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Department for  
Communities and  
Local Government

**AFFORDABLE HOUSING FINANCE PLC**

*(Incorporated with limited liability in England and Wales with registration number 8434613)*

**£194,000,000 2.893 per cent. Guaranteed Secured Bonds due 2043/2045**  
**(including £26,000,000 of Retained Bonds)**

unconditionally and irrevocably guaranteed by

**THE SECRETARY OF STATE FOR COMMUNITIES AND LOCAL GOVERNMENT**

**Issue price: 103.463 per cent.**

**(plus 34 days' accrued interest from and including 11th February, 2016 to but excluding the Second Issue Closing Date (as defined below) at a rate of 2.893 per cent. per annum)**

The £194,000,000 2.893 per cent. Guaranteed Secured Bonds due 2043/2045 (the **Second Issue Bonds**), including £26,000,000 of Retained Bonds (as defined herein), are issued by Affordable Housing Finance Plc (the **Issuer**).

The Second Issue Bonds have the same terms and conditions as, and will be consolidated, form a single series and rank *pari passu* with, the £208,000,000 2.893 per cent. Guaranteed Secured Bonds due 2043/2045 (the **Original Bonds** and, together with the Second Issue Bonds, the **Bonds**) issued by the Issuer on 11th August, 2015 (the **Original Closing Date**).

The Secretary of State for Communities and Local Government (the **Guarantor**) has issued an unconditional and irrevocable guarantee (as the same will be supplemented on or prior to the Second Issue Closing Date, the **Bond Guarantee**) of the Issuer's obligations in respect of the payment of all monies at any time becoming due and payable in respect of the Bonds pursuant to the terms of a licence dated 19th June, 2013, as amended and restated on 4th November, 2014, (the **Licence**) granted to the Issuer for the management and delivery of the Affordable Housing Guarantee Scheme of the Guarantor.

The proceeds from the issue of the Second Issue Bonds will be advanced by the Issuer to Approved Borrowers (as defined in the Licence) pursuant to Loan Agreements (as defined in the Licence) between the Issuer and each Approved Borrower. Under the terms of the Licence, the Guarantor will also guarantee the payment obligations of the Approved Borrowers to the Issuer under their respective Loan Agreements (each a **Loan Guarantee**).

This Offering Circular does not constitute a prospectus for the purpose of Article 5.3 of Directive 2003/71/EC (as amended) (the **Prospectus Directive**). The Prospectus Directive does not apply to this Offering Circular pursuant to Article 1(2)(d) thereof.

Application has been made to the Financial Conduct Authority in its capacity as competent authority (the **UK Listing Authority**) for the Second Issue Bonds to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the Second Issue Bonds to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

It is expected that the Second Issue Bonds will on issue be rated "AAA" by Standard & Poor's Credit Market Services Europe Limited (**S&P**). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The Second Issue Bonds will be issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof.

The Second Issue Bonds will initially be represented by a temporary global bearer bond (the **Second Issue Temporary Global Bond**), without interest coupons, which will be deposited on or about 16th March, 2016 (the **Second Issue**

**Closing Date**) with a common safekeeper for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Second Issue Temporary Global Bond will be exchangeable for interests in a permanent global bond (the **Second Issue Permanent Global Bond** and, together with the Second Issue Temporary Global Bond and the global bonds representing the Original Bonds, the **Global Bonds**), without interest coupons, on or after 25th April, 2016 (the **Exchange Date**) upon certification as to non-U.S. beneficial ownership. Interests in the Second Issue Permanent Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances – see *"Summary of Provisions Relating to the Second Issue Bonds While Represented by the Global Bonds"*.

Interest on the Second Issue Bonds will accrue with effect from and including 11th February, 2016 and will be payable semi-annually in arrear on each Payment Date (as defined herein) in equal semi-annual instalments. The Bonds are scheduled to be redeemed on 11th August, 2043 (the **Expected Maturity Date**), but may be redeemed before that date (in whole or in part) if and to the extent that any loan made under a Loan Agreement is prepaid. In certain circumstances described herein, the date of final redemption of the Bonds may be postponed to a date not later than 11th August, 2045 (the **Legal Maturity Date**).

**An investment in the Second Issue Bonds involves certain risks. Prospective investors should have regard to the factors described under the heading "Investment Considerations" on page 29.**

**Joint Lead Managers**

**HSBC**

**RBC CAPITAL MARKETS**

**THE ROYAL BANK OF SCOTLAND**

The date of this Offering Circular is 15th March, 2016

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

The information contained in the section "*Description of the Guarantor*" has been obtained solely from publicly available information. The Guarantor has neither reviewed this Offering Circular nor verified the information contained in it, and the Guarantor makes no representation, warranty or undertaking, express or implied, with respect to, and does not accept any responsibility or liability for, the contents of this Offering Circular or any other statement made or purported to be made on its behalf in connection with the Issuer or the issue or offering of the Second Issue Bonds or their distribution. The Guarantor accordingly disclaims any and all liability, whether arising in contract, tort or otherwise which it might otherwise have in respect of this Offering Circular or any such statement.

No person has been authorised to give any information or to make any representation other than those contained in this Offering Circular in connection with the offering of the Second Issue Bonds and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Managers (as defined under "*Subscription and Sale*" below). Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Issuer since the date hereof. This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer or the Managers to subscribe for, or purchase, any of the Second Issue Bonds. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

Save for the Issuer, no other party has separately verified the information contained herein for your purposes. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Guarantor, the Managers or The Law Debenture Trust Corporation p.l.c. (the **Trustee**) as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer in connection with the Second Issue Bonds or their distribution.

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, the Guarantor or the Managers that any recipient of this Offering Circular should purchase any of the Second Issue Bonds. Each investor contemplating purchasing Second Issue Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and the Guarantor.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**) and are subject to U.S. tax law requirements. Subject to certain exceptions, the Second Issue Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Second Issue Bonds and on distribution of this Offering Circular, see "*Subscription and Sale*" below.

Each prospective purchaser of Second Issue Bonds must make its own independent review (including as to the financial condition and affairs and its own appraisal of the creditworthiness) of the Issuer and the Guarantor and obtain such professional advice (including, without limitation, tax, accounting, credit, legal and regulatory advice) as it deems appropriate under the circumstances, to determine whether an investment in the Second Issue Bonds is appropriate in its particular circumstances.

In so doing, and without restricting the generality of the preceding paragraph, such prospective purchaser must determine that its acquisition and holding of Second Issue Bonds (i) is fully consistent with its (or, if it is acquiring Second Issue Bonds in a fiduciary capacity, the beneficiary's) financial needs, objectives and condition, (ii) complies and is fully consistent with all investment policies, guidelines and restrictions

applicable to it (whether acquiring Second Issue Bonds as principal or in a fiduciary capacity) and (iii) is a fit, proper and suitable investment for it (or, if it is acquiring Second Issue Bonds in a fiduciary capacity, for the beneficiary). None of the Issuer, the Guarantor, the Trustee, the Managers or any of their respective affiliates is acting as an investment adviser, or assumes any fiduciary obligation, to any purchaser of Second Issue Bonds. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation or constituting an invitation or offer that any recipient of this Offering Circular should purchase any Second Issue Bonds.

**IN CONNECTION WITH THE ISSUE OF THE SECOND ISSUE BONDS, THE ROYAL BANK OF SCOTLAND PLC (THE *STABILISING MANAGER*) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT THE SECOND ISSUE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE SECOND ISSUE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE SECOND ISSUE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECOND ISSUE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

All references in this document to **Sterling** and **£** refer to the lawful currency for the time being of the United Kingdom.

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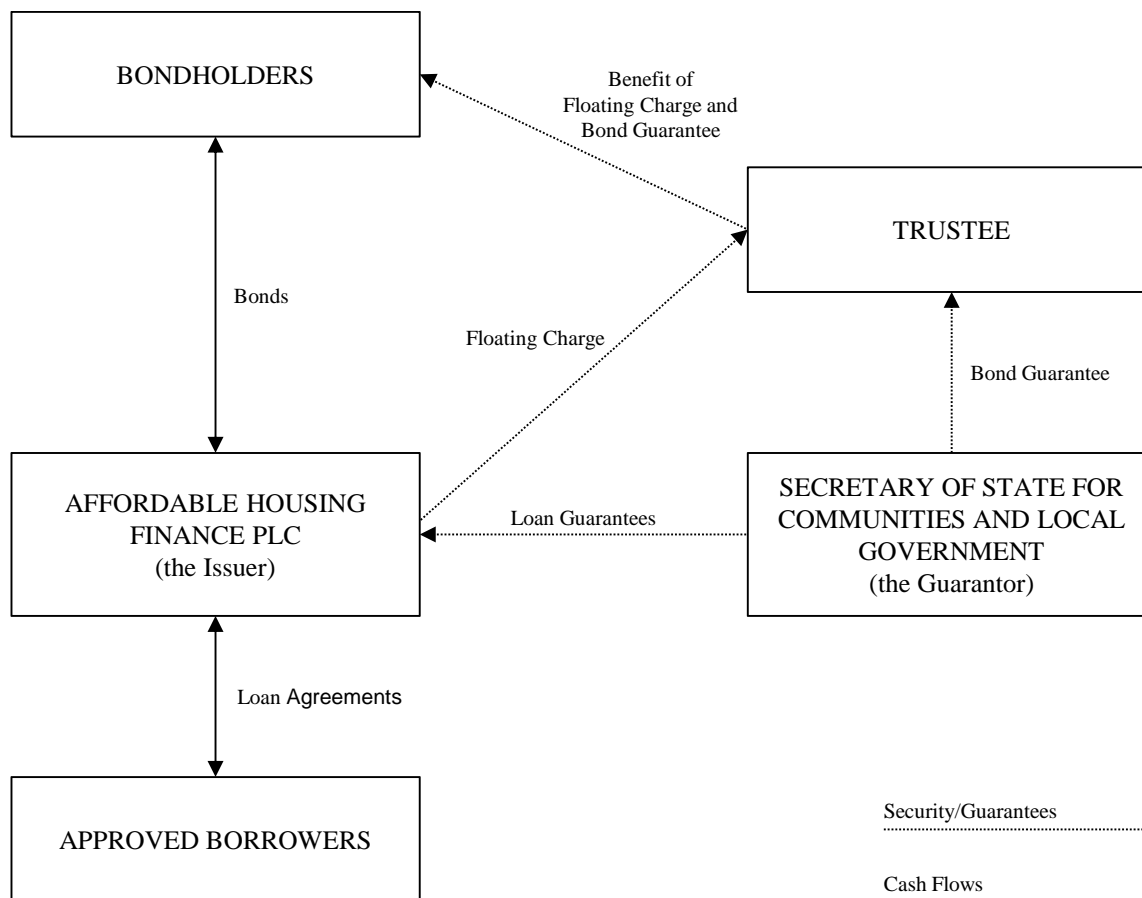
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## TRANSACTION OVERVIEW

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 Offering Circular. Capitalised terms have the meanings ascribed to them in the Conditions.

### DIAGRAM OF PRINCIPAL CASH FLOWS

The diagram below depicts the main features of the structure of the transaction as a whole and its principal cash flows.



### THE ISSUE

Issuer: Affordable Housing Finance Plc

Guarantor: Secretary of State for Communities and Local Government

Issue: £194,000,000 2.893 per cent. Guaranteed Secured Bonds due 2043/2045 (including £26,000,000 of Retained Bonds).

The Second Issue Bonds have the same terms and conditions as, and will be consolidated, form a single series and rank *pari passu* with, the £208,000,000 2.893 per cent. Secured Bonds due 2043/2045 issued by the Issuer on 11th August, 2015.

Use of Proceeds: The proceeds of the issue of the Second Issue Bonds (with the

exception of a sum equivalent to 34 days' accrued interest, which will be retained by the Issuer), or in the case of the Second Issue Retained Bonds the proceeds of the sale of the Second Issue Retained Bonds to a third party (with the exception of a sum equivalent to the relevant number of days' accrued interest, which will be retained by the Issuer), will be lent to Approved Borrowers pursuant to Loan Agreements to be applied towards the delivery of new-build affordable homes, either for affordable rent or affordable home ownership housing in England (or the equivalent in the devolved administrations), in accordance with the Affordable Housing Guarantee Scheme.

Form and Denomination:

The Second Issue Bonds will be issued in bearer form in denomination(s) of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. No Bonds in definitive form will be issued with a denomination above £199,000. The Second Issue Bonds will initially be represented by a temporary global bond which will be exchangeable for a permanent global bond in accordance with its terms. The permanent global bond will be exchangeable for definitive bearer Bonds only in certain limited circumstances (see "*Summary of Provisions Relating to the Second Issue Bonds While Represented by the Global Bonds*").

Status and Security:

The Second Issue Bonds will constitute secured obligations of the Issuer and will rank *pari passu* without any preference among themselves and the Original Bonds. The Second Issue Bonds will be secured by a first floating charge on the Issuer's undertaking, property and assets. The Second Issue Bonds will rank *pari passu* in point of security with the Original Bonds and any present or future other securities issued by the Issuer and any present or future loans or other credit facilities entered into by the Issuer, in each case subject to and in accordance with the terms of the Deed of Priority.

Bond Guarantee

The Original Bonds have, and the Second Issue Bonds on issue will have, the benefit of the Bond Guarantee from the Guarantor, pursuant to which the Guarantor unconditionally and irrevocably guarantees to the Trustee, on behalf of the Bondholders and the Couponholders, *inter alia*, the payment of all sums due and payable but unpaid by the Issuer in respect of payments of principal and interest of the Bonds.

The Guarantor will agree to defer any right of subrogation it may have against the Issuer in respect of amounts due on the Bonds which have been paid by the Guarantor under the Bond Guarantee to those rights of the Trustee, the Bondholders and/or the Couponholders which have not yet been discharged in full.

Interest:

2.893 per cent. per annum payable semi-annually in arrear on 11th February and 11th August in each year, commencing on 11th August, 2016.

Final Redemption:

Unless redeemed early as described below, the Bonds are scheduled to be redeemed on the Expected Maturity Date (11th August, 2043). However, if and to the extent that insufficient funds are received from the Approved Borrowers under the Loan Agreements to enable



redemption in full on the Expected Maturity Date, the redemption of the Bonds will be postponed to a date not later than the Legal Maturity Date (11th August, 2045).

Early Redemption:

As further described in Condition 8.2, the Bonds may be redeemed before the Expected Maturity Date (in whole or in part) if and to the extent that one or more Loan Agreements are prepaid. Such prepayment may occur as a result of:

- (i) an illegality or a tax gross up obligation being triggered under any Loan Agreement, in which event the Bonds shall be redeemed at par; or
- (ii) a default or an optional redemption under any Loan Agreement, in which event the Bonds shall be redeemed at the higher of par and the Redemption Price.

Any such early redemption shall take place on the date which is ten Business Days after that on which payment is made by the Approved Borrower under that Loan Agreement (or by the Guarantor under the relevant Loan Guarantee, as applicable).

Guarantor Controlling Rights:

In relation to any matter other than a Bondholder Entrenched Right, provided that no Guarantor Trigger Event has occurred, the Guarantor shall have the right to direct the Trustee in writing in respect of all matters relating to the Conditions and the Trust Deed.

A Guarantor Trigger Event includes non-payment by the Guarantor when required under the Bond Guarantee and the Bond Guarantee ceasing to be, or being claimed by the Issuer or the Guarantor not to be, in full force and effect other than in circumstances where it has been replaced by an equivalent guarantee.

Withholding Taxes (if any):

As further described in Condition 9, all payments in respect of the Bonds will be made free and clear of, and without deduction for, withholding taxes imposed by the United Kingdom or any political subdivision thereof or any authority thereof or therein having the power to tax, unless required by law. In such event, the Issuer will not be obliged to make any additional payments to Bondholders in respect of the deduction, nor will it be required to redeem the Bonds.

Retained Bonds:

On the Original Closing Date, the Issuer purchased £70,000,000 in principal amount of the Original Bonds (the **Original Retained Bonds**) from the Managers.

The Issuer will immediately purchase £26,000,000 in principal amount of the Second Issue Bonds (the **Second Issue Retained Bonds**) from the Managers on the Second Issue Closing Date.

The Issuer may sell or dispose of all or some of the Retained Bonds in the market by private treaty at any time. Upon the sale of all or part of the Retained Bonds, the proceeds of such sale (with the exception of a sum equivalent to the relevant number of days' accrued interest, which will be retained by the Issuer) will be lent to Approved Borrowers pursuant to Loan Agreements to be applied

towards the delivery of new-build affordable homes, either for affordable rent or affordable home ownership housing in England (or the equivalent in the devolved administrations), in accordance with the Affordable Housing Guarantee Scheme.

As at the date of this Offering Circular, the Issuer has sold £5,000,000 in principal amount of the Original Retained Bonds.

Until sold or disposed of, the Retained Bonds will be held by a custodian pursuant to the custody agreement dated 11th August, 2015 between the Issuer and Deutsche Bank A.G., London Branch as custodian (the **Custody Agreement**). To the extent not previously sold or disposed of, the Issuer shall cancel (a) any Original Retained Bonds held by it or on its behalf on the date falling one year after the Original Closing Date or such later date as the Issuer and the Guarantor shall agree and (b) any Second Issue Retained Bonds held by it or on its behalf on the date falling one year after the Second Issue Closing Date or such later date as the Issuer and the Guarantor shall agree.

Governing Law:

English law.

Trustee:

The Law Debenture Trust Corporation p.l.c.

Administrator:

T.H.F.C. (Services) Limited.

## **USE OF PROCEEDS**

The proceeds of the issue of the Second Issue Bonds (with the exception of a sum equivalent to 34 days' accrued interest, which will be retained by the Issuer), or in the case of the Second Issue Retained Bonds the proceeds of the sale of the Second Issue Retained Bonds to a third party (with the exception of a sum equivalent to the relevant number of days' accrued interest, which will be retained by the Issuer), will be lent to Approved Borrowers pursuant to Loan Agreements to be applied towards the delivery of new-build affordable homes, either for affordable rent or affordable home ownership housing in England (or the equivalent in the devolved administrations), in accordance with the Affordable Housing Guarantee Scheme.

## DESCRIPTION OF THE AFFORDABLE HOUSING GUARANTEE SCHEME

In September 2012, the Department for Communities and Local Government (the **DCLG**) announced a package of measures designed to stimulate economic activity and to facilitate an increase in housing supply. These measures include two UK-wide Housing Guarantee Schemes, whereby the DCLG will provide guarantees to support debt raised by borrowers to develop additional new housing in both the affordable housing and private rented sectors. There will be separate guarantee schemes for each sector (the scheme for the affordable housing sector being the Affordable Housing Guarantee Scheme), with a maximum value across both schemes of £10 bn (£3.5 bn allocated to each initially, with £3 bn held in reserve).

Pursuant to a licence dated 19th June, 2013, as amended and restated on 4th November, 2014, (the **Licence**), the Secretary of State for Communities and Local Government granted a licence to the Issuer for the management and delivery of the Affordable Housing Guarantee Scheme, with exclusivity for the period to 31st March, 2016. Further transactions whereby the Issuer raises and on-lends debt to Approved Borrowers may follow in 2016 and 2017.

In accordance with the terms of the Licence, the Secretary of State for Communities and Local Government will guarantee the payment obligations of the Issuer in respect of debt raised under the Affordable Housing Guarantee Scheme thereby lowering the cost of its debt. It will also guarantee the payment obligations of each Approved Borrower to the Issuer pursuant to their respective Loan Agreements.

### **Affordable Housing Guarantee Scheme Rules**

The Guarantor has published the rules which apply to the Affordable Housing Guarantee Scheme (the **Rules**). The Rules establish the nature of the projects to be supported pursuant to the Scheme, the security to be provided by Approved Borrowers who are able to access funding procured via the Affordable Housing Guarantee Scheme, the recourse nature of the borrowings, covenants, undertakings, documentation and process.

The Rules in effect as at the date of this Offering Circular are set out below. However, in accordance with their terms, the Rules may be changed by the Guarantor at any time.

#### 1. *Project Eligibility*

- 1.1 The guarantee<sup>1</sup> will only support projects that will deliver additional new-build affordable homes on schemes not included in existing affordable housing programmes.
- 1.2 Prospective borrowers may also, where applicable, apply for social housing assistance (or equivalent in the Devolved Administrations). Eligibility for the housing guarantee will be assessed on the merits of each application irrespective of whether any parallel grant application is successful. Where grant or other subsidy is provided for any nominated scheme, then the guarantee will only be available for the net debt required to finance the development.
- 1.3 Affordable homes products that will be eligible are Affordable Rent and affordable home ownership in England, plus equivalent in the Devolved Administrations.
- 1.4 Minimum size of project: Total debt requirement to be not less than £5m. However, the "project" can comprise of more than one development site, which cumulatively meet the minimum debt requirement.
- 1.5 Units must be used for Affordable Rent or affordable home ownership housing (or equivalent in the Devolved Administrations) for the period of the guarantee.

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<sup>1</sup> References to the "guarantee" and the "housing guarantee" in the Rules refer to a Loan Guarantee.

- 1.6 Guaranteed debt will be available for drawdown in one amount on completion of loan and security documentation. Borrowers must undertake to have commenced construction of the underlying affordable projects within 12 months of drawdown.
- 1.7 Properties will need to be located in the United Kingdom.
- 1.8 Borrowers will need to be Private Registered Providers as defined in the Housing and Regeneration Act 2008 Section 80(3) (or equivalent in the Devolved Administrations).
2. *Security and Recourse*
  - 2.1 First fixed charge over the approved assets that meet the required loan to value and interest cover ratios.
  - 2.2 Minimum property security value to be not less than 105% of the loan at all times, evidenced by professional valuation carried out on an EUV-SH basis and addressed for the benefit of the lender and guarantor.
  - 2.3 Minimum security portfolio rent/interest cover at all times: Net – 1:1.
  - 2.4 5 yearly revaluation obligations.
  - 2.5 Security release permitted when asset cover exceeds 115%, evidenced by professional valuation.
  - 2.6 Lender will have full recourse to the borrower for any shortfall resulting from recovery following an enforcement of security on default.
3. *Fees and Costs*
  - 3.1 Approved borrowers will be required to meet the costs of arranging the guarantee.
  - 3.2 Approved borrowers will also need to pay an administration fee to cover pro rata their share of the administration costs of managing and monitoring the facility.
4. *Covenants*
  - 4.1 Maintenance of loan to value and interest cover covenants.
  - 4.2 Financial monitoring reports.
  - 4.3 Standard financial and corporate covenants for long term secured debt facilities.
5. *Other Undertakings*
  - 5.1 (See 1.5 above) Undertaking for continued use of project assets for affordable housing.
6. *Documentation*
  - 6.1 Standard loan and security documentation to be entered into.
7. *Application*
  - 7.1 Borrowers will be required to complete a standard application form which will detail the information required to support the application. Application to the Homes and Communities Agency or, in

London, the Greater London Authority (or equivalent in the Devolved Administrations) for any grant or other subsidy should be made in parallel with the application for the housing guarantee.

- 7.2 All applications will be subject to full due diligence and approval prior to any offer of a guarantee being made. Any such offer will be at the complete discretion of the guarantor. No offer nor commitment to provide a guarantee is implied by the publication of these scheme rules. The guarantor reserves the right to amend the scheme rules at any time.

## DESCRIPTION OF THE BOND GUARANTEE ARRANGEMENTS

*The following description of the Bond Guarantee consists of a summary of certain provisions of the Bond Guarantee and is subject to the detailed provisions thereof. The full form of the Original Bond Guarantee is set out below in "Form of the Original Bond Guarantee".*

*Definitions used in this section but not otherwise defined in this Offering Circular have the meanings given to them in the Bond Guarantee.*

The Bond Guarantee was entered into by the Guarantor and the Trustee in respect of the Original Bonds on 11th August, 2015 (the **Original Bond Guarantee**). On or prior to the Second Issue Closing Date, the Guarantor and the Trustee shall enter into a supplemental guarantee (the **Supplemental Bond Guarantee** and, together with the Original Bond Guarantee, the **Bond Guarantee**). Pursuant to the Supplemental Bond Guarantee, the Guarantor will agree to extend the benefit of the Original Bond Guarantee to cover the present and future payment obligations and liabilities of the Issuer which are or may become owing or payable in respect of the Second Issue Bonds and the documents to be entered into by the Issuer in respect thereof.

### **Guarantee**

The Bond Guarantee is an unconditional and irrevocable guarantee given by the Secretary of State for Communities and Local Government to the Guaranteed Creditors (being the Bondholders, the Couponholders and the Bond Trustee on behalf of itself and as trustee for the Bondholders and the Couponholders) in relation to the due and punctual performance by the Issuer of the Guaranteed Obligations.

### **Guaranteed Obligations**

Pursuant to the Bond Guarantee the Guarantor guarantees all Guaranteed Obligations. Guaranteed Obligations is defined to include all present and future payment obligations and liabilities of the Issuer which are, or may become, due, owing or payable to the Guaranteed Creditors under or in connection with the Bonds, the Coupons or the Trust Deed, together with all fees and expenses incurred by the Guaranteed Creditors payable by the Issuer under or in connection with the Bonds, the Coupons, the Trust Deed or the Bond Guarantee.

### **Demand and Payment**

Pursuant to the Trust Deed:

- (a) the Issuer shall, not later than 10:00 a.m. on the fifth Business Day prior to each Payment Date, give to the Trustee, the Paying Agent and the Guarantor a notice that (i) it has sufficient funds to make payment of all amounts due to Bondholders and Couponholders on the immediately following Payment Date or (ii) there will be a shortfall in respect of such amounts and the amount of any such shortfall (the latter being, a **Notice of Shortfall**); and
- (b) upon receipt of a Notice of Shortfall from the Issuer, the Trustee shall issue a Notice of Demand (as defined in the Bond Guarantee) to the Guarantor in accordance with the Bond Guarantee requiring the Guarantor to make payment (in an amount equal to the amount stated in the Notice of Shortfall) to or to the order of the Bond Trustee.

In accordance with clause 2.2 of the Original Bond Guarantee, the Guarantor shall, following Receipt by the Guarantor of a duly completed Notice of Demand, make payments in respect of Guaranteed Obligations on (i) the fourth Business Day following such Receipt or, if later, (ii) the date upon which such Guaranteed Obligation falls due for payment pursuant to the Bonds, the Coupons, the Trust Deed or the Bond Guarantee (or, if that is not a Business Day, the next succeeding Business Day).

## FORM OF THE ORIGINAL BOND GUARANTEE

*The following is a copy of the Original Bond Guarantee.*

**THIS GUARANTEE AND INDEMNITY** (this "**Deed**") is made as a deed on 11 August 2015.

### **PARTIES:**

1. **SECRETARY OF STATE FOR COMMUNITIES AND LOCAL GOVERNMENT** of 2 Marsham Street, London SW1P 4DF as guarantor (the "**Guarantor**"); and
2. **THE LAW DEBENTURE TRUST CORPORATION p.l.c.**, incorporated in England and Wales with company number 01675231 whose registered office is at Fifth Floor, 100 Wood Street, London EC2V 7EX as trustee for the Bondholders and the Couponholders (the "**Bond Trustee**").

### **1. DEFINITIONS AND INTERPRETATION**

#### **1.1 Definitions**

In this Deed:

"**Authorisation**" means any authorisation, consent, approval, resolution, licence, exemption, filing, notarisation or registration.

"**Bonds**" means the 2.893 per cent. Secured Bonds due 2043/2045 issued by the Issuer.

"**Bondholders**" has the meaning given to the term "Holders" in the Trust Deed as it applies in respect of the Bonds.

"**Business Day**" means a day (other than a Saturday or Sunday) on which banks are open for general business in London other than any Privilege Day notified by the Guarantor to the Bond Trustee at least 10 Business Days in advance.

"**Couponholders**" means the several persons who are for the time being holders of the Coupons.

"**Coupons**" means the bearer interest coupons appertaining to the Bonds in definitive form.

"**Costs and Expenses**" means costs, charges, losses, liabilities, expenses and other sums (including legal, accountants' and other professional fees) and any Taxes thereon.

"**Deed of Priority**" has the meaning given in the conditions of the Bonds.

"**Dissolution**" includes, in relation to any person, any corporate action, legal proceedings or other procedure or step taken in relation to:

- (a) the suspension of payments, a moratorium of any indebtedness, winding up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
- (b) any composition, compromise, assignment or arrangement with any of its creditors;
- (c) the appointment of any liquidator, receiver, administrative receiver, compulsory manager or other similar officer in respect of it or any of its assets; or



(d) the enforcement of any security interest over any of its assets,

or any analogous procedure or step taken in any jurisdiction.

**"Guaranteed Creditors"** means the Bondholders, the Couponholders and the Bond Trustee on behalf of itself and as trustee for the Bondholders and the Couponholders.

**"Guaranteed Obligations"** means all present and future payment obligations and liabilities of the Issuer (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) which are, or may become, due, owing or payable to the Guaranteed Creditors under the Bonds, the Coupons or the Trust Deed, together with all costs, charges, fees and expenses incurred by the Guaranteed Creditors which are, or may become, due, owing or payable by the Issuer under the Bonds, the Coupons, the Trust Deed or this Deed.

**"Issuer"** means Affordable Housing Finance PLC, a company incorporated under the laws of England and Wales with company number 08434613 and its registered office at 4th Floor, 107 Cannon Street, London EC4N 5AF.

**"Notice of Demand"** means a notice in the form set out in the Schedule.

**"Paying Agent"** has the meaning given to it in the Trust Deed as it applies in respect of the Bonds.

**"Paying Agency Agreement"** has the meaning given to it in the Trust Deed as it applies in respect of the Bonds.

**"Privilege Day"** means the Friday before and the Tuesday after the Spring Bank Holiday in England and Wales, and any other day designated from time to time (in whole or in part) as a privilege day (being an additional non-working day) for United Kingdom civil servants generally.

**"Receipt"** means:

- (a) actual delivery to the Guarantor at the address specified in the form of Notice of Demand in the Schedule (or such other address as the Guarantor may, from time to time, notify to the Bond Trustee); or
- (b) receipt by the Guarantor by email at the email address specified in the form of Notice of Demand in the Schedule (or such other email address as the Guarantor may, from time to time, notify to the Bond Trustee),

in each case, prior to 12:00 noon (London time) on a Business Day. Delivery or receipt by email (as the case may be) either on a day that is not a Business Day or after 12:00 noon (London time) shall be deemed to be Receipt on the next succeeding Business Day.

**"Tax"** includes any present or future tax, levy, import, duty or other charge or withholding of a similar nature (including any penalty or interest in connection with any failure to pay or delay in paying any of the same).

**"Trust Deed"** means the third supplemental trust deed dated 11 August 2015 between the Issuer and the Bond Trustee constituting the Bonds, supplemental to (inter alia) the trust deed dated 30 May 2014 between the Issuer and the Bond Trustee and, as supplemented from time to time.

## 1.2 Construction of particular terms

Unless a contrary intention appears, in this Deed:

- (a) a "**company**" includes any company, corporation or other body corporate, wherever and however incorporated or established;
- (b) "**this Deed**" or any other agreement or instrument is a reference to this Deed or other agreement or instrument as it may have been amended (in accordance with the Trust Deed), supplemented, replaced or novated from time to time and includes a reference to any document which amends, supplements, replaces, novates or is entered into, made or given pursuant to or in accordance with any of the terms of this Deed or, as the case may be, the relevant deed, agreement or instrument;
- (c) "**indebtedness**" includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
- (d) "**law**" includes any present or future common or customary law, principles of equity and any constitution, decree, judgment, decision, legislation, statute, order, ordinance, regulation, bye-law or other legislative measure in any jurisdiction or any present or future official directive, regulation, guideline, request, rule, code of practice, treaty or requirement (in each case, whether or not having the force of law but, if not having the force of law, the compliance with which is in accordance with the general practice of a person to whom the directive, regulation, guideline, request, rule, code of practice, treaty or requirement is intended to apply) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (e) a "**person**" includes any person, firm, company, government, state or agency of a state, any local or municipal authority, trust or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;
- (f) "**rights**" includes all rights, title, benefits, powers, privileges, interests, claims, authorities, discretions, remedies, liberties, easements, quasi-easements and appurtenances (in each case, of every kind, present, future and contingent); and
- (g) "**security**" includes any mortgage, charge, pledge, lien, security assignment, hypothecation or trust arrangement for the purpose of providing security and any other encumbrance or security interest of any kind having the effect of securing any obligation of any person (including the deposit of moneys or property with a person with the intention of affording such person a right of lien, set-off, combination or counter-claim) and any other agreement or any other type of arrangement having a similar effect (including any "flawed-asset" or "hold back" arrangement) and "**security interest**" shall be construed accordingly.

### 1.3 Interpretation of this Deed

- (a) Unless a contrary indication appears, a reference to any party or person shall be construed as including its and any subsequent successors-in-title, permitted transferees and permitted assigns, in each case in accordance with their respective interests.
- (b) The terms "include", "includes" and "including" shall be construed without limitation.
- (c) References in this Deed to any Clause shall be to a clause contained in this Deed.
- (d) Clause headings are for ease of reference only and shall be ignored in construing this Deed.
- (e) Unless a contrary indication appears, references to any provision of any law are to be construed as referring to that provision as it may have been, or may from time to time be, amended or re-enacted, and as referring to all bye laws, instruments, orders, decrees,

ordinances and regulations for the time being made under or deriving validity from that provision.

#### **1.4 Third party rights**

The parties do not intend that any term of this Deed should be enforceable by virtue of the Contracts (Rights of Third Parties) Act 1999 by any person who is not a party to this Deed.

#### **1.5 Acknowledgement**

The Guarantor acknowledges having received a copy of the Trust Deed.

### **2. GUARANTEE**

#### **2.1 Guarantee**

The Guarantor unconditionally and irrevocably guarantees to the Guaranteed Creditors the due and punctual performance by the Issuer of the Guaranteed Obligations.

#### **2.2 Covenant to pay**

The Guarantor undertakes with each Guaranteed Creditor that whenever the Issuer does not pay any Guaranteed Obligation when due, the Guarantor shall, following Receipt by the Guarantor of a duly completed Notice of Demand, unconditionally pay that Guaranteed Obligation to the Guaranteed Creditors by 4.00pm (London time) on (i) the fourth Business Day following such Receipt or, if later, (ii) the date upon which such Guaranteed Obligation falls due for payment pursuant to the Bonds, the Coupons, the Trust Deed or this Deed (or, if that is not a Business Day, the next succeeding Business Day).

### **3. INDEMNITY**

The Guarantor agrees as an independent and primary obligation to indemnify and keep indemnified each Guaranteed Creditor for all losses, liabilities, Costs and Expenses incurred as a result of (i) the failure of the Issuer to perform or discharge any Guaranteed Obligation, and/or (ii) the unenforceability, invalidity or illegality of any Guaranteed Obligation. The amount payable by the Guarantor under this indemnity will not exceed the amount it would have had to pay under Clause 2 (*Guarantee*) above if the amount claimed had been recoverable on the basis of a valid guarantee.

### **4. CONTINUING GUARANTEE AND INDEMNITY**

This Deed and the obligations of the Guarantor under this Deed are continuing and extend to the ultimate balance of the Guaranteed Obligations from time to time regardless of any intermediate payment, discharge or satisfaction in whole or in part.

### **5. OTHER GUARANTEES AND SECURITY**

This Deed and the obligations of the Guarantor under this Deed are in addition to, and independent of, any other guarantee or security which may be held by any Guaranteed Creditor at any time in respect of the Guaranteed Obligations.

### **6. PRESERVATION OF RIGHTS**

Without prejudice to any other provision of this Deed, none of the Guarantor's obligations under this Deed, nor the liability of the Issuer or any other person for the Guaranteed Obligations, shall be

prejudiced, reduced, released or otherwise adversely affected by any act, omission or fact or any other thing which, but for this Clause 6, would or may do so, including:

- (a) any time, waiver or consent granted, or any other indulgence or concession granted to the Issuer or any other person;
- (b) the release of the Issuer or any other person under the terms of any composition or arrangement with any creditor;
- (c) the taking, holding, variation, compromise, exchange, renewal, realisation or release by any person of any rights under or in connection with any guarantee, indemnity, security or any other document including any arrangement or compromise entered into by a Guaranteed Creditor with the Issuer or any other person;
- (d) the refusal or failure to take up, hold, perfect or enforce by any person of any rights under or in connection with any guarantee, indemnity, security or other document (including, any failure to comply with any formality or other requirement or any failure to realise the full value of any security);
- (e) the existence of any claim, set-off or other right which the Issuer or the Guarantor may have at any time against a Guaranteed Creditor or any other person;
- (f) the making or absence of any demand for payment or discharge of any of the Guaranteed Obligations;
- (g) any amalgamation, merger or reconstruction that may be effected by a Guaranteed Creditor or the Issuer with any other person, including any reconstruction by a Guaranteed Creditor or the Issuer involving the formation of a new company and the transfer of all or any of its assets to that company, or any sale or transfer of the whole or any part of the undertaking and assets of a Guaranteed Creditor or the Issuer to any other person;
- (h) any incapacity, lack of power, authority or legal personality of or Dissolution, insolvency or change in the members or status of the Issuer, the Guarantor or any other person;
- (i) any variation, amendment (in accordance with the Trust Deed), waiver, release, novation, supplement, extension or restatement or replacement of the Bonds or the Trust Deed or any other guarantee, indemnity, security or other document, in each case however fundamental and of whatsoever nature;
- (j) any change in the identity of a Guaranteed Creditor; or
- (k) any unenforceability, illegality or invalidity of any Guaranteed Obligation or any obligation of any person under the Bonds, the Coupons, the Trust Deed, this Deed or under any other guarantee, indemnity, security or other document.

## **7. DEFERRAL OF RIGHTS**

- (a) Until such time as the Guaranteed Obligations have been discharged in full, the Guarantor will not, unless directed otherwise by the Bond Trustee in writing, exercise any rights which it may have by reason of performance by it of its obligations under this Deed to:
  - (i) claim, rank, prove or vote as a creditor of the Issuer in competition with any Guaranteed Creditor; or

- (ii) exercise, receive, claim or have the benefit of any right of payment, guarantee, indemnity, contribution, subrogation or security from or on account of the Issuer (in whole or in part); or
  - (iii) exercise any right of set-off, combination or counter-claim or any right in relation to any “flawed-asset” or “hold back” arrangement as against any such party; and/or
  - (iv) take any step or bring legal or other proceedings to force the Issuer or any other person to perform any of the Guaranteed Obligations.
- (b) The Guarantor shall hold on trust for, and immediately pay or transfer to, the Bond Trustee an amount equal to any payment or benefit received by it pursuant to or contrary to sub-paragraph (a) above to the extent necessary to discharge the Guaranteed Obligations in full.
  - (c) If the Guarantor exercises any right of set-off, combination, counter-claim or any “flawed-asset” or “hold back” arrangement pursuant to or contrary to sub-paragraph (a)(iii) above, it will immediately pay or transfer to the Bond Trustee an amount equal to the amount set-off, combined, counterclaimed or subjected to any “flawed-asset” or “hold back” arrangement to the extent necessary to discharge the Guaranteed Obligations in full.
  - (d) The Guarantor agrees that where as a result of the enforcement of any other guarantee or security it has provided in favour of a creditor of the Issuer in respect of the Issuer’s indebtedness (including the issue of any bonds) it becomes a subrogated creditor of the Issuer, it shall exercise those rights against the Issuer only in accordance with the original creditor’s rights under the Deed of Priority.

## **8. PRINCIPAL DEBTOR**

The Guarantor agrees as an independent and primary obligation to pay on demand, immediately and unconditionally, any Guaranteed Obligation which is not recoverable from the Guarantor on the basis of the guarantee set out in Clause 2 (*Guarantee*). Any amount due under this Clause 8 will be recoverable from the Guarantor as though the obligation had been incurred by the Guarantor as sole or principal debtor, regardless of any unenforceability, invalidity or illegality of any Guaranteed Obligation.

## **9. IMMEDIATE RECOURSE**

The Guarantor waives any right it may have of first requiring the relevant Guaranteed Creditor to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Guarantor under this Deed. The waiver applies irrespective of any law or any provision of the Trust Deed or this Deed to the contrary.

## **10. NO SECURITY**

The Guarantor does not have and shall not take or receive the benefit of any security or any other surety in respect of its rights against the Issuer as a result of its entry into this Deed. If the Guarantor takes or receives the benefit of any security or any other surety in breach of this Clause 10, it shall hold such security or other surety on trust for the Guaranteed Creditors to the extent necessary to discharge the Guaranteed Obligations in full and shall, upon request by the Bond Trustee acting on behalf of each Guaranteed Creditor, transfer or assign such security or other surety to the Bond Trustee for the benefit of the Guaranteed Creditors as security for the Guaranteed Obligations.

**11. RELEASE**

**11.1 Release**

If the Bond Trustee is satisfied that all Guaranteed Obligations have been unconditionally and irrevocably paid or discharged in full then, subject to Clause 11.2 (*Reinstatement*) the Bond Trustee acting on behalf of each Guaranteed Creditor, shall, at the request and cost of the Guarantor, take all necessary action to release the Guarantor from its liabilities under this Deed.

**11.2 Reinstatement**

If the Bond Trustee reasonably considers, on the basis of independent legal advice, that any payment to, or guarantee or security provided to the Guaranteed Creditors is capable of being, or has been, avoided, reduced or invalidated by virtue of applicable law, notwithstanding any release or discharge of the Guaranteed Obligations, the liability of the Guarantor under this Deed shall continue as if such amounts had not been paid or as if such guarantee or security had not been provided.

**12. PAYMENTS FREE OF DEDUCTION**

All payments to be made to the Guaranteed Creditors under this Deed shall be made free and clear of and without deduction for or on account of Tax unless the Guarantor is required to make such payment subject to the deduction or withholding of Tax, in which case the sum payable by the Guarantor shall be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the person on account of whose liability to Tax such deductions or withholding has been made receives and retains (free from any liability in respect of any such deduction or withholding) a net sum equal to the sum which it would have received and so retained had no such deduction or withholding been made or required to be made.

**13. DEFAULT INTEREST**

If the Guarantor fails to pay any sum payable by it pursuant to this Deed on its due date, interest shall accrue on the overdue amount from the due date until the date of actual payment (both before and after judgment) calculated on a daily basis at the rate determined in accordance with the Trust Deed for payment of overdue sums.

**14. DEMAND AND PAYMENT**

Notwithstanding anything to the contrary in this Deed but subject as follows, any demand for payment under this Deed shall be made by the Bond Trustee by delivery of a Notice of Demand.

The Guarantor shall make payment, in respect of a valid demand by the Bond Trustee on behalf of itself and any other Guaranteed Creditor under this Deed, to or to the order of the Bond Trustee (which may include payment directly to the Paying Agent to be applied in accordance with the Paying Agency Agreement). Every such payment shall be deemed, for the purposes of this Deed, to be payment to the relevant Guaranteed Creditor, and such payment shall constitute a complete discharge by the Guarantor of its liability under this Deed in respect of the relevant demand by or on behalf of that Guaranteed Creditor.

To the extent not otherwise paid directly to the Paying Agent to be applied in accordance with the Paying Agency Agreement, the Bond Trustee shall (subject to Clause 15 (Suspense Account) below) apply all monies received from the Guarantor under this Deed in satisfaction of the relevant Guaranteed Obligations, subject to and in accordance with any applicable terms of the Trust Deed.

No Bondholder or Couponholder shall be entitled to make a claim under this Deed unless the Bond Trustee having become bound as aforesaid to deliver a Notice of Demand in respect thereof fails or neglects to do so within a reasonable period and such failure is continuing.

## **15. SUSPENSE ACCOUNT**

The Bond Trustee may place and retain on a suspense account, for as long as it considers fit, any moneys received, recovered or realised under or in connection with this Deed to the extent of the Guaranteed Obligations, without any obligation on the part of the Bond Trustee to apply such moneys in or towards the discharge of such Guaranteed Obligations.

## **16. CURRENCY**

### **16.1 Currency indemnity**

- (a) If, under any applicable law, whether pursuant to a judgment against the Issuer or the Guarantor or the Dissolution of the Issuer or for any other reason, any payment under or in connection with this Deed is made or falls to be satisfied in a currency (the "**Other Currency**") other than the currency in which the relevant payment is expressed to be payable (the "**Required Currency**"), then, to the extent that the payment actually received by any Guaranteed Creditor (when converted into the Required Currency at the rate of exchange on the date of payment or, if it is not practicable to make the conversion on that date, at the rate of exchange as soon afterwards as it is practicable for the Bond Trustee acting on behalf of the Relevant Guaranteed Creditor to do so or, in the case of a Dissolution, at the rate of exchange on the latest date permitted by applicable law for the determination of liabilities in such Dissolution) falls short of the amount expressed to be due or payable under or in connection with this Deed, the Guarantor shall, as an original and independent obligation under this Deed, indemnify and hold the relevant Guaranteed Creditor harmless against the amount of such shortfall.
- (b) The Guarantor waives any right it may have in any jurisdiction to pay any amount under or in connection with this Deed in a currency or currency unit other than that in which it is expressed to be payable.

### **16.2 Rate of exchange**

For the purpose of Clause 16.1 (*Currency indemnity*), "**rate of exchange**" means the rate at which the Bond Trustees acting on behalf of the Guaranteed Creditors is able on the relevant date to purchase the Required Currency with the Other Currency and shall take into account any commission, premium and other costs of exchange and Taxes payable in connection with such purchase.

## **17. SET-OFF**

### **17.1 No set-off by Guarantor**

All payments to be made by the Guarantor under this Deed shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

### **17.2 Set-off by the Guaranteed Creditors**

Any Guaranteed Creditor may (but shall not be obliged to) set off against any obligation of the Guarantor due and payable to or for the account of the relevant Guaranteed Creditor under this Deed, any moneys in any currency held by the Guaranteed Creditors for the account of the Guarantor at any office of the relevant Guaranteed Creditor anywhere (or otherwise owed to the Guarantor),

whether or not matured. If any such obligation is unliquidated or unascertained, the relevant Guaranteed Creditor may set off in an amount estimated by it in good faith to be the amount of that obligation. The relevant Guaranteed Creditor may effect such currency exchanges as are appropriate to implement the set-off and any usual charges and all applicable Taxes in relation to such currency exchanges shall be subject to the indemnity in Clause 3 (*Indemnity*).

**18. CERTIFICATES AND DETERMINATION**

For all purposes, including any legal proceedings, a determination by the Bond Trustee or a copy of a certificate signed by an officer of the Bond Trustee, of the amount of any indebtedness comprised in the Guaranteed Obligations or standing to the credit of any account for the time being or at any time shall, in the absence of manifest error, be conclusive evidence against the Guarantor as to such amount.

**19. NON CREATION OF CHARGE**

No provision of this Deed is intended to create or shall create a charge or other security.

**20. TRUSTS**

If any trust intended to arise pursuant to any provision of this Deed fails or for any reason (including the laws of any jurisdiction in which any assets, moneys, payments or distributions may be situated) cannot be given effect to, the Guarantor will pay to the Bond Trustee for application in accordance with Clause 14 (*Demand and Payment*) an amount equal to the amount intended to be so held on trust for the relevant Guaranteed Creditor.

**21. NOTICES**

**21.1 Communications in writing**

Any communication to be made under or in connection with this Deed (other than a communication made pursuant to Clause 2.2 (*Covenant to pay*)) shall be in writing and, unless otherwise stated or agreed between the parties, must be made by hand delivery, registered letter or facsimile.

**21.2 Addresses**

The address (and the department for whose attention the communication is to be made) of each party to this Deed for any communication or document to be made or delivered under or in connection with this Deed (other than a communication or document made or delivered pursuant to Clause 2.2 (*Covenant to pay*)) is that identified below or any substitute address or department as the party may notify to the other party by not less than five Business Days' notice.

For the Bond Trustee on behalf of itself and the Bondholders	Attention: The Manager, Commercial Trusts: Ref 201338 Fifth Floor, 100 Wood Street, London EC2V 7EX Facsimile No.: +44 20 7606 0643
For the Guarantor	Attention: Finance, DCLG, 2 Marsham Street, London SW1P 4DF Telephone no.: +44 303 444 2196 (Jacinda Humphry)



### **21.3 Delivery**

Any communication or document made or delivered by one person to another under or in connection with this Deed will only be effective:

- (i) if by way of fax, when received in legible form; or
- (ii) if by way of letter, when it has been left at the relevant address or five Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address, and, if a particular department officer is specified as part of its address details provided under Clause 21.2 (*Addresses*), if addressed to that department,

and, if a particular department or officer is specified as part of its address details provided under Clause 21.2 (*Addresses*), if addressed to that department or officer.

## **22. ASSIGNMENT**

### **22.1 Assignment by the Bond Trustee**

The Bond Trustee may at any time, without the consent of the Guarantor, assign or transfer any of its rights and obligations under this Deed to any person to whom its rights and obligations under the Trust Deed may be assigned or transferred.

### **22.2 Assignment by the Guarantor**

- (a) Subject to Clause 22.2(b), the Guarantor shall not assign or transfer, or attempt to assign or transfer, any of its rights or obligations under this Deed without the prior written consent of the Bond Trustee.
- (b) Any reference in this Deed to the Secretary of State for Communities and Local Government shall be deemed to include a reference to any legal successor to the Secretary of State for Communities and Local Government. Nothing in this Deed shall prevent the assignment, or transfer or other disposal of all (but not part) of the rights and/or obligations of the Secretary of State for Communities and Local Government to another Secretary of State acting for and on behalf of the Government of the United Kingdom of Great Britain and Northern Ireland or another body (whether incorporated or unincorporated) whose liabilities are direct sovereign obligations of the Crown, and the Guaranteed Creditors hereby give their prior consent to any such assignment, transfer or other disposal of such rights and/or obligations, in each case provided that no such assignment, transfer or other disposal shall have effect unless the claims of the Guaranteed Creditors under this Deed continue to be on the Crown of the United Kingdom of Great Britain and Northern Ireland. Any such assignment, transfer or other disposal shall be notified forthwith by the Secretary of State for Communities and Local Government (or any previous successor as Guarantor under this Deed) to the Bond Trustee.

## **23. REMEDIES AND WAIVERS**

No delay or omission on the part of the Bond Trustee or any other Guaranteed Creditor in exercising any right provided by law or under this Deed shall impair, affect or operate as a waiver of that or any other right. The single or partial exercise by the Bond Trustee or any other Guaranteed Creditor of any right shall not preclude or prejudice any other or further exercise of that, or the exercise of any other, right. The rights of the Guaranteed Creditors under this Deed are in addition to and do not affect any other rights available to them by law.

**24. PARTIAL INVALIDITY**

- (a) If at any time any provision of this Deed is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither:
- (i) the legality, validity or enforceability of the remaining provisions under the law of that jurisdiction or any other jurisdiction; nor
  - (ii) the legality, validity or enforceability of such provision under the law of any other jurisdiction,
- will in any way be affected or impaired.
- (b) The parties shall enter into good faith negotiations, but without any liability whatsoever in the event of no agreement being reached, to replace any illegal, invalid or unenforceable provision with a view to obtaining the same commercial effect as this Deed would have had if such provision had been legal, valid and enforceable.

**25. EXECUTION AS A DEED**

Each of the parties intends this Deed to be a deed and confirms that it is executed and delivered as a deed, notwithstanding the fact that any one or more of the parties may only execute it under hand.

**26. COUNTERPARTS**

This Deed may be executed in any number of counterparts, and by the parties to this Deed on separate counterparts, but will not be effective until each such party has executed at least one counterpart. Each counterpart shall constitute an original of this Deed, but all the counterparts will together constitute one and the same instrument.

**27. JURISDICTION**

- (a) The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this Deed (including a dispute regarding the existence, validity or termination of this Deed) (a "**Dispute**").
- (b) The parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes and accordingly no party will argue to the contrary.

**28. GOVERNING LAW**

This Deed is governed by and is to be construed in accordance with English law. Any matter, claim or dispute arising out of or in connection with this Deed, whether contractual or non-contractual, is to be governed by and construed in accordance with English law.

**IN WITNESS** of which this document has been signed by the Bond Trustee and executed as a deed by the Guarantor and is delivered on the date stated at the beginning of this Deed.

**EXECUTION AS A DEED**

**Guarantor**

Executed as a deed by )

**THE SECRETARY OF STATE FOR )  
COMMUNITIES AND LOCAL GOVERNMENT )**

The Corporate Seal of the Secretary of State for )  
Communities and Local Government hereunto )  
affixed is authenticated by: )

Signature: .....

Name (print): .....

A senior official in the Department for Communities and Local Government

**Bond Trustee**

Executed by )  
**THE LAW DEBENTURE TRUST )**  
**CORPORATION p.l.c. )**  
acting by its duly authorised signatories )

Signature: .....

Name (print): .....

Title: .....

Signature: .....

Name (print): .....

Title: .....

## SCHEDULE

### FORM OF NOTICE OF DEMAND

To: The Secretary of State for Communities and Local Government

Attention: Finance, DCLG  
2 Marsham Street, London SW1P 4DF<sup>2</sup>

#### Deed of Guarantee and Indemnity dated 11 August 2015 – Notice of Demand

1. We refer to the Deed of Guarantee and Indemnity dated 11 August 2015 (the "**Deed**") executed by the Secretary of State for Communities and Local Government (the "**Guarantor**") in favour of The Law Debenture Trust Corporation p.l.c. (the "**Bond Trustee**") in respect of the liabilities of Affordable Housing Finance Plc (the "**Issuer**") under, *inter alia*, the Third Supplemental Trust Deed dated 11 August 2015 between the Issuer and the Bond Trustee (the "**Trust Deed**").
2. Unless the context otherwise requires, capitalised terms used in this Notice of Demand and not defined herein shall have the meanings provided in the Deed.
3. The undersigned, duly authorised officers of the Bond Trustee, hereby certify to the Guarantor that:
  - (a) the Bond Trustee is the trustee under the Trust Deed;
  - (b) the [Bond Trustee understands that the Issuer will fail] [Issuer has failed] to pay [*description of Guaranteed Obligation*] and that the deficiency in respect of such Guaranteed Obligation which [will be/are/were] due for payment on [*insert due date*] (the "**Affected Guaranteed Obligations**") [will be/was/is] [*insert applicable currency and amount*] (the "**Shortfall**");
  - (c) the Bond Trustee is making a claim under the Deed for the Shortfall to be applied to the payment of the Guaranteed Obligations which are due for payment;
  - (d) the Bond Trustee agrees that, following payment of funds by the Guarantor, it shall procure (i) that such amounts are applied directly to the payment of Guaranteed Obligations which are due for payment; and (ii) that such funds are not applied for any other purpose; and
  - (e) payment in satisfaction of the Guaranteed Obligations should be made by the Guarantor in sterling by credit to an account in the name of [the Bond Trustee with [*insert account details*]] [the Principal Paying Agent with [*insert account details*]].
4. The Bond Trustee acknowledges, subject to Clause 7 of the Deed, that effective as of the date on which the Shortfall is credited to such account, the Guarantor shall, to the extent of such payment, be fully and automatically subrogated pursuant to applicable law to all of the Guaranteed Creditors' rights to payment of any amounts payable in respect of such Shortfall (including, without limitation (i) any rights and benefits attached to, and any security conferred or granted by law, contract or otherwise in respect of, the Affected Guaranteed Obligations and (ii) any default interest on any of the Affected Guaranteed Obligations accrued pursuant to the Trust Deed after the date of payment by the Guarantor).
5. This Notice of Demand may be revoked by written notice by the Bond Trustee to the Guarantor at anytime prior to the date specified in paragraph 3(b) above on which Guaranteed Obligations are due

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<sup>2</sup> Or such other address or email address as the Guarantor may from time to time notify to the Bond Trustee.

for payment to the extent that moneys are actually received in respect of the Guaranteed Obligations prior to such date from a source other than the Guarantor.

6. In the event of any enquiries in relation to this Notice of Demand, the Guarantor may contact [●] at the Bond Trustee at [*insert telephone number*].
7. This Notice of Demand and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

**IN WITNESS WHEREOF** the Bond Trustee has executed and delivered this Notice of Demand on [●] 20[●].

**THE LAW DEBENTURE TRUST CORPORATION p.l.c.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## INVESTMENT CONSIDERATIONS

*The following is a summary of certain aspects of the Second Issue Bonds about which prospective Bondholders should be aware.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Second Issue Bonds, but the inability of the Issuer or the Guarantor to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

*This section is not intended to be exhaustive and prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. Further, any prospective Bondholder should take its own legal, financial, accounting, tax and other relevant advice as to the viability of its investment.*

### **Special Purpose Vehicle Issuer**

The Issuer is a special purpose finance entity with no business operations other than the incurrence of financial indebtedness, including the issuance of the Bonds. As such the Issuer is entirely dependent upon receipt of funds from the Approved Borrowers under the Loan Agreements, and the Guarantor under the Loan Guarantees, in order to fulfil its obligations under the Bonds. To the extent the Issuer has insufficient funds to pay interest and principal under the Bonds, the Trustee (on behalf of the Bondholders and the Couponholders) will have recourse to the Guarantor pursuant to the Bond Guarantee.

### **Credit Support**

As a result of the Bond Guarantee, the Bondholders' receipt of interest and principal payments under the Bonds does not depend on the Issuer receiving amounts from the Approved Borrowers under the Loan Agreements or from the Guarantor under the Loan Guarantees. To the extent the Issuer has insufficient funds to pay interest and principal under the Bonds, the Trustee (on behalf of the Bondholders and Couponholders) will have recourse to the Guarantor pursuant to the Bond Guarantee. In deciding to purchase the Second Issue Bonds, Bondholders will ultimately be relying on their assessment of the Bond Guarantee and the creditworthiness of the Guarantor. The rating of the Bonds is linked directly to that of the Guarantor.

### **Credit Rating**

Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value; therefore, credit ratings may not fully reflect the true risks of an investment. Also, rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agencies.

The rating of the Bonds is based on the Bond Guarantee and the Guarantor. Pursuant to the Bond Guarantee, the Guarantor guarantees payments of principal and interest under the Bonds (the **Guaranteed Amounts**). The payment of the Guaranteed Amounts will, therefore, depend upon the Guarantor performing its obligations under the Bond Guarantee to the extent that the Issuer has defaulted in making payments of principal and interest under the Bonds. The likelihood of payment of the Guaranteed Amounts in these circumstances will depend upon the creditworthiness of the Guarantor. Consequently, investors are relying on the creditworthiness of the Guarantor to perform its obligations under the Bond Guarantee. Any event

that would hinder the Guarantor's ability to guarantee the Bonds would adversely affect the likelihood of investors receiving payments of principal and interest on the Bonds and could result in a withdrawal or downgrade of the ratings of the Bonds.

### **Control by the Guarantor**

Although the Bond Guarantee mitigates the credit risks to which potential investors in the Bonds would otherwise be exposed, involvement of the Guarantor will have certain consequences. In particular, in relation to any matter, provided that no Guarantor Trigger Event has occurred, the Guarantor shall have the right to direct the Trustee in respect of all matters relating to the Conditions and the Trust Deed (other than a Bondholder Entrenched Right).

In addition, provided that no Guarantor Trigger Event has occurred, the Trustee shall, without the consent of Bondholders or the Couponholders, if so directed by the Guarantor, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed (provided that the subject matter is not a Bondholder Entrenched Right) in the circumstances and subject to the conditions described in Condition 15. The Trustee will incur no liability to any person for so doing.

### **Sovereign risks and state aid**

Transactions entered into with sovereigns or other emanations of the state (a **Relevant State Entity**) can be exposed to certain risks, including in relation to sovereign immunity and procurement and competition law. In the context of the provision of a guarantee by a Relevant State Entity, the risks include that a guarantee constitutes unlawful state aid.

The Guarantor has submitted to the jurisdiction of the English Courts in relation to any dispute arising out of or in connection with the provision of any Loan Guarantee and the Bond Guarantee (together the **Guarantees**).

The Issuer believes that the Guarantees may constitute aid but that such aid is compatible aid (permitted) as the Guarantees are provided in relation to funding for affordable housing, which is a Service of General Economic Interest. The Issuer is not aware of any challenge on the basis of state aid in relation to the Affordable Housing Guarantee Scheme.

### **Limited Liquidity**

There can be no assurance that a market in the Bonds will develop or, if it does, that it will provide Bondholders with liquidity of investment or that it will continue for the life of the Bonds. The Managers are not obliged to make a market in the Bonds and, if any Manager does, any such market-making may be discontinued at any time without notice. Consequently, a purchaser must be prepared to hold the Bonds for an indefinite period of time or until the Legal Maturity Date. Application has been made to admit the Second Issue Bonds to trading on the London Stock Exchange. No application has been made to list the Bonds on any other stock exchange.

### **Taxation – No Gross Up**

The Issuer will not be obliged to pay any additional amounts to Bondholders to reimburse them for any tax, assessment or charge required to be withheld or deducted from payments in respect of the Bonds 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 Bondholders under the terms of the Bonds.

## **Changes of Law**

The structure of the Bonds and the rating by S&P are based on English law in effect as at the date of this Offering Circular. The Issuer cannot provide assurance as to the impact of any possible change to English law (including any change in regulation which may occur without a change in primary legislation), tax treatment or administrative practice in the United Kingdom after the date of this Offering Circular nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer or the Guarantor to make payments under the Bonds.

## **Modification, Waivers and Substitution**

The Conditions and the Trust Deed contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

Following the occurrence of a Guarantor Trigger Event, the Trustee may, without the consent of the Bondholders (but subject to confirmation from the Rating Agency (as defined in the Conditions) that its then current rating of the Bonds would not be adversely affected), (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed or determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders) or (ii) agree to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest or proven error.

## **Denominations involving Integral Multiples: Definitive Bonds**

The Bonds have denominations consisting of a minimum Specified Denomination (as defined in the Conditions) of £100,000 plus one or more higher integral multiples of £1,000. It is possible that such Bonds may be traded in amounts 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 his account with the relevant clearing system at the relevant time may not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that its holding amounts to a Specified Denomination.

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

## **Redemption prior to maturity**

In the event that the Bonds become redeemable prior to maturity in circumstances where they are to be redeemed at par and that is less than the Redemption Price (as defined in Condition 8.2), it may not be possible for an investor to reinvest the redemption proceeds at an effective yield as high as the yield on the Bonds. Condition 8.2 provides for redemption at par in the case of an Illegality Redemption or a Tax Redemption and Condition 11 provides for redemption at par following an Event of Default.

## **Exchange rate risks and exchange controls**

The Issuer will pay principal and interest on the Bonds in Sterling (the **Issuer's Currency**). 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 the Issuer's Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Issuer's Currency 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. Any appreciation in the value of the Investor's Currency relative to the Issuer's Currency would decrease (i) the Investor's Currency-equivalent



yield on the Bonds, (ii) the Investor's Currency equivalent value of the principal payable on the Bonds and (iii) the Investor's Currency equivalent market value of the Bonds.

## CONDITIONS OF THE SECOND ISSUE BONDS

*The following is the text of the Conditions of the Second Issue Bonds which (subject to modification) will be endorsed on each Second Issue Bond in definitive form (if issued).*

The £194,000,000 2.893 per cent. Guaranteed Secured Bonds due 2043/2045 (the **Second Issue Bonds** and, together with the Original Bonds (as defined below), the **Bonds**, which expression shall in these Conditions, unless the context otherwise requires, include any Fungible Bonds issued pursuant to Condition 17), including the Second Issue Retained Bonds (as defined below), of Affordable Housing Finance Plc (the **Issuer**) are constituted and secured by a fourth supplemental trust deed dated 16th March, 2016 (the **Fourth Supplemental Trust Deed**) made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include its successor(s)) as trustee for the holders of the Bonds (the **Bondholders**) and the holders of the interest coupons appertaining to the Bonds (the **Couponholders** and the **Coupons** respectively, which expressions shall, unless the context otherwise requires, include the talons for further interest coupons (the **Talons**) and the holders of the Talons). The Fourth Supplemental Trust Deed is supplemental to the trust deed dated 30th May, 2014 (the **Principal Trust Deed**) made between the same parties and the third supplemental trust deed dated 11th August, 2015 (the **Third Supplemental Trust Deed** and, together with the Principal Trust Deed and the Fourth Supplemental Trust Deed, the **Trust Deed**) made between the same parties and constituting the £208,000,000 2.893 per cent. Guaranteed Secured Bonds due 2043/2045 (the **Original Bonds**) issued by the Issuer on 11th August, 2015 (the **Original Closing Date**).

The Second Issue Bonds are consolidated and form a single series, and rank *pari passu*, with the Original Bonds.

The Bonds are unconditionally and irrevocably guaranteed as to payments of principal and interest, pursuant to a deed of guarantee dated 11th August, 2015, as supplemented by a supplemental guarantee dated 16th March, 2016, (together, the **Bond Guarantee**) entered into by the Secretary of State for Communities and Local Government (the **Guarantor**) and the Trustee in accordance with the Guarantor's Affordable Housing Guarantee Scheme.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed, the Bond Guarantee, the paying agency agreement dated 11th August, 2015, as supplemented by a first supplemental paying agency agreement dated 16th March, 2016, (together, the **Paying Agency Agreement**) made between the Issuer, the initial Paying Agent and the Trustee, the custody agreement dated 11th August, 2015 (the **Custody Agreement**) made between the Issuer and Deutsche Bank AG, London Branch (the **Custodian**), the deed of priority dated 4th February, 2014 made between, *inter alios*, the Issuer and the European Investment Bank (the **Deed of Priority**) and the deeds of accession dated 11th August, 2015 and 16th March, 2016 executed by the Issuer and the Trustee (the **Deeds of Accession**) are available for inspection upon reasonable notice during normal business hours by the Bondholders and the Couponholders at the registered office for the time being of the Issuer. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Bond Guarantee, the Paying Agency Agreement, the Custody Agreement, the Deed of Priority and the Deeds of Accession applicable to them.

### 1. DEFINITIONS

For the purposes of these Conditions:

**Administrator** means T.H.F.C. (Services) Limited and/or any successor or replacement administrator under the Management Services Agreement;

**Affordable Housing Guarantee Scheme** means the guarantee scheme for affordable housing as set out in the scheme rules published by the Guarantor, as amended from time to time;

**Approved Borrower** has the meaning given in the Licence;

**Available Receipts** means all amounts from time to time received, and available for distribution, in relation to the Bonds by the Issuer, the Trustee or any receiver appointed by the Issuer or the Trustee;

**Bondholder Entrenched Rights** means the right to vote on any proposal:

- (a) to change any date fixed for payment of principal, interest, Redemption Price or other amounts in respect of the Bonds or the Coupons, to reduce the amount of principal, interest or Redemption Price payable on any date in respect of the Bonds or the Coupons, to alter the method of calculating the amount of any payment in respect of the Bonds or the Coupons or the date for any such payment;
- (b) to effect any exchange of the Bonds for, or the conversion of the Bonds into, shares, bonds or other obligations of the Issuer, the Guarantor or any other person or to approve the substitution of any person for the Issuer as principal obligor under the Bonds and the Coupons or the substitution of any person for Guarantor as guarantor under the Bond Guarantee;
- (c) to change the currency of payments under the Bonds or the Coupons;
- (d) to modify any provision of the Bond Guarantee in a way which, in the opinion of the Trustee, is materially prejudicial to the interests of the Bondholders, the Couponholders and/or the Trustee (in its capacity as beneficiary of the Bond Guarantee);
- (e) to approve the substitution of any person for the Guarantor (or any previous substitute) as guarantor of the Bonds and the Coupons (other than as permitted by the Bond Guarantee);
- (f) to change the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution;
- (g) to release the security granted by the Issuer pursuant to these Conditions and the Trust Deed or to agree any amendment to the Deed of Priority;
- (h) to amend the definition of "Guarantor Trigger Event" or the use thereof in these Conditions or the Trust Deed;
- (i) to approve any amendment which would result in a change or elimination of the rights of the Bondholders or Couponholders to receive any payment not contemplated by the original terms of the Bonds (save as results from procedural and/or administrative changes which are not material and arise in the ordinary course of administration of the Bonds); or
- (j) to amend this definition or the use thereof in these Conditions and the Trust Deed;

**Business Day** means any day (other than a Saturday or a Sunday) on which banks are open for business in London;

**Day Count Fraction** means, in respect of any period less than a full Payment Period, (a) the actual number of days in the relevant period divided by (b) the actual number of days in the Payment Period in which the relevant period falls multiplied by two;

**Default Redemption** means a redemption pursuant to Condition 8.2 following the occurrence of a Loan Default Event under one or more Loan Agreements;

**Enforcement Priority of Payments** has the meaning given in Condition 5.3;

**Event of Default** has the meaning given in Condition 11;

**Expected Maturity Date** means 11th August, 2043;

**Fungible Bonds** has the meaning given in Condition 17;

**Further Bonds** has the meaning given in Condition 17;

**Guaranteed Obligations** has the meaning given to it in the Bond Guarantee;

**Guarantor Trigger Event** means (a) the Issuer fails to pay any Guaranteed Obligation on the due date thereof and such Guaranteed Obligation is not paid by the Guarantor on the date stipulated in the Bond Guarantee; (b) the Guarantor disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the Bond Guarantee or seeks to do so; or (c) the Bond Guarantee ceases to be in full force and effect other than in circumstances where it has been replaced by a guarantee from another guarantor on terms previously approved in writing by the Trustee or by an Extraordinary Resolution;

**Illegality Redemption** means a redemption pursuant to Condition 8.2 following the occurrence of a Loan Illegality Event under one or more Loan Agreements;

**Issuer Expenses** means amounts due and payable by the Issuer (i) in respect of fees and expenses (including indemnities) to the Trustee under the Trust Deed, (ii) to the Paying Agent under the Paying Agency Agreement, (iii) to the Custodian under the Custody Agreement, (iv) to the independent accountants, agents and counsel of the Issuer for fees and expenses (including amounts payable in connection with the preparation of tax forms on behalf of the Issuer and any registered office fees), (v) to any other person in respect of any governmental fee, charge or tax, (vi) to the Managers in respect of any amounts payable in respect of indemnities under the Subscription Agreement, (vii) to the Rating Agency (in respect of fees and expenses in connection with the ratings of the Bonds, including the annual fees payable to the Rating Agency for monitoring such rating), (viii) to the UK Listing Authority and the London Stock Exchange in respect of the listing of the Bonds, (ix) to the Administrator under the Management Services Agreement and (x) to any other person in respect of any other fees or expenses (including indemnities) permitted under the Trust Deed and the documents delivered pursuant to or in connection with the Trust Deed and the Bonds;

**Legal Maturity Date** means 11th August, 2045;

**Liabilities** has the meaning given to it in the Trust Deed;

**Licence** means the licence dated 19th June, 2013 (as amended and restated on 4th November, 2014 and as further amended and/or restated from time to time) made between the Guarantor and the Issuer pursuant to which the Guarantor granted the Issuer a licence for the management and delivery of the Affordable Housing Guarantee Scheme;

**Loan** has the meaning given in the Licence;

**Loan Agreement** means a loan agreement entered into between the Issuer and an Approved Borrower pursuant to which the Issuer advances a portion of the issue proceeds of the Bonds (or, in the case of the Retained Bonds, the proceeds of sale to a third party, with the exception of a sum equivalent to the relevant number of days' accrued interest) for application by such Approved Borrower in accordance with the rules of the Affordable Housing Guarantee Scheme;

**Loan Default Event** means an Approved Borrower has become obliged to repay its Loan in full, in accordance with the terms of its Loan Agreement, as a result of an event of default (howsoever defined) thereunder;

**Loan Guarantee** means each guarantee issued by the Guarantor in respect of the payment obligations of an Approved Borrower to the Issuer under its respective Loan Agreement;

**Loan Illegality Event** means an Approved Borrower has become obliged to repay its Loan in full, in accordance with the terms of its Loan Agreement, as a result of (a) its obligations thereunder becoming unlawful in any applicable jurisdiction or contrary to any request from or requirement of any fiscal, monetary or other authority with which it customary for the Approved Borrower to comply, (b) it becoming unlawful for the Issuer to perform any of its obligations thereunder or to fund the relevant Loan or to allow the relevant Loan to remain outstanding or (c) the Issuer having received notification from the Trustee that it is unlawful in any applicable jurisdiction for the Bonds to remain outstanding;

**Loan Tax Event** means an Approved Borrower has exercised its right to repay its Loan in full, in accordance with the terms of its Loan Agreement, as a result of it becoming obliged to pay to the Issuer additional amounts in respect of any deduction or withholding of tax or in respect of the Issuer becoming obliged to make any payment on account of tax;

**Loan Optional Repayment Event** means an Approved Borrower has exercised its right to repay all or part of its Loan, in accordance with the terms of its Loan Agreement, other than as a result of a Loan Tax Event;

**Management Services Agreement** means the management services agreement dated 19th June, 2013 made between the Issuer and the Administrator (as amended and/or supplemented and/or restated from time to time) and any replacement thereto made between the Issuer and a provider of management services in accordance with the terms of the Licence;

**Managers** means HSBC Bank plc, RBC Europe Limited and The Royal Bank of Scotland plc;

**New Bonds** has the meaning given in Condition 17;

**Optional Redemption** means a redemption pursuant to Condition 8.2 following the occurrence of a Loan Optional Repayment Event under one or more Loan Agreements;

**Original Retained Bonds** means £70,000,000 in principal amount of the Original Bonds purchased by the Issuer on the Original Closing Date;

**Pari Passu Borrowing** means any present or future borrowing of any nature (including any other securities and loans of any type) of the Issuer issued or entered into for the purpose of funding loan agreements entered into with Approved Borrowers;

**Paying Agent** means Deutsche Bank AG, London Branch, or any successor or replacement paying agent under the Paying Agency Agreement;

**Payment Date** means 11th February and 11th August of each year commencing on 11th August, 2016 up to, and including, the Legal Maturity Date. If any Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day;

**Payment Period** means each period beginning on (and including) a Payment Date and ending on (but excluding) the succeeding Payment Date;

**Pre-Enforcement Priority of Payments** has the meaning given in Condition 6.2;

**Presentation Date** means a day which (subject to Condition 10):

- (a) is or falls after the relevant due date;
- (b) is a day on which commercial banks and foreign exchange markets settle payments and are open for general business in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a Sterling account in London as referred to in Condition 7.2, is a Business Day;

**Rating Agency** means Standard & Poor's Credit Market Services Europe Limited (or any successor to its ratings business);

**Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 14;

**Relevant Jurisdiction** means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Bonds and Coupons;

**Retained Bonds** means the Original Retained Bonds, the Second Issue Retained Bonds and any Fungible Bonds immediately purchased by the Issuer on the issue date thereof;

**Second Issue Closing Date** means 16th March, 2016;

**Second Issue Retained Bonds** means £26,000,000 in principal amount of the Second Issue Bonds purchased by the Issuer on the Second Issue Closing Date;

**Specified Denomination** means £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000;

**Sterling** means the lawful currency for the time being of the United Kingdom;

**Subscription Agreement** means the subscription agreement dated 10th August, 2015 and the second issue subscription agreement dated 15th March, 2016, each made between the Issuer and the Managers;

**Tax Redemption** means a redemption pursuant to Condition 8.2 following the occurrence of a Loan Tax Event under one or more Loan Agreements; and

**Taxes** means present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of a Relevant Jurisdiction.

## **2. FORM, DENOMINATION AND TITLE**

### **2.1 Form and Denomination**

The Bonds are in bearer form, serially numbered, in the Specified Denomination(s) with Coupons and one Talon attached on issue. Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination.

### **2.2 Title**

Title to the Bonds and to the Coupons will pass by delivery.

### **2.3 Holder Absolute Owner**

The Issuer, the Guarantor, the Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Bond or Coupon as the absolute owner for all purposes (whether or not the Bond or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Bond or Coupon or any notice of previous loss or theft of the Bond or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

### **2.4 Retained Bonds**

- (a) The Original Retained Bonds and the Second Issue Retained Bonds have been, and other Retained Bonds may be, (in each case, together with the related Coupons and Talons) purchased by and held by or for the account of the Issuer and may be sold or otherwise disposed of in whole or in part by private treaty at any time, and shall cease to be Retained Bonds to the extent of and upon such sale or disposal.
- (b) Retained Bonds shall, pending sale or disposal by the Issuer, carry the same rights and be subject in all respects to the same Conditions as the other Bonds, except that the Retained Bonds will not be treated as outstanding for the purposes of determining quorum or voting at meetings of Bondholders or of considering the interests of the Bondholders save as otherwise provided in the Trust Deed. Bonds which have ceased to be Retained Bonds shall carry the same rights and be subject in all respects to the same Conditions as the other Bonds.

## **3. STATUS**

The Bonds and the Coupons are secured obligations of the Issuer and rank *pari passu* with any New Bonds (and the coupons relating thereto) and any other *Pari Passu* Borrowings and without any preference among themselves. The Bonds are secured by the security set out in Condition 5 but (upon enforcement) rank subordinate in priority in point of payment to any claims of, *inter alios*, the Trustee against the Issuer as set out in the Enforcement Priority of Payments in Condition 5.3.

## **4. BOND GUARANTEE**

### **4.1 Guarantee**

The payment of principal and interest in respect of the Bonds and all other moneys payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed by the Guarantor pursuant to the Bond Guarantee.

## 4.2 Subrogation of the Guarantor

The Bond Guarantee provides that the Guarantor shall defer any right of subrogation it may have against the Issuer in respect of amounts due in respect of the Bonds which have been paid by the Guarantor under the Bond Guarantee to those rights of the Trustee, the Bondholders and the Couponholders which have not yet been discharged in full.

## 5. SECURITY

### 5.1 Security

Pursuant to the Trust Deed, the obligations of the Issuer under, *inter alia*, the Bonds, the Coupons, the Trust Deed, the Paying Agency Agreement and the Custody Agreement are secured by a first floating charge on the whole of the Issuer's undertaking, property and assets, whatsoever and wheresoever situated, present and future, in favour of the Trustee.

Such charge shall rank *pari passu* with the security for any New Bonds and any other *Pari Passu* Borrowings, in each case subject to and in accordance with the terms of the Deed of Priority.

### 5.2 Enforcement of security

The security granted by the Issuer as referred to in Condition 5.1 will become enforceable upon the occurrence of an Event of Default as provided in Condition 11 or upon a default in payment by the Issuer and the Guarantor on final redemption, in which event the Trustee may, in its discretion, and if so requested in writing by holders of at least one-fifth in aggregate principal amount of the Bonds (excluding any Retained Bonds) then outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, and without any liability as to the consequence of such action and without having regard to individual Bondholders or Couponholders, take action immediately to enforce such security (including without limitation converting the floating charge into a fixed charge).

### 5.3 Application of proceeds

The Trust Deed requires that all monies received by or on behalf of the Trustee following enforcement with respect to the Bonds and/or the security therefor (in the event that the Bonds have become due and repayable in full) and apportioned by the Trustee to the Bonds pursuant to the Trust Deed 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 the Trustee or any receiver in connection with the enforcement of security and any other unpaid fees and expenses of the Trustee (including, but not limited to, all amounts payable to the Trustee under the Trust Deed);
- (b) to the payment, on a *pari passu* and *pro rata* basis, of all amounts owing to the Paying Agent under the Paying Agency Agreement and the Custodian under the Custody Agreement;
- (c) to the payment, on a *pari passu* and *pro rata* basis, of any other due but unpaid Issuer Expenses relating to the Bonds;
- (d) to the payment, on a *pari passu* and *pro rata* basis, of any due but unpaid interest on the Bonds;
- (e) to the payment, on a *pari passu* and *pro rata* basis, of the principal due and payable on the Bonds; and



- (f) any surplus to the Issuer and any other person entitled thereto.

## 6. INTEREST

### 6.1 Interest Rate and Payment Dates

- (a) The Second Issue Bonds bear interest at the rate of 2.893 per cent. per annum (the **Rate of Interest**) from and including 11th February, 2016. Interest in respect of the Bonds is payable semi-annually in arrear on each Payment Date.
- (b) The amount of interest payable in respect of each Bond for any Payment Period shall be calculated by applying the Rate of Interest to the principal amount of such Bond, dividing the product by two and rounding the resulting figure to the nearest penny (with one half penny being rounded up)
- (c) The amount of interest payable in respect of any period less than a full Payment Period, shall be calculated by applying the Rate of Interest to the principal amount of the Bond, multiplying the product by the Day Count Fraction, and rounding the resulting figure to the nearest penny (with one half penny being rounded up).

### 6.2 Pre-Enforcement Priority of Payments

Prior to the Bonds having become due and repayable in full and the security in respect of the Bonds being enforced as described in Condition 5.2 and subject as provided in the Trust Deed, on the Second Issue Closing Date and each Payment Date up to, and including, the Expected Maturity Date (and, if the Bonds are not redeemed in full on the Expected Maturity Date, each Payment Date up to, and including, the Legal Maturity Date), the Issuer shall apply the Available Receipts in the order set out below (the **Pre-Enforcement Priority of Payments**):

- (a) to the payment of any accrued and unpaid taxes and statutory fees owing by the Issuer to any tax authority;
- (b) to the payment of any unpaid fees and expenses of the Trustee (including, but not limited to, all amounts payable to the Trustee under the Trust Deed);
- (c) to the payment, on a *pari passu* and *pro rata* basis, of all amounts owing to the Paying Agent under the Paying Agency Agreement and the Custodian under the Custody Agreement;
- (d) to the payment, on a *pari passu* and *pro rata* basis, of any other due but unpaid Issuer Expenses relating to the Bonds;
- (e) (in the case of payment on a Payment Date) to the payment, on a *pari passu* and *pro rata* basis, of the interest due and payable on the Bonds in respect of the Payment Period (or other period) ending on such Payment Date; and
- (f) to the payment, on a *pari passu* and *pro rata* basis, of any principal due and payable on the Bonds.

### 6.3 Interest Accrual

Each Bond will cease to bear interest from and including the date on which it is due to be redeemed unless, upon due presentation, payment of the principal in respect of the Bond is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

## **7. PAYMENTS AND EXCHANGES OF TALONS**

### **7.1 Payments in respect of Bonds**

Payments of principal and interest in respect of each Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bond, except that payments of interest due on a Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of the Paying Agent.

### **7.2 Method of Payment**

Payments will be made by credit or transfer to an account in Sterling maintained by the payee with or, at the option of the payee, by a cheque in Sterling drawn on, a bank in London.

### **7.3 Missing Unmatured Coupons**

Each Bond should be presented for payment together with all relative unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons). Upon the date on which any Bond becomes due and repayable, all unmatured Coupons appertaining to the Bond (whether or not attached) shall become void and no payment shall be made in respect of such Coupons.

### **7.4 Payments subject to Applicable Laws**

Payments in respect of principal and interest on the Bonds are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 9.

### **7.5 Payment only on a Presentation Date**

A holder shall be entitled to present a Bond or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 6, be entitled to any further interest or other payment if a Presentation Date is after the due date.

### **7.6 Exchange of Talons**

On and after the Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon comprised in the Coupon sheet may be surrendered at the specified office of the Paying Agent in exchange for a further Coupon sheet (including any appropriate further Talon), subject to the provisions of Condition 10. Each Talon shall, for the purposes of these Conditions, be deemed to mature on the Payment Date on which the final Coupon comprised in the relative Coupon sheet matures.

### **7.7 Initial Paying Agent**

The name of the initial Paying Agent and its initial specified office are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of the Paying Agent and to appoint additional or other Paying Agents provided that:

- (a) there will at all times be a Paying Agent;
- (b) there will at all times be at least one Paying Agent having its specified office in a European city which so long as the Bonds are admitted to official listing on the London Stock

Exchange shall be London or such other place as the UK Listing Authority may approve; and

- (c) the Issuer undertakes that it will maintain a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any change in specified office will be given to the Bondholders promptly by the Issuer in accordance with Condition 14.

## **8. REDEMPTION AND PURCHASE**

### **8.1 Final Redemption of the Bonds**

No payments of principal under the Bonds shall be made prior to the Expected Maturity Date except on an early redemption of the Bonds in accordance with Conditions 8.2 or 11. All outstanding Bonds not redeemed on or prior to the Expected Maturity Date will be redeemed in accordance with the Pre-Enforcement Priority of Payments:

- (a) on each date which is ten Business Days after payment is made by, or monies are otherwise recovered from, an Approved Borrower under or in respect of its Loan Agreement following the Expected Maturity Date in a corresponding amount; or, if later,
- (b) on the Legal Maturity Date, in respect of all amounts of interest and principal outstanding as at the Legal Maturity Date.

All interest accrued on the Bonds will be paid in accordance with the Pre-Enforcement Priority of Payments on each 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 relevant Bonds.

### **8.2 Early Redemption**

If any Loan becomes prepayable in whole or in part prior to the relevant repayment date as specified in the relevant Loan Agreement, then the Issuer shall redeem Bonds in an aggregate principal amount equal to the nominal amount of the Loan being prepaid on the date which is ten Business Days after that on which payment is made by the Approved Borrower under that Loan Agreement (or by the Guarantor under the relevant Loan Guarantee, as applicable), provided that no such redemption shall be required if the Issuer otherwise applies such monies in the purchase and cancellation of Bonds pursuant to Conditions 8.4 and 8.5 before such date. Redemption of the Bonds pursuant to this Condition shall:

- (a) in the case of an Illegality Redemption or a Tax Redemption, be made at par (together with any interest accrued up to and including the date of redemption); or
- (b) in the case of a Default Redemption or an Optional Redemption, be made at the higher of the following:
  - (i) par; and
  - (ii) the price (the **Redemption Price**), determined by a market maker appointed by the Issuer with the prior written approval of the Trustee (the **Market Maker**) and expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the Gross Redemption Yield on the Bonds, if they were to be

purchased at such price on the tenth dealing day prior to the due date for redemption of the Bonds (the **Determination Date**), would be equal to the Gross Redemption Yield on the Determination Date of 4½% Treasury Gilt 2042 or such other United Kingdom gilt as the Trustee, with the advice of three brokers or market-makers operating in the gilt-edged market (upon which advice the Trustee shall rely absolutely), shall determine to be appropriate (the **Reference Gilt**), on the basis of the middle market price of the Reference Gilt prevailing at 11.00 a.m. on the Determination Date;

in each case, together with any interest accrued up to and including the date of redemption.

The **Gross Redemption Yield** on the Bonds and on the Reference Gilt will be expressed as a percentage and will be calculated on the basis indicated by the United Kingdom Debt Management Office in the paper "Formulae for Calculating Gilt Prices from Yields" dated 16th March, 2005 (as amended or supplemented from time to time) in the sub-section of Section One: Price/Yield Formulae, titled "Conventional Gilts; Double-dated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date".

Notice of any such redemption as is provided in this Condition 8.2 shall be given by the Issuer to the Trustee, the Guarantor, the Paying Agent and the Bondholders as promptly as practicable.

In the case of a partial redemption of Bonds, Bonds to be redeemed will be selected in such place as the Trustee may approve and in such manner and at such time as the Trustee may deem appropriate and fair. Notice of any such selection will be given by the Issuer to the Bondholders as promptly as practicable. Each notice will specify the date fixed for redemption and the aggregate principal amount of the Bonds to be redeemed, the serial numbers of the Bonds called for redemption, the serial numbers of Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.

### **8.3 Purchase of Bonds by an Approved Borrower**

Any Approved Borrower may at any time purchase Bonds on the London Stock Exchange or by tender (available to all Bondholders alike) or by private treaty at any price. Following any such purchase, such Approved Borrower may surrender the Bonds to the Issuer to be cancelled. An amount equal to the principal amount of the Bonds being surrendered shall be deemed prepaid under such Approved Borrower's Loan Agreement (but, for the avoidance of doubt, without triggering a redemption under Condition 8.2). Such surrendered and cancelled Bonds shall not be available for reissue.

### **8.4 Purchase of Bonds by Issuer**

The Issuer may at any time purchase Bonds in the open market or otherwise at any price.

### **8.5 Cancellation**

All Bonds redeemed by the Issuer pursuant to Condition 8.2 or purchased by the Issuer pursuant to Condition 8.4 (other than Retained Bonds) shall be cancelled and may not be resold or reissued.

The Issuer may cancel any Retained Bonds held by it or on its behalf at any time and shall cancel (a) any Original Retained Bonds held by it or on its behalf on the date falling one year after the Original Closing Date or such later date as the Issuer and the Guarantor shall agree and (b) any Second Issue Retained Bonds held by it or on its behalf on the date falling one year after the Second Issue Closing Date or such later date as the Issuer and the Guarantor shall agree.

## 9. TAXATION

All payments in respect of the Bonds by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any Taxes, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will not be obliged to make any additional payments to Bondholders or Couponholders in respect of such withholding or deduction. Any such withholding or deduction will not constitute an Event of Default under Condition 11.

## 10. PRESCRIPTION

Bonds and Coupons (which for this purpose shall not include Talons) will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Bonds or, as the case may be, the Coupons, subject to the provisions of Condition 7. There shall not be included in any Coupon sheet issued upon exchange of a Talon any Coupon which would be void upon issue under this paragraph or Condition 7.

## 11. EVENTS OF DEFAULT

If any Event of Default (as defined below) occurs and is continuing, then the Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth of the aggregate outstanding principal amount of the Bonds (excluding any Retained Bonds) or if so requested by an Extraordinary Resolution of the Bondholders shall (subject to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly immediately become, due and repayable at par together with accrued interest. Upon the occurrence of an Event of Default, the security shall become enforceable as referred to in Condition 5.2. Each of the following events shall, following the occurrence of a Guarantor Trigger Event, be an **Event of Default**:

- (a) default is made by both the Issuer and Guarantor (i) for a period of 10 days in the payment when due of any monies payable on redemption of the whole or any part of the Bonds or (ii) for a period of 14 days in the payment of any interest due on the Bonds;
- (b) if the Issuer fails to perform or observe any of its other obligations under the Bonds, the Coupons or the Trust Deed, the breach of which obligation the Trustee certifies to be materially prejudicial to the interests of the Bondholders, and (except in any case where the Trustee considers the failure to be incapable of remedy or certifies that in its opinion any delay would be materially prejudicial to the interests of the Bondholders when no continuation or notice as is hereinafter mentioned will be required) such failure continues for a period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee upon the Issuer of notice requiring the same to be remedied;
- (c) if any order shall be made by any competent court or any resolution passed for the winding up or dissolution of the Issuer (save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement on terms approved by the Trustee) or the Issuer becomes unable to pay its debts as and when they fall due, or is deemed unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 (excluding, for this purpose, any debts which have the benefit of a guarantee from the Guarantor);
- (d) if (i) proceedings are initiated against the Issuer 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, as the case may be, in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer, and (ii) in any such case (other than the appointment of an administrator or an administrative receiver appointed following presentation of a petition for an administration order), is not discharged within 20 days;

- (e) if the Issuer (or its directors or shareholders) 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); or
- (f) if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have, in the Trustee's opinion, an analogous effect to any of the events referred to in subparagraphs (c) to (e) above.

## **12. EXERCISE AND ENFORCEMENT**

### **12.1 Exercise and Enforcement**

As more particularly provided in the Trust Deed, the Trustee will not be bound as against the Bondholders to take any action (whether to enforce all or any of the security constituted by the Trust Deed or otherwise) unless:

- (a)
  - (i) prior to the occurrence of a Guarantor Trigger Event, it has been directed in writing by the Guarantor; and
  - (ii) following the occurrence of a Guarantor Trigger Event, it has been so requested in writing by the holders of at least one-fifth of the outstanding principal amount of the Bonds (excluding any Retained Bonds) or has been so requested by an Extraordinary Resolution of the Bondholders; and
- (b) it has been indemnified and/or secured and/or pre-funded to its satisfaction.

### **12.2 Action by Bondholders**

No Bondholder may take any action (a) against the Issuer to enforce its rights in respect of the Bonds or to enforce all or any of the security constituted by the Trust Deed or (b) against the Guarantor to enforce its rights in respect of the Bond Guarantee, in each case otherwise than through the Trustee, in each case unless the Trustee fails to do so within a reasonable time and such failure is continuing.

## **13. REPLACEMENT OF BONDS AND COUPONS**

Should any Bond or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Paying Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds or Coupons must be surrendered before replacements will be issued.

## **14. NOTICES**

All notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or relevant authority on which the Bonds are for the time being listed. 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, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this Condition 14.

## **15. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION**

### **15.1 Controlling Rights of the Guarantor prior to a Guarantor Trigger Event**

In relation to any matter other than a Bondholder Entrenched Right, provided that no Guarantor Trigger Event has occurred, the Guarantor shall have the right to direct the Trustee in writing in respect of all matters relating to these Conditions and the Trust Deed; provided that the Trustee shall not be bound by any such direction unless it is first indemnified and/or secured and/or pre-funded to its satisfaction in respect of any Liabilities which, in its opinion, it may incur in acting in accordance with such direction.

### **15.2 Meetings of Bondholders**

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds (excluding any Retained Bonds) for the time being outstanding, or at any adjourned such meeting one or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds (excluding any Retained Bonds) for the time being outstanding. The Trust Deed does not contain any provisions requiring higher quorums in any circumstances. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders. A resolution (i) in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds (excluding any Retained Bonds) for the time being outstanding or (ii) 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 principal amount of the Bonds (excluding any Retained Bonds) for the time being outstanding, in each case shall be as valid and effectual as an Extraordinary Resolution passed at a meeting of the Bondholders duly convened and held.

### **15.3 Modification, Waiver, Authorisation and Determination**

Prior to the occurrence of a Guarantor Trigger Event, the Bond Trustee shall (without the consent of, and without incurring any liability to the Bondholders or the Couponholders), if so directed in writing by the Guarantor, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed; provided that (a) the subject matter is not a Bondholder Entrenched Right and (b) such modification

does not, in the sole opinion of the Trustee, impose upon the Trustee more onerous obligations or liabilities the repayment of which are not, within a reasonable time, in its opinion assured to it.

Following the occurrence of a Guarantor Trigger Event, the Trustee may, without the consent of the Bondholders or Couponholders (but subject to confirmation from the Rating Agency that its then current rating of the Bonds would not be adversely affected and provided that the subject matter is not a Bondholder Entrenched Right), (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders) or (ii) agree to any modification which, in its opinion, is of a formal, minor or technical nature or made to correct a manifest or proven error.

#### **15.4 Trustee to have Regard to Interests of Bondholders as a Class**

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 Bondholders as a class but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders (whatever their number). In particular, but without limitation, it shall not have regard to the consequences of any such exercise for individual Bondholders 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. The Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders or Couponholders.

#### **15.5 Notification to the Bondholders**

Any modification, waiver, authorisation or determination shall be binding on the Bondholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 14.

#### **16. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER, THE GUARANTOR AND APPROVED BORROWERS**

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 to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor, the Approved Borrowers and their respective subsidiaries or associated companies, or any of them, without accounting to the Bondholders or Couponholders for any profit resulting therefrom.

#### **17. FURTHER ISSUES**

Subject to the rest of this Condition 17, the Issuer shall have the power, without the consent of the Trustee, from time to time:

- (a) to create and issue further bonds (**Fungible Bonds**) which will be in bearer form and carry the same terms and conditions in all respects (other than the issue date and in respect of the first payment of interest) as, and shall be consolidated and form a single series and rank *pari passu* with, and share the same security as, the Bonds; and
- (b) to create and issue further bonds (**New Bonds** and, together with Fungible Bonds, **Further Bonds**) which will be in bearer form and carry such terms and conditions as the Issuer may



at the time of issue thereof determine and will rank *pari passu* in point of security with the Bonds, provided that such New Bonds must be issued with the benefit of a guarantee to be provided by the Guarantor in accordance with the Licence.

Any Further Bonds shall be constituted and secured by a deed supplemental to the Trust Deed (in such form as the Trustee may approve).

Any sums raised by an issue of Further Bonds shall be solely used for on-lending to Approved Borrowers in accordance with the terms of the Licence.

It shall be a condition precedent to the issue of any Further Bonds that the then current rating of the Bonds shall not be adversely affected by such issue.

## **18. GOVERNING LAW**

The Trust Deed, the Guarantee, the Bonds, the Coupons, and any non-contractual obligations arising out of or in connection with the Trust Deed, the Guarantee, the Bonds and the Coupons, are governed by, and will be construed in accordance with, English law.

## **19. RIGHTS OF THIRD PARTIES**

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Bonds, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## **SUMMARY OF PROVISIONS RELATING TO THE SECOND ISSUE BONDS WHILE REPRESENTED BY THE GLOBAL BONDS**

*The following is a summary of the provisions to be contained in the Fourth Supplemental Trust Deed to constitute the Second Issue Bonds and in the Global Bonds which will apply to, and in some cases modify, the Conditions of the Second Issue Bonds while the Second Issue Bonds are represented by the Global Bonds.*

### **1. Form**

The Second Issue Bonds will be in bearer new global note (NGN) form and will initially be issued in the form of a temporary global bond (the **Second Issue Temporary Global Bond**) which will be delivered on or prior to the issue date of the Second Issue Bonds to a common safekeeper for Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**).

The Second Issue Bonds are intended to be held in a manner which will allow Eurosystem eligibility. This means that the Second Issue Bonds are intended upon issue to be deposited with Euroclear or Clearstream, Luxembourg as common safekeeper and does not necessarily mean that the Second Issue Bonds 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. Bondholders should note that the European Central Bank has applied a temporary extension of Eurosystem eligibility to Sterling denominated securities, the effective date for this temporary extension being 9th November, 2012. However, should this extension cease at any time during the life of the Second Issue Bonds, the Second Issue Bonds will not be in a form which can be recognised as eligible collateral.

### **2. Payments**

Whilst the Second Issue Bonds are represented by the Second Issue Temporary Global Bond, payments of principal, interest (if any) and any other amount payable in respect of the Second Issue Bonds due prior to the Exchange Date (as defined below) will be made only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in the Second Issue Temporary Global Bond 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 Paying Agent.

The holder of the Second Issue Temporary Global Bond 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 Second Issue Temporary Global Bond for an interest in the Second Issue Permanent Global Bond (as defined below) is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on the Second Issue Permanent Global Bond will be made through Euroclear and/or Clearstream, Luxembourg without any requirement for certification.

On each occasion of a payment in respect of a Global Bond the Paying Agent shall instruct Euroclear and Clearstream, Luxembourg to make appropriate entries in their records to reflect such payment.

### 3. Exchange

On and after the date (the **Exchange Date**) which is 40 days after the Second Issue Temporary Global Bond is issued, interests in the Second Issue Temporary Global Bond will be exchangeable for interests in a permanent global bond (the **Second Issue Permanent Global Bond** and, together with the Second Issue Temporary Global Bond and the global bonds representing the Original Bonds, the **Global Bonds**), against certification of beneficial ownership as described above unless such certification has already been given.

The Second Issue Permanent Global Bond will be exchangeable in whole but not in part (free of charge to the holders) for definitive Bonds only:

- (a) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or
- (b) if the Issuer would suffer adverse tax consequences which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee.

Thereupon (in the case of (a) above) the holder of the Second Issue Permanent Global Bond (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer, and (in the case of (b) above) the Issuer may give notice to the Trustee and the Bondholders, of its or their intention to exchange the Second Issue Permanent Global Bond for definitive Bonds. Any such exchange shall occur no later than 60 days after the occurrence of the relevant event in (a) or (b) above.

Upon the surrender of the Second Issue Permanent Global Bond by the Paying Agent the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Second Issue Permanent Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed.

### 4. Notices

For so long as all of the Bonds are represented by one or more of the Global Bonds and the Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 14. Any such notice shall be deemed to have been given to the holders of the Bonds on the day after the day on which such notice was delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Bonds held by a Bondholder are represented by one or more of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, notices to be given by such Bondholder may be given by such Bondholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

### 5. Accountholders

For so long as any of the Bonds are represented by a Global Bond and such Global Bond is held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or

Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Bonds for all purposes (including, but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Bondholders (other than where such Bonds are Retained Bonds held by the Issuer) and giving notice to the Issuer pursuant to Condition 11) other than with respect to the payment of principal and interest on such principal amount of such Bonds, the right to which shall be vested, as against the Issuer, the Guarantor and the Trustee, solely in the bearer of the relevant Global Bond in accordance with and subject to their terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Bond.

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

## **6. Partial Early Redemption**

For so long as all of the Bonds are represented by one or more of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, no selection of Bonds will be required under Condition 8.2 (Early Redemption) in the event that the Issuer is required to redeem Bonds in an amount which is less than the aggregate principal amount of the Bonds outstanding at such time. In such event, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the Global Bond(s) are to be subject to such option.

## **7. Prescription**

Claims against the Issuer in respect of principal and interest on the Bonds represented by a Global Bond will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date.

## **8. Cancellation**

Cancellation of any Bond represented by a Global Bond and required by the Conditions of the Bonds to be cancelled following its redemption or purchase and surrender will be effected by entry in the records of Euroclear or Clearstream, Luxembourg, as the case may be.

## **9. Euroclear and Clearstream, Luxembourg**

References in the Global Bonds and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

## **10. Single Series**

The Second Issue Bonds shall be consolidated and form a single series with the Original Bonds on and from the date on which, and to the extent that, interests in the Second Issue Temporary Global Bond are exchanged for interests in the Second Issue Permanent Global Bond, as described above.

## DESCRIPTION OF THE ISSUER

### Incorporation and Status

Affordable Housing Finance Plc (the **Issuer**) is a public limited company incorporated in England with registered number 8434613 on 7th March, 2013 under the Companies Act 2006.

The registered address of the Issuer is 4th Floor, 107 Cannon Street, London EC4N 5AF and its telephone number is (+44) (0)20 7337 9920. The Issuer has no subsidiaries.

### Principal Activities of the Issuer

The Issuer was established to raise debt for the purpose of on lending to registered providers of social housing and registered social landlords in England, Wales, Scotland and Northern Ireland for the development of new affordable housing which meets the eligibility criteria set out in the rules of the Affordable Housing Guarantee Scheme of the Guarantor.

The Secretary of State for Communities and Local Government has granted a licence to the Issuer for the management and delivery of the Affordable Housing Guarantee Scheme, with exclusivity for the period to March 2016.

### Directors

The directors of the Issuer and their principal activities in relation to the Issuer are:

<b>Name</b>	<b>Principal Activities</b>
Ian Rex Peacock (Chairman)	Director of C. Hoare & Co Chairman of the Administrator
Charles Robert Denys Arbuthnot	Independent Consultant Director of the Administrator
Colin John Burke	Director of the Administrator Finance Director, The Housing Finance Corporation Limited
Fenella Jane Edge	Group Treasurer, The Housing Finance Corporation Limited Management of Special Purpose Companies Director of the Administrator
Keith Philip Exford	Chief Executive, Affinity Sutton Group Director of the Administrator
Matthew Lee Heley	Head of Housing Strategy, Department for Communities and Local Government
Peter Henry Impey	Independent Consultant
David Campbell Orr	Chief Executive, The National Housing Federation
John Henry Parker	Vice Chairman, Newbury Building Society Director of the Administrator

Gillian Caroline Sarah Payne	Director of Policy and External Affairs, The National Housing Federation Director of the Administrator
William Richard Perry	Assistant Director of Commercial and New Entrants, Homes and Communities Agency Director of the Administrator
Deborah Frances Shackleton	Chair of Grainger Trust Ltd Director of the Administrator
John Piers Williamson	Chief Executive, The Housing Finance Corporation Limited Management of Special Purpose Companies Director of the Administrator

Matthew Lee Heley and Peter Henry Impey were nominated to the board of directors by the Department for Communities and Local Government.

The business address of each of the directors is 4th Floor, 107 Cannon Street, London EC4N 5AF.

The secretary of the Issuer is Colin John Burke whose business address is 4th Floor, 107 Cannon Street, London EC4N 5AF.

### **Share Capital and Major Shareholders**

The entire issued share capital of the Issuer comprises 50,000 shares of £1 each, all of which are paid up to 25 pence. T.H.F.C. (Services) Limited holds all of the shares of the Issuer.

T.H.F.C. (Services) Limited is itself a wholly owned subsidiary of The Housing Finance Corporation Limited.

### **Administrator**

The Administrator of the Issuer is T.H.F.C. (Services) Limited, a private limited company incorporated in England with registered number 2480005 on 12th March, 1990 under the Companies Act 1985.

The Administrator's business is principally the provision of staff and various management and company secretarial services to members of the THFC group and managed third party loan aggregating companies.

The Administrator provides certain administrative, secretarial and managerial services to the Issuer, including the keeping of proper accounting and tax records, liaison with the Approved Borrowers and the Guarantor as required with relation to payments of interest, principal and any other amounts payable under the Loan Agreements and the Loan Guarantees, respectively, and with the Trustee and the Paying Agent with respect to payments under the Bonds, the provision of such information and/or documentation as is required under the Trust Deed and providing directors for the Issuer all as more particularly described in the Management Services Agreement dated 19th June, 2013 between the Issuer and the Administrator.

### **Operations**

The Issuer commenced operations on 19th June, 2013 when it was granted a licence for the management and delivery of the Affordable Housing Guarantee Scheme by the Guarantor. In accordance with the terms of the Licence, the Issuer has since entered into (a) a £500,000,000 credit facility with the European Investment Bank (which has been fully drawn for the purpose of on lending to Approved Borrowers) and (b) a further £500,000,000 credit facility with the European Investment Bank (which remains undrawn). In accordance

with the terms of the Licence, the Issuer also issued the Original Bonds and £600,900,000 3.80 per cent. Guaranteed Secured Bonds due 2042/2044.

The following table sets out the unaudited long-term indebtedness of the Issuer as extracted from the unaudited accounting records of the Issuer as at 29th February, 2016:

	<b>As at 29th February, 2016</b>
	<b>(in £)</b>
European Investment Bank credit facility	500,000,000
3.80 per cent. Guaranteed Secured Bonds due 2042/2044	600,900,000
Original Bonds*	143,000,000
Total	<u>1,243,900,000</u>

\* The figure for the Original Bonds is equal to the principal amount of the Original Bonds issued (being £208,000,000) less the principal amount of the Original Retained Bonds that were held by the Issuer as at 29th February, 2016 (being £65,000,000).

References to the "unaudited accounting records" of the Issuer mean the internal accounting systems used by the Issuer to maintain its accounting records, which are reconciled on a monthly basis and from which data is extracted on a basis consistent with the management accounts. Data extracted directly from the accounting records for inclusion in this Offering Circular has not been audited.

The Issuer appointed Nexia Smith & Williamson Audit Limited of 25 Moorgate, London EC2R 6AY as its auditors in December 2014. Nexia Smith & Williamson Audit Limited are chartered accountants and registered auditors and are members of the Institute of Chartered Accountants in England and Wales. PricewaterhouseCoopers of 7 More London Riverside, London SE1 2RT had previously audited the annual accounts of the Issuer since its incorporation.

## **DESCRIPTION OF THE GUARANTOR**

The Secretary of State for Communities and Local Government is the holder of one of the principal offices of Her Majesty's Government of the United Kingdom of Great Britain and Northern Ireland. The Secretary of State for Communities and Local Government was incorporated by The Secretary of State for Communities and Local Government Order 2006.

Obligations assumed by the Secretary of State in his official capacity are enforceable against the incorporated office of the Secretary of State, not the office holder personally. The Secretary of State acts for and on behalf of Her Majesty's Government for the purposes of creating legal, valid and binding obligations in relation to, *inter alia*, the Bond Guarantee and therefore obligations of the Secretary of State under the Bond Guarantee are obligations of Her Majesty's Government.

The UK Government currently has a sovereign credit rating of "AAA" by S&P, "AA+" by Fitch Ratings Ltd. and "Aa1" by Moody's Investors Service Limited.



## **DOCUMENTS INCORPORATED BY REFERENCE**

The audited financial statements for the Issuer, including the report of the auditors, in respect of the financial years ended 31st March, 2014 and 31st March, 2015 shall be incorporated in, and form part of, this Offering Circular.

Copies of such audited financial statements can be obtained from the registered office of the Issuer.

## TAXATION

### United Kingdom Taxation

The following deals only with the United Kingdom tax position for persons who are the beneficial owners of Bonds and is a summary of the Issuer's understanding of current United Kingdom law and published practice of HM Revenue & Customs (**HMRC**) relating to certain aspects of United Kingdom taxation. It is not advice, and is given for information purposes only. References to "interest" refer to interest as that term is understood for United Kingdom tax purposes. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may be subject to change in the future. All prospective Bondholders 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.

#### A. Interest on the Bonds

##### *Payment of interest on the Bonds*

Payments of interest on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **ITA**). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000 (as amended, the **FSMA**)) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of United Kingdom tax.

In other cases, an amount must generally be withheld from payments of interest on the Bonds that has a United Kingdom source on account of United Kingdom income tax at the basic rate (currently 20 per cent.), subject to any available exemptions and reliefs, including an exemption for certain payments of interest to which a company within the charge to United Kingdom corporation tax is beneficially entitled. 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 Bondholder, HMRC can issue a notice to the Issuer to pay interest to the Bondholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

HMRC has powers to obtain information and documents relating to the Bonds, including in relation to issues of and other transactions in the Bonds, interest, payments treated as interest and other payments derived from the Bonds. This may include details of the beneficial owners of the Bonds, of the persons for whom the Bonds are held and of the persons to whom payments derived from the Bonds are or may be paid. Information may be obtained from a range of persons including persons who effect or are a party to such transactions on behalf of others, registrars and administrators of such transactions, persons who make, receive or are entitled to receive payments derived from the Bonds and persons by or through whom interest and payments treated as interest are paid or credited.

Information relating to the Bonds may also be required to be provided automatically to HMRC by "financial institutions" under regulations made under section 222 of the Finance Act 2013, which implement the requirements of various automatic information exchange programmes, including FATCA, Council Directive 2011/16/EU on Administrative Cooperation in the field of Taxation (as amended), the Global Standard released by the Organisation for Economic Co-operation and Development in July 2014, and arrangements between the United Kingdom and its overseas territories and crown dependencies.

Information obtained by HMRC may be provided to tax authorities in other jurisdictions.

### ***Further United Kingdom Income Tax Issues***

Interest on the Bonds that constitutes United Kingdom source income for tax purposes may, as such, be subject to income tax by direct assessment even where paid without withholding.

However, interest with a United Kingdom source received without deduction or withholding on account of United Kingdom tax will not be chargeable to United Kingdom tax in the hands of a Bondholder (other than certain trustees) who is not resident for tax purposes in the United Kingdom unless that Bondholder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the Bonds are attributable (and where that Bondholder is a company, unless that Bondholder carries on a trade in the United Kingdom through a permanent establishment in connection with which the interest is received or to which the Bonds are attributable). There are exemptions for interest received by certain categories of agent (such as some brokers and investment managers). The provisions of an applicable double taxation treaty may also be relevant for such Bondholders.

#### **B. United Kingdom Corporation Tax Payers**

In general, Bondholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

#### **C. Other United Kingdom Tax Payers**

##### ***Accrued Income Scheme***

On a disposal of Bonds by a Bondholder, any interest which has accrued since the last Payment Date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the ITA, if that Bondholder is resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable.

#### **D. Stamp Duty and Stamp Duty Reserve Tax**

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Bonds or on a transfer by delivery of the Bonds.

### **The Proposed Financial Transaction Tax (FTT)**

On 14th 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 the Bonds (including secondary market transactions) in certain circumstances.

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 the Bonds 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 the Bonds are advised to seek their own professional advice in relation to the FTT.

## SUBSCRIPTION AND SALE

HSBC Bank plc, RBC Europe Limited and The Royal Bank of Scotland plc (the **Managers**) have, pursuant to a second issue subscription agreement (the **Second Issue Subscription Agreement**) dated on or about 15th March, 2016, agreed to subscribe or procure subscribers for the Second Issue Bonds (other than the Second Issue Retained Bonds) at the issue price of 103.463 per cent. of the principal amount of the Second Issue Bonds (other than the Second Issue Retained Bonds) (plus 34 days' accrued interest in respect of the period from and including 11th February, 2016 to but excluding the Second Issue Closing Date at the rate of 2.893 per cent. per annum), less a management commission. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Second Issue Bonds. The Second Issue Subscription Agreement may be terminated in certain circumstances prior to the issue of the Second Issue Bonds.

### **United States**

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

The Bonds are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each of the Managers has represented and agreed that, except as permitted by the Second Issue Subscription Agreement, it will not offer, sell or deliver Second Issue Bonds (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Second Issue Closing Date within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering of the Second Issue Bonds, an offer or sale of Second Issue Bonds within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

Terms used above have the meanings given to them by Regulation S under the Securities Act.

### **United Kingdom**

Each Manager has represented and agreed that, except as permitted by the Second Issue Subscription Agreement:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Second Issue Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Second Issue Bonds in, from or otherwise involving the United Kingdom.

### **General**

No action has been taken by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Second Issue Bonds or possession or distribution of this Offering Circular or any other offering

or publicity material relating to the Second Issue Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Second Issue Bonds or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of the Second Issue Bonds by it will be made on the same terms.

## GENERAL INFORMATION

### Authorisation

1. The issue of the Second Issue Bonds was duly authorised by resolutions of the Board of Directors of the Issuer dated 24th February, 2016 and 4th March, 2016.

### Listing

2. It is expected that official listing will be granted on or about 17th March, 2016 subject only to the issue of the Second Issue Temporary Global Bond. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.

### Publication

3. This Offering Circular will be published 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>.

### Clearing Systems

4. The Second Issue Bonds have been accepted for clearance through Euroclear (1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium) and Clearstream, Luxembourg (42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg).

The temporary ISIN and Common Code for the Second Issue Bonds (which will apply for so long as the Second Issue Bonds are represented by the Second Issue Temporary Global Bond) is XS1379522979 and 137952297, respectively. Upon exchange of the interests in the Second Issue Temporary Global Bond for interests in the Second Issue Permanent Global Bond, the ISIN and Common Code for the Second Issue Bonds will be XS1273543162 and 127354316, respectively.

### No Significant Change

5. Other than as described in "*Description of the Issuer*" above, there has been no significant change in the financial or trading position of the Issuer since 31st March, 2015 and there has been no material adverse change in the financial position or prospects of the Issuer since 31st March, 2015.

### Litigation

6. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), nor have there been any governmental, legal or arbitration proceedings in the 12 months preceding the date of this Offering Circular, which may have, or have had in the recent past, a significant effect on the Issuer's financial position or profitability.

### Accounts

7. The current auditors of the Issuer are Nexia Smith & Williamson Audit Limited, who replaced PricewaterhouseCoopers LLP as auditors of the Issuer in December 2014.
8. Any certificate or report of the auditors of the Issuer or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document

entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the auditors of the Issuer or such other person in respect thereof and notwithstanding that the scope and/or basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

The bank accounts of the Issuer are and will be held with: Barclays Bank Plc, 1 Churchill Place, London E14 5HP.

### **U.S. Tax**

9. The Bonds and (if issued) Coupons will contain the following legend: "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."

### **Documents**

10. For so long as the Bonds remain outstanding, copies of the following documents will be available for inspection by Bondholders at the registered office of the Issuer, 4th Floor, 107 Cannon Street, London EC4N 5AF, during usual business hours on any weekday (Saturdays and public holidays excepted):
  - (a) the audited financial statements of the Issuer, including the reports of the auditors, in respect of the financial years ended 31st March, 2014 and 31st March, 2015;
  - (b) the Articles of Association of the Issuer;
  - (c) a redacted form of the Licence and the extension letter relating thereto; and
  - (d) the Trust Deed, the Guarantee, the Paying Agency Agreement, the Custody Agreement, the Deed of Priority and the Deeds of Accession.

### **Reporting**

11. The Issuer does not intend to provide any post-issuance transaction information regarding the Bonds.

### **Managers transacting with the Issuer and the Guarantor**

12. Certain of the Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuer and its affiliates and the Guarantor in the ordinary course of business. Certain of the Managers and their affiliates may have positions, deal or make markets in the Bonds, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, the Guarantor, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates or the Guarantor. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds. Any such positions could adversely affect future trading prices of the Bonds. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may



hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

**ISSUER**

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London EC4N 5AF

**TRUSTEE**

**The Law Debenture Trust Corporation p.l.c.**

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**PAYING AGENT AND CUSTODIAN**

**Deutsche Bank AG, London Branch**

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**ALLEN & OVERY LLP**