil certain credit checks before it or the relevant Finance Subsidiary Borrower can become a Borrower, provided that, in all instances, the Issuer's Credit Committee will have the final decision on a Lending Level (as described below) allocated to a particular RP Borrower.

The key steps in the credit process are as follows:

- the proposed RP Borrower must complete a credit application (the **Credit Application**);
- the Credit Application will be reviewed by a credit analyst appointed by the Issuer (the **Credit Analyst**);
- the Credit Analyst will issue a proposed Lending Level (as explained below) to the RP Borrower along with a credit report;
- if the proposed RP Borrower accepts the proposed Lending Level and intends to borrow from the Issuer, the credit report will be presented to the Credit Committee of the Issuer for review;
- if a proposed RP Borrower does not accept the proposed Lending Level, it may make a case to increase the proposed Lending Level and ask to have additional information taken into account by the Credit Analyst, who will determine the additional information to be provided;
- after reviewing the additional information, the Credit Analyst may recommend a revised Lending Level for the proposed RP Borrower to the Credit Committee of the Issuer (together with an updated credit report);
- if the Credit Committee of the Issuer is satisfied with the proposed Lending Level and credit report, it will approve the proposed Lending Level and the credit report (if in accordance with the credit policy approved by the Board) or submit to the Board for approval; and
- on approval, the Issuer will allocate the proposed Lending Level to that proposed RP Borrower.

The Issuer has appointed Edison Investment Research Limited (**Edison**) as Credit Analyst. The role of the Credit Analyst in respect of each new application to borrow is set out above in this section "*Credit processes carried out by the Issuer in relation to each RP Borrower*". The Credit Analyst will repeat this analysis for each RP Borrower on an annual basis or earlier on the occurrence of a Lending Level Reassessment Event. It will also periodically carry out an audit of materials provided by RP Borrowers to identify any information that might have been misstated and to make any recommendations for the improvement of the application process.

Edison is an investment research and advisory company founded in 2003, with offices in London, New York, Frankfurt and Sydney. It has a team of over 70 analysts and is owned entirely by its directors and



employees. It is authorised and regulated by the Financial Conduct Authority. Its services include equity research, credit research, investor relations and commercial due diligence.

A Lending Level assigned to an RP Borrower will be valid for one year or until the earlier of any of the following events:

- a material change in the business plan or periodic forecasts of such RP Borrower;
- a material event or adverse change in the outlook of such RP Borrower;
- an adverse change in applicable legislation or regulatory framework; or
- a Merger Event occurs in relation to a Borrower or RP Borrower,

(each a **Lending Level Reassessment Event**).

The Issuer will determine in its sole discretion whether a Lending Level Reassessment Event has occurred.

Please refer to paragraph 9 headed "*Interest Reserve Provisions*" in the "*Description of the Loan Agreements and the Minimum Lending Terms*" for information on the consequences of a Lending Level Reassessment Event occurring.

The Credit Analysis in respect of each proposed RP Borrower will be undertaken on the basis of the entire group of which the proposed RP Borrower is a part.

### **Lending Levels for the RP Borrowers**

The credit process referred to above will categorise successful RP Borrowers into one of four levels (each a **Lending Level**) (Level 1 being the level for RP Borrowers with the strongest credit profile and Level 4 being the level for RP Borrowers with the weakest credit profile). The Lending Level assigned to each successful RP Borrower through the credit process will affect the credit line that such RP Borrower may borrow from the Issuer. There may be instances where an RP Borrower is not assigned a Lending Level if it is too weak and fails the credit process.

Collectively, the Issuer intends that the RP Borrowers assigned to each of the four Lending Levels will have the following aggregate borrowing limits, calculated as a percentage of the Issuer's total borrowings (which shall include, for the avoidance of doubt, all outstanding Notes, Second Secured Debt and Subordinated Debt):

- Lending Level 1 – no limit;
- Lending Level 2 – no more than 60 per cent. of the Issuer's total borrowings<sup>1</sup>;
- Lending Level 3 – no more than 30 per cent. of the Issuer's total borrowings<sup>2</sup>; and
- Lending Level 4 – no more than 20 per cent. of the Issuer's total borrowings.

However, the borrowing limits referred to above may be exceeded if an RP Borrower's Lending Level is downgraded by the Issuer at any time or if two or more RP Borrowers merge with each other or enter into any other merger.

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<sup>1</sup> If there are no RP Borrowers assigned to either Level 3 or Level 4, this figure may be increased, at the discretion of the Issuer, to 100 per cent.; or if there are no RP Borrowers assigned to Level 3, this figure may be increased, at the discretion of the Issuer, to 90 per cent.

<sup>2</sup> If there are no RP Borrowers assigned to Level 4, this figure may be increased, at the discretion of the Issuer, to 50 per cent.

Each RP Borrower (or where there is more than one RP Borrower from the same group, the RP Borrowers in that group) cannot (in aggregate) borrow more than the following amounts, calculated as a percentage of the Issuer's total borrowings (which shall include, for the avoidance of doubt, all outstanding Notes, Second Secured Debt and Subordinated Debt):

- Lending Level 1 – 12 per cent. of the Issuer's total borrowings\*;
- Lending Level 2 – 10 per cent. of the Issuer's total borrowings\*;
- Lending Level 3 – 8 per cent. of the Issuer's total borrowings\*; and
- Lending Level 4 – 6 per cent. of the Issuer's total borrowings\*.

\* Until the aggregate principal amount outstanding of all Notes issued by the Issuer is at least £500,000,000, the aggregate principal amount outstanding of all Notes under the Programme shall be deemed to be £500,000,000 for the purposes of calculating this percentage.

However, please refer to paragraph 9 headed "*Interest Reserve Provisions*" in the "*Description of the Loan Agreements and the Minimum Lending Terms*" for information on the consequences of a Lending Level Reassessment Event occurring.

#### **Minimum Number of Borrowers**

The Issuer shall not issue Notes under the Programme unless immediately following the issue of such Notes, there will be at least six Borrowers.

## DESCRIPTION OF THE SOCIAL HOUSING SECTOR IN ENGLAND, WALES AND NORTHERN IRELAND

### Regulation and the Regulatory Framework

The Housing and Regeneration Act 2008, as amended by the Localism Act 2011 and the Housing and Planning Act 2016 (the **Act**) makes provision for the regulation of social housing provision in England. Pursuant to the Act, the Homes and Communities Agency (**HCA**) acts as the regulator of Registered Providers, including all RP Borrowers in England. The HCA now operates under the trading names of **Homes England**, the non-regulatory arm, and the **Regulator of Social Housing** which takes on the functions of the regulation committee, both effective as of January 2018.

The Regulator of Social Housing continues to provide economic regulation for Registered Providers in order to ensure that they are financially viable and well governed. The Regulator of Social Housing regulates in accordance with the regulatory framework for social housing in England (the **Regulatory Framework**) that sets out the standards which apply to Registered Providers (the **Standards**). The Standards cover: governance and financial viability; value for money; rent; quality of accommodation; repairs and maintenance; allocations, mutual exchanges and tenure; neighbourhood management, local area co-operation and anti-social behaviour; and tenant involvement and empowerment. Registered Providers are expected to comply with the Standards and to establish arrangements to ensure that they are accountable to their tenants, the Regulator of Social Housing and relevant stakeholders. The enforcement by the Regulator of Social Housing of the Standards other than those relating to governance and financial viability, rent and value for money is restricted to cases in which there is, or there is a risk of, serious detriment to tenants (including future tenants). The Regulatory Framework includes guidance as to how the Regulator of Social Housing will assess whether serious detriment may arise.

In April 2015, the HCA published updates to the Regulatory Framework. These provide for changes in the way the Regulator of Social Housing regulates, including asset and liability registers which are aimed to ensure that social housing assets are not put at risk, to protect the public value in those assets and to ensure that Registered Providers, including all RP Borrowers in England, can continue to attract the necessary finance to build new homes.

On 30 October 2015, the Office for National Statistics (**ONS**) announced that private Registered Providers should be reclassified as public non-financial corporations. The effect of this reclassification was that private Registered Providers were categorised as being part of the public sector in the national accounts of the ONS. The Government quickly made a commitment to deregulation of the sector to reverse the classification. In a speech on 5 November 2015 the Secretary of State said that the ONS decision was a technical matter and that the Government intended to restore the classification outside the public sector.

Subsequently, the Government introduced deregulatory measures through the Housing and Planning Act 2016 with the intention that the private sector status of Registered Providers be restored. As part of these deregulatory measures the HCA, in March 2017, published new directions under the Housing and Planning Act 2016 that became effective from 6 April 2017.

These new directions, which replace the previous "before the event" consent regime with an "after the event" notifications requirement, have been accompanied by detailed guidance on when and how to notify the Regulator of Social Housing about: (a) the removal of the constitutional consensus regime (meaning that consent is no longer be required for Registered Providers to undertake certain changes such as mergers, change of status, restructuring, winding-up or dissolution); and (b) disposals of social housing dwellings (meaning that Registered Providers no longer need consent from the Regulator of Social Housing for sales, charging for security and changes of ownership of social housing stock). They were designed to persuade the ONS to reverse its reclassification judgement and take Registered Providers back out of the "public sector" classification. The explicit purposes of the new directions notifications are to: (i) validate adherence

to all relevant laws and compliance with the governing documents of Registered Providers; (ii) ensure accountability to tenants and enshrine proper consultation with tenants when considering a disposal that would mean a change in the tenant's landlord or changes that affect tenant's statutory or contractual rights; and (iii) promote the achievement of value for money in the delivery of social housing.

In November 2017, the ONS concluded that Registered Providers in England are private, market producers and, as such, reclassified them to the private non-financial corporations sub-sector for the purpose of national accounts and other economic statistics. This classification took effect from 16 November 2017.

The Regulator of Social Housing's intention is to strengthen its expectations of Registered Providers in relation to risk management and planning for adverse events. The changes are designed to underpin the financial viability of Registered Providers.

Wales and Northern Ireland are the subject of separate regulatory and funding regimes. The Welsh Ministers regulate social housing in Wales and have powers under the Housing Associations Act 1985, the Housing Act 1996 and the Housing (Wales) Measure 2011 in respect of both the registration and regulation of Welsh RSLs and the funding of social housing. The Welsh regulatory framework is set out in the "Regulatory Framework for Housing Associations Registered in Wales", the latest version of which came in force in June 2017 (the **Welsh Regulatory Framework**). The Welsh Regulatory Framework also contains standards (the **Performance Standards**) to guide how Welsh RSLs should run their businesses effectively and each Welsh RSL is required to provide an annual statement of compliance with the Performance Standards. The Performance Standards focus on the key risks and strategic issues facing Welsh RSLs and include: effective board and executive management; appropriate tenant involvement and high quality services; comprehensive assessment of risks to the business; self evaluation; value for money; regulatory and statutory compliance; financial and business planning and monitoring; effective treasury management; and a clear understanding of liabilities and assets. Failure to meet the Performance Standards is one of the grounds for the Welsh Ministers to use regulatory and enforcement powers under the Housing Act 1996 (as amended by the Housing (Wales) Measure 2011).

The ONS reclassification referred to above in relation to Registered Providers also affected Welsh RSLs. Similar deregulatory measures to those described above were implemented in Wales on 15 August 2018 by the introduction of sections 13 and 14 of the Regulation of Registered Social Landlords (Wales) Act 2018 and the Regulation of Registered Social Landlords (Wales) Act 2018 (Consequential Amendments) Regulations 2018. As such, there is no longer any requirement for consent by Welsh Ministers to disposals by a Welsh RSL made on or after 15 August 2018. The Issuer is not aware of any proposed amendments to the regulatory regime which currently applies in Northern Ireland.

The Department for Communities (**DFC**) operates its statutory function under Article 4(1)(c) of The Housing (Northern Ireland) Order 1992, with the Housing Regulation Branch undertaking the regulation activity as the regulatory authority for RHAs. The regulatory process and regime for RHAs has also undergone recent changes and the new framework (the **NI Regulatory Framework**) is set out in the DFC's publication "How We Regulate: An overview of our Regulatory Framework Standards" updated in February 2018. The approach in the NI Regulatory Framework focuses on whether RHAs comply with the three key standards, which are: governance; financial; and consumer. RHAs are awarded a regulatory rating depending on the level of compliance with the three standards. The DFC will take action where necessary to safeguard the interest of tenants and other services users where there is a failure to achieve the standards set out in the NI Regulatory Framework and this indicates poor governance or financial management.

### ***Housing Grant***

Grant funding for Registered Providers has, in recent years, undergone significant and material change. Under the 2011–2015 Affordable Homes Programme, the level of capital grant made available to fund new affordable homes was reduced to £4.5 billion compared to £8.4 billion under the previous review period. To

compensate for this, Registered Providers are able to charge Affordable Rents where a Framework Delivery Agreement with Homes England has been entered into.

The 2015-2018 Affordable Homes Programme (the **New Framework**) was launched in January 2014. In December 2014 the Chancellor announced that the grant programme would be extended to 2020 with additional grant being made available. The primary change brought about under the New Framework is that all of the available funding is not allocated from the outset. The New Framework allows bidders the opportunity to bid for the remaining funding for development opportunities as these arise during the programme, where they can be delivered within the programme timescales.

In April 2016, the HCA announced that it was making available £4.7 billion of capital grant between 2016-2021 under the Shared Ownership and Affordable Homes Programme 2016-2021 (**SOAHP 2016 to 2021**). That marked a decisive shift towards support for home ownership in England. However, the Autumn Statement 2016 announced that an additional £1.4 billion would be made available to build 40,000 affordable homes and that the SOAHP 2016 to 2021 will support a variety of tenures which now includes affordable rent, shared ownership and rent to buy. This, together with the publication of the Housing White Paper "Fixing our broken housing market" published in February 2017, has marked a shift of emphasis in Government investment priorities back towards rented housing.

### ***Social Housing Rents***

As part of the 2012 spending round, the Government confirmed, through its policy "Guidance on Rents for Social Housing" published in May 2014, that from 2015-2016, rents in the social sector should increase by up to the Consumer Price Index (**CPI**) at September of the previous year plus 1 per cent. annually, for ten years, whilst rent convergence (including the ability to charge an additional £2 per week) would end in April 2015.

The relevant rent standard guidance for Registered Providers is contained within the Regulatory Framework.

In the 2015 Summer Budget, the Government announced that rents for social housing (as defined in Part 2 of the Housing and Regeneration Act 2008) in England would be reduced by 1 per cent. a year for the next four years. This change was introduced on 1 April 2016 pursuant to Section 23 of the Welfare Reform and Work Act 2016.

In the Welfare Reform and Work Act 2016 and associated amendment regulations there is provision for exceptions to the rent reduction requirement and the Minister of Housing, Communities and Local Government (formerly the Secretary of State for Communities and Local Government) has regulation making powers to introduce other exemptions. For example, reductions do not apply to rents payable by residents in low cost home ownership and shared ownership properties. Furthermore, the Welfare Reform and Work Act 2016 also gives the Regulator of Social Housing the power, by direction, to exempt a Registered Provider from the rent reduction requirement but only where compliance with the requirement would jeopardise that Registered Provider's financial viability.

On 4 October 2017, the Government announced that social housing rents will be restored to the CPI plus 1 per cent. formula for five years from 2020. Rent reductions will continue to apply until then.

The Welsh Ministers have powers to set standards of performance in relation to rent charged by Welsh RSLs, pursuant to the Housing Associations Act 1985, the Housing Act 1996 and the Housing (Wales) Measure 2011. Target rent bands, including annual statements in relation to increases, are published by the Welsh Ministers with a revised rent policy published in 2015 applying to sheltered and general needs stock (but not extra care or supported housing).

For the last five years, Welsh RSLs have been able to increase rents by CPI plus 1.5 per cent. annually, with the option to add another £2 per week. However, it is understood that during Welsh RSLs' next financial years they will only be permitted to increase rents by CPI.

The DFC is the regulatory authority for RHAs but does not publish regulatory guidance on rent increases. The Housing Executive (the public housing authority in Northern Ireland) uses a set formula to work out how much rent should be charged on its properties using a value derived from a points system based on a building's type, age, size and various other factors. The Housing Executive may ask RHAs to adopt a particular rent increase, although it is not compulsory for RHAs to follow the points system and they are able to decide on a rent policy of their own.

### **Household Benefit Cap**

The Summer Budget 2015 announced, and the Spending Review and Autumn Statement 2015 confirmed, that the total household benefit cap (the combined income from a number of welfare benefits for those receiving housing benefit or Universal Credit (see "*Risks related to Universal Credit*") and that are of working age) would be reduced to £20,000 per year for couples or parents (or £23,000 for Greater London) and £13,400 per year for single people without children (or £15,410 in Greater London). Measures to implement the lowering of the threshold were included in the Welfare Reform and Work Act 2016 which applies to Registered Providers and to Welsh RSLs; the Welfare Reform (Northern Ireland) Order 2015 establishes the same thresholds for RHAs.

Exemptions to the total household benefit cap can apply to those tenants who qualify for working tax credit; are above the qualifying age for pensions credit; obtain certain benefits for sickness and disability; or claim a war pension. The benefit cap will not apply in circumstances where a tenant or a tenant's partner is in receipt of, or is responsible for, a child or young person who is in receipt of benefits such as disability living allowance, personal independence payment or carer's allowance. Housing benefit will not be included when calculating total benefit income where tenants are housed in specified accommodation including supported housing.

### **Occupation Size Criteria**

The Welfare Reform Act 2012 introduced a size criterion for working age social housing tenants in receipt of housing benefit known as the "removal of the spare room subsidy" or "bedroom tax". The arrangements allow each of certain defined categories of people (such defined categories being: (a) a couple, (b) an adult (over 16), (c) two children of the same sex, (d) two children under the age of 10, (e) any other child, (f) those with a disability, and (g) a non-resident overnight carer) to be entitled to one bedroom. Exemptions are applied to supported housing tenants. Where a household has one extra bedroom, housing benefit is reduced by 14 per cent. of the rent charge. Where a household has two or more extra rooms, the reduction to housing benefit is 25 per cent.

The relevant sections of the Welfare Reform Act 2012 apply to Registered Providers and Welsh RSLs. There is a comparable regime in Northern Ireland, governed by the Housing Benefit (Amendment No.2 (Northern Ireland)) Regulations 2016, and the Housing Benefit (Welfare Supplementary Payment) Regulations (Northern Ireland) 2017. The Northern Irish Assembly has put in place a fund to offset cuts to housing benefit as a result of the "bedroom tax". Any money lost is replaced from the fund, which will be available until March 2020.

### **Universal Credit**

Universal Credit, introduced under the Welfare Reform Act 2012 for England and Wales and under the Universal Credit Regulations (Northern Ireland) 2017 for Northern Ireland, replaces six existing means-tested benefits and tax credits for working-age families, namely income support, income-based jobseeker's allowance, income-related employment and support allowance, housing benefit, child tax credit and working

tax credit with a single monthly payment, transferred directly into a household bank account of choice, and is currently in an extended "roll out" phase across the UK which is expected to last until 2023.

There are three types of alternative payment arrangements available for claimants: (a) direct payment of the housing cost element to landlords (known as managed payments); (b) splitting of payments between members of a couple; and (c) more frequent payment of benefit where a claimant is in arrears with their rent for an amount equal to, or more than, two months of their rent or where a claimant has continually underpaid their rent over a period of time, and they have accrued arrears of an amount equal to or more than one month's rent. If the Department of Work and Pensions (the **DWP**) does not set up a managed payment, RP Borrowers can request a managed payment and inform the DWP of other reasons why a managed payment might be needed. Landlords can request deductions from a claimant's Universal Credit to repay existing rent arrears, known as third party deductions. Deductions will be a minimum of 10 per cent. and a maximum of 20 per cent. of a claimant's Universal Credit standard allowance.

### **Government Policy: "Right to Buy"**

The introduction of the right to buy to assured tenants of Registered Providers was a manifesto commitment by the Conservative party for the 2015 general election. An announcement from the Secretary of State for Communities and Local Government on 24 September 2015 confirmed a proposal made by the National Housing Federation (**NHF**) to introduce the right to buy voluntarily. The voluntary arrangement is based on four key principles: (a) tenants would have the right to purchase a home at right to buy discounts (maximum discount of £77,900 (£103,900 in London)) subject to government funding for the scheme; (b) Registered Providers will have the final decision about whether to sell an individual property; (c) Registered Providers will receive the full market value of the properties sold, with the value of the discount funded by the Government; and (d) nationally, for every home sold under the agreement a new affordable property would be built, thereby increasing supply.

The Prime Minister confirmed on 7 October 2015 that the NHF's proposal had been accepted by the Government. This means that, rather than including the right to buy extension in the Housing and Planning Act 2016 as a statutory obligation, there is an agreement by the social housing sector to deliver the extension voluntarily. The Housing and Planning Act 2016 establishes a statutory framework to facilitate the implementation of the voluntary right to buy scheme and makes provision for grants to be paid to Registered Providers to cover the cost of selling housing assets at a discount. The Housing and Planning Act 2016 states that such grant may be made on any terms and conditions the Minister of Housing, Communities and Local Government considers appropriate.

The Autumn Statement 2016 announced that the Government would fund a "large-scale regional pilot of the right to buy for housing association tenants". It was envisaged that over 3,000 tenants would be able to buy their own home with right to buy discounts under this extended pilot scheme. The pilot will last for one year and will test two aspects of the voluntary agreement that the original pilots did not cover, namely (a) one for one replacement and (b) portability of discounts.

Welsh RSLs have been subject to a right to buy framework, however this was abolished under the Abolition of the Right to Buy and Associated Rights (Wales) Act 2018, which came into force on 24 March 2018. Under this legislation, tenants of Welsh RSLs in new homes can no longer exercise a right to buy or right to acquire. For tenants in existing stock, the right to buy or right to buy will no longer exist as of 26 January 2019.

RHA tenants are offered a right to buy discount of up to £24,000, pursuant to the Housing (Northern Ireland) Order 2003.

## **LHA Cap and Sheltered Rent**

In the 2015 Spending Review, the Chancellor outlined plans to cap the amount of rent that housing benefit will cover in the social housing sector to the level of the relevant Local Housing Allowance (the **LHA Cap**). This was to take effect in England only from April 2019 with the key elements being:

- the LHA Cap will apply to all tenants in supported and sheltered housing from April 2019;
- housing cost will continue to be paid through the benefit system up to LHA level;
- no Shared Accommodation Rate - one-bedroom LHA rate for under 35 year olds in supported housing;
- local authority top-up, with ring-fenced funds transferred across from the DWP and allocated by the Department for Communities and Local Government;
- the Government believes a different system needs to be worked out for short-term transitional services and it will consult on this; and
- the 1 per cent. rent reduction applies to supported and sheltered housing from April 2017 for three years – except refuges, alms houses and co-ops.

Following a joint DWP/Department for Communities and Local Government select committee inquiry, the Government announced on 31 October 2017 that the LHA Cap will not apply to tenants in supported housing, nor to the wider social rented sector, and therefore will not apply to the majority of the RP Borrowers. It was also announced, on 31 October 2017 that the Government will introduce a new sheltered rent for the sheltered housing and extra care sector from April 2020. This will keep funding within the welfare system and acknowledge the higher cost generated by this type of housing in comparison with general needs housing.

Two consequent consultations ran between October 2017 and January 2018, in particular in relation to housing costs for sheltered and extra care accommodation and housing costs for short-term supported accommodation. An interim response was published on 3 April 2018 noting that views are being considered and that a full formal response is expected in Summer 2018.

## **Pensions in the social housing sector**

The RP Borrowers provide retirement benefits to former and current employees through a number of defined benefit schemes.

There may be certain circumstances in which the sponsoring employers of an RP Borrower's pension arrangements are required to make good the funding deficit. Certain forms of restructuring may result in circumstances in which a funding deficit has to be met. For example, a transfer of engagements or a transfer under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006/246) could lead to a crystallisation of a net pension liability.

There is a risk that an RP Borrower could be required to contribute to the pension schemes on the basis that they are parties "connected to" or "associated with" the relevant employers, whether or not they themselves are classified as "employers".

The Pensions Regulator may require certain parties to make contributions to a pension scheme that has a deficit. A contribution notice could also be served on an RP Borrower if it is, or is connected/associated with, an employer in a defined benefit scheme and, if it was a party to, or knowingly assisted, an act, or a deliberate failure to act, which (i) has detrimentally affected in a material way the likelihood of accrued scheme benefits being received by, or in respect of, members, unless the Pensions Regulator is satisfied that



the relevant RP Borrower has a statutory defence; or (ii) the main purpose or one of the main purposes of which was either (a) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995; or (b) to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such debt which would otherwise become due. A contribution notice can only be served where the Pensions Regulator considers it is reasonable to do so.

A financial support direction could also be served on an RP Borrower if it is, or is connected to/associated with, an employer in a defined benefit scheme which is a service company or is insufficiently resourced. A service company is a group company whose turnover is solely or principally derived from amounts charged for supplying employees to other members of the group. An employer is insufficiently resourced if the value of its resources is less than 50 per cent. of the pension scheme's deficit calculated on an annuity buy-out basis but if the value of the resources of one or more connected/associated persons, when added to the employer's resources, would at least equal 50 per cent. of the estimated employer debt calculated on an annuity buy-out basis. For the resources of more than one connected/associated employer to be taken into account, they must also be connected/associated with each other. A financial support direction can only be served where the Pensions Regulator considers it is reasonable to do so.

## DESCRIPTION OF THE LOAN AGREEMENTS AND THE MINIMUM LENDING TERMS

*The following description of the Loan Agreements consists of a summary of certain provisions of the Loan Agreements and a description of the Minimum Lending Terms and is qualified by reference to the detailed provisions thereof. The Loan Agreements are not, however, incorporated by reference into, and therefore do not form part of, this Programme Memorandum.*

*Definitions used in this section but not otherwise defined in this Programme Memorandum have the meanings given to them in the Loan Agreements.*

### **Description of the Loan Agreements**

Each Loan Agreement will be made by the Issuer in the normal course of its business and will comply with the Minimum Lending Terms (as defined below). Each Loan Agreement will be governed by English law. Payments of principal and interest under each Loan Agreement shall be made by the relevant Borrower to the main bank account of the Issuer held with Metro Bank. The Issuer is obliged under Condition 7(j) (*Covenants*) to make publicly available up-to-date list of the Associated Loans, the identity of the Borrower in respect of each Associated Loan and the details of a website on which each Borrower's audited annual financial statements for the two most recent financial years, together with the audit report thereon. The Issuer is also required pursuant to Condition 7(p)(iii) to make publicly available within 30 days of the end of each financial quarter an analysis of the portfolio of Loan Agreements including, *inter alia*, the information specified in Condition 7(p)(iii).

The Issuer shall make payments of principal and interest on Notes issued under the Programme from Available Issuer Receipts (and, in the case of interest payable on such Notes, Available Liquidity Receipts (if any)). The Available Issuer Receipts include, but are not limited to, principal and interest received from the Borrowers under the Loan Agreements. In addition, Available Issuer Receipts also include reserves of the Issuer from the Second Secured Debt, the Subordinated Debt and share capital of the Issuer.

Each Borrower makes various representations on an ongoing basis pursuant to its Loan Agreement. These include representations as to, *inter alia*, the following:

- (a) legal status;
- (b) power and authority to enter into the Loan Agreement and security documents;
- (c) legal validity;
- (d) non conflict;
- (e) no default;
- (f) authorisations;
- (g) security documents;
- (h) financial statements;
- (i) litigation;
- (j) information;
- (k) environmental matters; and

- (l) no breach of laws including anti-corruption laws.

## Minimum Lending Terms

This section contains a summary of the current minimum lending terms as at the date of this Programme Memorandum as set out in the Trust Deed (which is available for inspection, see "*General Information – Documents Available*") which may be amended, modified and/or restated from time to time in accordance with Condition 7(k) (*Covenants*) provided that the Issuer is satisfied that its then existing rating of the Notes will not be adversely affected (the current minimum lending terms, as so amended, modified and/or restated from time to time, the **Minimum Lending Terms**). Pursuant to Condition 7(k), the Issuer is required to impose the Minimum Lending Terms on all RP Borrowers that borrow monies pursuant to a Loan Agreement.

### 1. Purpose

The proceeds of each Loan may only be used by each RP Borrower for any purpose which is permitted within the constitutive documents and objects of such RP Borrower, and which is consistent with such RP Borrower's continued registration as an RP and which does not breach any restrictions in any relevant statutory authorisations, consents, approvals, resolutions, licences, exemptions, filings, notarisations or registrations.

### 2. Security

As a condition precedent to entering into a Loan Agreement, the relevant RP Borrower will secure each Loan with either:

- (a) full security (**Initial Full Security**), meaning it will charge by way of Fixed Charges in favour of the Issuer and/or a security trustee and allocate the benefit of such security to the Issuer Eligible Properties in such amounts so as to comply with the Asset Cover Ratio (as defined below) on the date of the relevant Loan Agreement; or
- (b) *de minimis* security (**Initial De Minimis Security**), meaning it will charge by way of Fixed Charge in favour of the Issuer and/or a security trustee and allocate the benefit of such security to the Issuer at least one Eligible Property without ensuring compliance with the Asset Cover Ratio as at the date of the Loan Agreement and without providing a valuation report in respect of the value of such one Eligible Property.

If an RP Borrower elects for Initial *De Minimis* Security, it shall:

- (a) pay the Issuer a fee, the amount of which will vary, depending on the extent to which the Loan is secured;
- (b) represent to the Issuer that it has identified sufficient unencumbered Eligible Property to charge as security in respect of its Loan to ensure compliance with the Asset Cover Ratio with effect from the Required Charging Date;
- (c) charge in favour of the Issuer and/or a security trustee and allocate the benefit of such security to the Issuer sufficient Charged Properties on or before the Required Charging Date to ensure compliance with the Asset Cover Ratio and, for these purposes, such RP Borrower may charge Properties at any time in one or more batches and such Properties shall become Charged Properties subject to the conditions precedent set out in the relevant Loan Agreement being satisfied.

Each Loan, irrespective of whether the relevant RP Borrower has initially elected for Initial Full Security or Initial *De Minimis* Security, must be fully secured by Fixed Charges in favour of the Issuer and/or a security trustee and allocated the benefit of such security to the Issuer over Eligible Property prior to the Required Charging Date in such amounts as is required to ensure compliance with the Asset Cover Ratio.

Security may be granted by RP Borrowers on either a specific allocation basis or on a numerical apportionment basis.

If security is granted on a specific allocation basis, a certain number of clearly identifiable properties owed by an RP Borrower will be charged as security for the Loan. In an enforcement situation, the beneficiary of the security will have recourse to those specific properties.

If security is granted on a numerical apportionment basis, a certain number of units from an overall pool of properties that have been charged in favour of a security trustee will be allocated by the RP Borrower as security for its obligations under its Loan Agreement. However, the identity of the individual units allocated as security for the Loan Agreement will not initially be known. The Issuer will be allocated and have recourse to a certain number of properties within the pool and therefore a percentage of the overall value of the pool of properties that have been charged in favour of a security trustee.

Security that is granted on either a specific allocation basis or numerical apportionment basis will, when aggregated with all amounts standing to the credit of the Facility Account, be of a sufficient value to ensure that the Asset Cover Ratio is complied with.

If the Issuer lends to a Finance Subsidiary Borrower which then on-lends to one or more Indirect RP Borrowers, the Indirect RP Borrowers will either provide a secured guarantee of that loan or an assignment or novation of the rights under Fixed Charges granted by the Indirect RP Borrower(s) in the favour of the Issuer.

### **3. Cash Security**

An RP Borrower may deposit cash (**Cash Security**) into a Facility Account for the purpose of achieving or maintaining compliance with the Asset Cover Ratio. The Cash Security may be withdrawn from the Facility Account to the extent that such withdrawal would not cause a breach of the Asset Cover Ratio and no event of default or potential event of default has occurred and is continuing under the Loan Agreement, or would result from that withdrawal.

### **4. Valuations**

Once security has been granted by each RP Borrower in respect of the Loan Agreement, each such RP Borrower shall provide the Issuer with either: (a) a full valuation of the Charged Properties every 5 years and, in every other year, a valuation to be carried out on a desktop valuation basis; or (b) in each year a report of not less than 20 per cent. of the Charged Properties on a full valuation basis such that 100 per cent. of the Charged Properties are valued every five years and a report for the remaining Charged Properties on a desktop valuation basis.

### **5. Release and Substitution**

Charged Properties forming part of the security designated to the Issuer may (at the discretion of the RP Borrower) be released and/or substituted in accordance with the terms of the relevant Loan Agreement and subject to compliance with the Asset Cover Ratio.

Charged Properties which are subject to a statutory disposal (such as Shared Ownership Properties, shared equity sales, right to buy or social homebuy disposals) may, at the discretion of the RP Borrower, be released from security. If the RP Borrower will no longer be in compliance with the Asset Cover Ratio following that release, it must, as soon as practicable thereafter (and, in any event, within 60 days of release) either charge additional Eligible Properties and/or deposit cash in the Facility Account in an aggregate amount sufficient to ensure compliance with the Asset Cover Ratio.

Any substitute properties selected by the RP Borrower to become Charged Properties must be Eligible Properties.

## 6. Asset Cover Ratio

Each RP Borrower shall procure that at all times from the Required Charging Date the aggregate principal amount of the Loan borrowed by it either from the Issuer or a Finance Subsidiary Borrower does not exceed "X" where:

$$X = \left( \frac{100 \ A}{D} \right) + \left( \frac{100 \ B}{E} \right) + \left( \frac{100 \ C}{F} \right) + G$$

where:

A = the Value of the RP Borrower's interest (or all Indirect RP Borrowers' interest, where a Finance Subsidiary Borrower on lends to more than one Indirect RP Borrower and those Indirect RP Borrowers guarantee the obligations of the Finance Subsidiary Borrower) in those completed residential Charged Properties which have been valued in accordance with Valuation Basis I;

B = the Value of the RP Borrower's interest (or all Indirect RP Borrowers' interest, where a Finance Subsidiary Borrower on lends to more than one Indirect RP Borrower and those Indirect RP Borrowers guarantee the obligations of the Finance Subsidiary Borrower) in those completed residential Charged Properties which have been valued in accordance with Valuation Basis II;

C = the Value of the RP Borrower's interest (or all Indirect RP Borrowers' interest, where a Finance Subsidiary Borrower on lends to more than one Indirect RP Borrower and those Indirect RP Borrowers guarantee the obligations of the Finance Subsidiary Borrower) in those completed Charged Properties which have been valued in accordance with Valuation Basis III;

D = 105;

E = 115;

F = a number to be agreed on a case by case basis with each RP Borrower; and

G = the amount standing to the credit of the Facility Account.

The calculation set out above may be tested at any time by reference to the latest applicable information.

Shared Ownership Properties must be valued on Valuation Basis I.

Each RP Borrower shall procure that the Charged Properties are Eligible Properties.

### ***Interpretation***

For these purposes:

**Charged Property** means, at any time, any real property over which the relevant RP Borrower has granted and there subsists a valid and effective first priority fixed charge by way of legal mortgage pursuant to any Fixed Charge and, where relevant, designated as security for amounts owed under the Loan Agreement and **Charged Properties** means all such properties;

**Eligible Properties** means:

- (a) general needs rented properties which, for the avoidance of doubt, shall include social rent, affordable rent and sheltered or supported housing for older people and people with special needs but subject to paragraph (c) below shall exclude Shared Ownership Properties, provided that at any time at least 50 per cent. by value of the minimum value required to satisfy the Asset Cover Ratio shall comprise general needs rented properties;
- (b) subject to the prior approval of the Issuer, commercial property assets and other residential housing assets including care, key worker, student accommodation and private rented sector properties; and
- (c) provided the requirements of paragraph (a) of this definition are satisfied, Shared Ownership Properties.

**Facility Account** means an account of the Issuer (in its capacity as trustee) into which are paid any amounts to be held under the terms of the Facility Account Trust Deed;

**Facility Account Trust Deed** means a trust deed designated as such in relation to sums held by the Issuer (in its capacity as trustee) to be applied in repayment of an RP Borrower's loan from either the Issuer or a Finance Subsidiary Borrower.

**Fixed Charge** means:

- (a) each charge by way of legal mortgage entered or to be entered into by the RP Borrower in favour of the Issuer in or substantially in a form satisfactory to the Issuer to give effective security and incorporating a first priority fixed charge by way of legal mortgage over a Charged Property; and/or
- (b) each charge by way of legal mortgage entered or to be entered into by the RP Borrower in favour of the specified security trustee of that RP Borrower ultimately for the benefit of the Issuer substantially in the form set out in the relevant RP Borrower's security trust deed pursuant to which the RP Borrower provides security (either directly or via a guarantee or assignment or novation of rights) for the relevant Loan Agreement;

**Required Charging Date** means the date falling 18 months after the date of the relevant Loan Agreement;

**Shared Ownership Property** means where the Issuer has given its consent to the granting of a shared ownership lease any property of the RP Borrower which is occupied on shared ownership terms imposed by statute and which comply with the requirements of the relevant Regulator or Homes England (as applicable) so that the RP Borrower holds or is intending to hold upon disposal on shared ownership terms less than 100 per cent. of the beneficial interest in that property and the purchaser of the balance of that beneficial interest has the right to acquire a further portion of the RP Borrower's retained beneficial interest;

**Valuation** means a valuation of the RP Borrower's interest in the Charged Properties in form and substance satisfactory to the Issuer, addressed to the Issuer and (if applicable) the security trustee and prepared by a Valuer setting out its opinion of the Value of such Charged Properties in accordance with the relevant Valuation Basis and prepared in accordance with the relevant Valuation Basis;

**Valuation Basis I** means EUV-SH (existing use value for social housing) in accordance with the guidance set out in the Royal Institution of Chartered Surveyors Valuation - Professional Standards (as amended from time to time);

**Valuation Basis II** means MV-T (market value - subject to tenancies) in accordance with the guidance set out in the Royal Institution of Chartered Surveyors Valuation - Professional Standards (as amended from time to time);

**Valuation Basis III** means a valuation basis to be agreed on a case by case basis with each RP Borrower;

**Value** means, at any time and in respect of any relevant Charged Property, the aggregate value of the RP Borrower's interest in such Charged Property in accordance with either Valuation Basis I, Valuation Basis II or Valuation Basis III, as shown in the then latest Valuation of such Charged Property less the maximum amount, as determined by the Issuer of any sums which are or may become charged or otherwise secured by any security interest in or on that Charged Property in priority to the relevant Fixed Charge; and

**Valuer** means an independent professional valuer who is an associate or a fellow of the Royal Institution of Chartered Surveyors and who has been approved by the Issuer (such approval not to be unreasonably withheld).

## **7. Note Purchase Option**

Each RP Borrower may, with the prior written consent of the Issuer, at any time purchase Notes on any relevant stock exchange or by tender (available to all holders of Notes) or by private treaty at any price. Following any such purchase, the relevant RP Borrower shall surrender the Notes to the Issuer to be cancelled. An amount of the associated Loan equivalent to the outstanding balance of the Notes being surrendered shall be deemed to be prepaid under the Loan Agreement.

## **8. Covenants and Restrictions**

Each RP Borrower makes various covenants pursuant to its Loan Agreement. These include covenants and restrictions as to, *inter alia*, the following:

- (a) the provision of financial and other information;
- (b) negative pledge;
- (c) the Charged Properties;
- (d) compliance with law; and
- (e) prepayment of the Loan in full if the RP Borrower ceases to be a Registered Provider, Welsh RSL or RHA for more than 180 days consecutively.

## 9. Interest Reserve Provisions

If due to a Lending Level Reassessment Event having occurred an RP Borrower or its group is allocated a revised Lending Level and an RP Borrower's Exposure or the Group's Exposure then exceeds the Threshold Percentage applicable to that RP Borrower's or its group's revised Lending Level, the Borrower must deposit the following amounts into the Interest Reserve Fund:

- (a) 6 months' interest payable under its Loan Agreement if the RP Borrower's Exposure or the Group's Exposure does not exceed the Threshold Percentage for a borrower whose Lending Level is one above the RP Borrower's or its group's revised Lending Level; and
- (b) 12 months' interest payable under its Loan Agreement if the RP Borrower's Exposure or the Group's Exposure exceeds the Threshold Percentage for a borrower whose Lending Level is one above the RP Borrower's or its group's revised Lending Level.

If due to a Lending Level Reassessment Event, the Lending Level of an RP Borrower or its group falls below Level 4, the Borrower must pay 18 months' interest payable under its Loan Agreement into the Interest Reserve Fund.

The diagram below sets out details of the interest reserve deposit obligations of each Borrower referred to above.

		New Borrowing Level & Exposure Limit			
		2	3	4	Below 4
Existing Borrower Lending Level	Existing Borrower's Exposure	10%	8%	6%	0%
1	10.1% - 12.0%	6m	12m	12m	18m
2	8.1% - 10.0%	na	6m	12m	18m
3	6.1% - 8.0%	na	na	6m	18m
4	0.1% - 6.0%	na	na	na	18m
Below 4	0%				

6m = 6 months' interest

12m = 12 months' interest

18m = 18 months' interest

If an RP Borrower's Exposure or the Group's Exposure is subsequently equal to or less than the Threshold Percentage for the Borrower's or its group's then current Lending Level, the Issuer must return to the Borrower the amounts deposited by the Borrower into the Interest Reserve Fund in accordance with the Loan Agreement.



If, at any time, an RP Borrower or its group has a Lending Level below Level 4, it will immediately engage with the Issuer to agree a strategy to improve its Lending Level and implement that strategy as soon as possible.

A Borrower will not be required to deposit monies in the Interest Reserve Fund if the obligation to do so arose solely as a result of either (i) a change of Lending Level criteria made by the Issuer or (ii) a decrease in the aggregate of all amounts borrowed by the Issuer.

In addition, if as a result of a Merger Event, an RP Borrower's Exposure or the Group's Exposure exceeds the following thresholds, the Borrower shall deposit the following amounts into the Interest Reserve Fund:

- (a) if the percentage exceeds 12 per cent. but is less than 15 per cent. - 12 months' interest payable under the Loan Agreement;
- (b) if the percentage equals or exceeds 15 per cent. but is less than 20 per cent. - 24 months' interest payable under the Loan Agreement;
- (c) if the percentage equals or exceeds 20 per cent. but is less than 25 per cent. - 36 months' interest payable under the Loan Agreement.

If the percentage equals 25 per cent. or more for more than 6 consecutive months, the Borrower shall on the date falling 15 business days after the Issuer gives notice to the Borrower prepay such amount of its loan as shall be necessary to reduce that percentage below 25 per cent.

### **Interpretation**

For these purposes:

**Group's Exposure** means at the relevant time, the aggregate amount then borrowed by an RP Borrower and all other members of its group from the Issuer, calculated as a percentage of all financial indebtedness then incurred by the Issuer, but on the assumption that, until the aggregate principal amount outstanding of all Notes issued by the Issuer under the Programme is at least £500,000,000 the aggregate principal amount outstanding of all Notes issued by the Issuer under the Programme shall be deemed to be £500,000,000 for the purpose of this definition.

**Interest Reserve Fund** means the interest reserve fund established pursuant to a Loan Agreement pursuant to which the Issuer (acting as trustee) will hold funds on trust for the relevant Borrower as specified in paragraph 9 above;

**Merger Event** means any of the following in relation to an RP Borrower:

- (a) it enters into an amalgamation, transfer of engagements (whether to it or by it), consolidation or other merger;
- (b) it or any member of its group forms or acquires a subsidiary; or
- (c) it becomes a subsidiary (either direct or indirect) of any entity after the date of the relevant Loan Agreement;

**RP Borrower's Exposure** means, at the relevant time, the aggregate amount then borrowed by an RP Borrower either from the Issuer or an Indirect RP Borrower which was funded by a loan under a Loan Agreement, calculated as a percentage of all financial indebtedness then incurred by the Issuer, but on the assumption that, until the aggregate principal amount outstanding of all Notes issued by

the Issuer under the Programme is at least £500,000,000 the aggregate principal amount outstanding of all Notes issued by the Issuer under the Programme shall be deemed to be £500,000,000 for the purpose of this definition.

**Threshold Percentage** means, in relation to:

- (a) Lending Level 1, 12 per cent.;
- (b) Lending Level 2, 10 per cent.;
- (c) Lending Level 3, 8 per cent.; and
- (d) Lending Level 4, 6 per cent.

## **10. Events of Default**

Each Loan Agreement will include, *inter alia*, the following events of default:

- (a) non-payment of amounts payable under the Loan Agreement;
- (b) breach of the Asset Cover Ratio on (i) the second anniversary of the Loan Agreement or (ii) at any time after the second anniversary of the date of the Loan Agreement (and the breach continues for 60 days following service by the Issuer on the relevant Borrower of a notice requiring the breach to be remedied);
- (c) breach of other obligations;
- (d) misrepresentation;
- (e) unlawfulness and invalidity;
- (f) insolvency and insolvency proceedings;
- (g) creditor's process and cross default, each subject to minimum thresholds;
- (h) change of status;
- (i) breach of the Regulatory Framework or housing legislation;
- (j) action by the Regulator; and
- (k) material adverse change.

If an event of default listed above occurs, the Issuer will be able to enforce the security granted over the Charged Properties and will have recourse to monies in the Facility Account and monies held pursuant to the Interest Reserve Fund. However, if such proceeds of enforcement or the monies in the Facility Account or Interest Reserve Fund are of insufficient value to repay the relevant Loan, the Issuer will also have an unsecured claim against the relevant Borrower for any shortfall (which will rank behind the claims of any secured creditor).

## **11. Taxes**

All payments to be made by a Borrower to the Issuer shall be made free and clear of and without deduction for or on account of tax unless a Borrower is required by law to make such a payment subject to the deduction or withholding of tax. Where a Borrower is obliged to make a payment

subject to the deduction or withholding of tax and the Issuer certifies to that Borrower that it is under an obligation to make payments due in respect of the Notes, the Second Secured Debt, the Subordinated Debt and/or the Liquidity Facility Agreements at that time free and clear of and without deduction for or on account of tax, the Borrower shall from time to time on demand by the Issuer promptly pay such additional amounts to the Issuer as may be necessary to ensure that the Issuer receives a net amount equal to the full amount which it would have received had payment not been made by the Borrower subject to the deduction or withholding of tax.

## TAXATION

### United Kingdom Taxation

*The following is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue and Customs' practice relating only to the United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.*

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes carry a right to interest and the Notes are and continue to be admitted to trading on a "multilateral trading facility" operated by an "EEA-regulated recognised stock exchange" within the meaning of section 987 of the Income Tax Act 2007. The ISM is a multilateral trading facility for this purpose. The ISM is operated by the London Stock Exchange which is an EEA-regulated recognised stock exchange. Provided, therefore, that the Notes carry a right to interest and are and remain admitted to trading on a multilateral trading facility operated by an EEA-regulated recognised stock exchange, interest on the Notes will be payable without deduction of or withholding on account of United Kingdom tax.

Payments of interest on Notes may be made without deduction of or withholding on account of United Kingdom tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Notes that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any other available exemptions and reliefs. However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

### Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes (**foreign passthru payments**) to persons that fail to meet certain certification, reporting or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA (**IGAs**), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to 1 January 2019 and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be

grandfathered for purposes of FATCA withholding unless materially modified after such date. However, if additional Notes (as described under Condition 20 (*Further Issues*)) that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

### **The proposed financial transactions tax (FTT)**

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **participating Member States**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

The Dealers have, in a Programme Agreement (such Programme Agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 11 January 2019, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

## SELLING RESTRICTIONS

### *United States*

The Notes have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States or, if Category 2 is specified in the Pricing Supplement, to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or 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 Notes in bearer form are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder. The applicable Pricing Supplement will identify whether TEFRA C rules or TEFRA D rules apply or whether TEFRA is not applicable.

If Category 2 is specified in the Pricing Supplement each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Accordingly, if Category 1 is specified in the Pricing Supplement the Notes are being offered and sold only outside the United States in offshore transactions in reliance on, and in compliance with, Regulation S.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

### *Prohibition of sales to EEA Retail Investors*

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made

available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Programme Memorandum as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression **retail investor** means a person who is one (or more) of the following:
  - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
  - (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, the **Insurance Mediation Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.
- (b) the expression an **offer** includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes.

### ***United Kingdom***

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

### ***General***

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Programme Memorandum and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trustee and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by resolutions of the Board of Directors of the Issuer dated 5 September 2018 and 4 January 2019.

### Admission to trading of Notes

It is expected that each Tranche of Notes which is to be admitted to trading on the ISM will be admitted separately as and when issued, subject only to the issue of one or more Global Notes initially representing the Notes of such Tranche. Application has been made to the London Stock Exchange for such Notes to be admitted to trading on the ISM. The admission to trading of the Programme in respect of Notes is expected to be granted on or before 14 January 2019.

### Documents Available

For the period of 12 months following the date of this Programme Memorandum, copies of the following documents will, when published in accordance with the ISM Rulebook, be available for inspection from the registered office of the Issuer and from the specified office of the Principal Paying Agent for the time being in London:

- (a) the Articles of Association of the Issuer;
- (b) the most recently published audited annual financial statements of the Issuer and the most recently published unaudited interim financial statements (if any) of the Issuer, in each case together with any audit or review reports prepared in connection therewith. The Issuer currently expects to prepare audited accounts on an annual basis and unaudited interim accounts on a semi-annual basis;
- (c) the Trust Deed, the Agency Agreement and the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons;
- (d) a copy of this Programme Memorandum; and
- (e) any future programme memoranda, offering circulars, prospectuses, information memoranda, supplements, Pricing Supplement to this Programme Memorandum and any other documents incorporated herein or therein by reference.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

### Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.



## **Issues of Notes**

The Issuer intends to make available details of all issues of Notes under the Programme through a regulatory information service and, to the extent that any such Notes are to be admitted to trading on the ISM, the applicable Pricing Supplement will be published on the website of the London Stock Exchange plc through a regulatory information service or will be published in such other manner permitted by the ISM Rulebook.

## **Post-issuance information**

The Issuer does not intend to provide any post-issuance information in relation to the Notes issued under the Programme, the First Floating Charge or the security created by the Borrowers in respect of their respective Loan Agreements, other than as required (and available from the Issuer publicly at all times) pursuant to Condition 7(j) and Condition 7(p) (*Covenants*).

## **Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer since the date of incorporation of the Issuer and there has been no material adverse change in the financial position or prospects of the Issuer since the date of incorporation of the Issuer.

## **Litigation**

The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) since the date of incorporation of the Issuer which may have or have had in such period a significant effect on the financial position or profitability of the Issuer.

## **Auditors**

The auditors of the Issuer are KPMG LLP, Chartered Accountants & Registered Auditors. As at the date of this Programme Memorandum no financial statements have been prepared in respect of the Issuer. The auditors of the Issuer have no material interest in the Issuer.

## **Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for the Issuer and its affiliates in the ordinary course of business.

## **Trustee's action**

The Conditions and the Trust Deed provide for the Trustee to take action on behalf of the Noteholders in certain circumstances, but only if the Trustee is indemnified and/or secured and/or pre-funded to its satisfaction. It may not always be possible for the Trustee to take certain actions, notwithstanding the provision of an indemnity and/or security and/or pre-funding to it. Where the Trustee is unable to take any action, the Noteholders are permitted by the Conditions and the Trust Deed to take the relevant action directly.

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