

# GB SOCIAL HOUSING PLC

(incorporated in England and Wales with limited liability under the Companies Act 2006, registered number 7165018)

## £2,000,000,000 Secured Note Programme

Under this £2,000,000,000 Secured Note Programme (the **Programme**), GB Social Housing plc (the **Issuer**) may from time to time issue Sterling denominated notes (the **Notes**) as agreed between the Issuer and the relevant Dealer (as defined below).

The maximum aggregate principal amount of all Notes from time to time outstanding under the Programme will not exceed £2,000,000,000, subject to increase as described herein.

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

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

Subject as set out below, the net proceeds from each issue of Notes will be advanced by the Issuer to one or more registered providers of social housing, registered social landlords or registered housing associations, as applicable, in England, Wales, Scotland and Northern Ireland (each, a **Borrower**) pursuant to one or more loan agreements (each, a **Loan Agreement**). In relation to each issue of Notes, a proportion of the net proceeds (calculated as set out herein) will be retained by the Issuer and invested in UK Gilts (as defined herein), and will be used by the Issuer (a) to meet shortfalls (if any) in the amounts available to the Issuer to pay interest and expenses in respect of the Notes of the relevant Series (as defined under "*Terms and Conditions of the Notes*") which are due to non-payment by an Associated Borrower under an Associated Loan Agreement (each as defined under "*Terms and Conditions of the Notes*") and (b) on a redemption of the Notes of the relevant Series, to fund part of the redemption amount. Each Series of Notes will be secured by a first floating charge over the whole of the assets and undertaking of the Issuer (other than, *inter alia*, the money representing the ordinary share capital of the Issuer) in favour of BNP Paribas Trust Corporation UK Limited (the **Trustee**) for the benefit of the holders of the Notes of each Series.

Application has been made to the Channel Islands Stock Exchange for the approval of the Programme and for the listing of and permission to deal with the Notes to be issued under the Programme on the Official List of the Channel Islands Stock Exchange.

The Issuer has been rated "A" by Standard & Poor's Credit Market Services Europe Limited (**S&P**). The rating to be assigned to the Notes by S&P will be primarily dependent on S&P's rating of the Issuer. The rating of each Series of Notes to be issued under the Programme will be specified in the applicable Pricing Supplement (as defined below). 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.

Notice of the aggregate principal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a pricing supplement (the **Pricing Supplement**) which, with respect to Notes to be listed on the Channel Islands Stock Exchange, will be filed with the Channel Islands Stock Exchange.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer. The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

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

## Arranger and Dealer

## Barclays

The date of this Programme Memorandum is 13th November, 2012.

**The Issuer accepts responsibility for the information contained in this Programme Memorandum. 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 Programme Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.**

**Subject as provided in the applicable Pricing Supplement, the only persons authorised to use this Programme Memorandum in connection with an offer of Notes are the persons named in the applicable Pricing Supplement as the relevant Dealer or the Managers, as the case may be.**

**This Programme Memorandum together with the applicable Pricing Supplement and the Trust Deed shall form the Listing Document for the purposes of admitting the Notes described in the applicable Pricing Supplement to the Official List of the Channel Islands Stock Exchange.**

**Neither the admission of the Notes to the Official List nor the approval of the Listing Document pursuant to the listing requirements of the Channel Islands Stock Exchange shall constitute a warranty or representation by the Channel Islands Stock Exchange as to the competence of the service providers or any other party connected with the Issuer, the adequacy and accuracy of information contained in the Listing Document or the suitability of the Issuer for investment or for any other purpose.**

**Neither the Dealers nor the Trustee have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Programme Memorandum or any other information provided by the Issuer in connection with the Programme. No Dealer or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Programme Memorandum or any other information provided by the Issuer in connection with the Programme.**

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

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

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

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended, (the *Securities Act*) and are subject to U.S. tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

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

This Programme Memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a *Relevant Member State*) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Programme Memorandum as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer. The expression *Prospectus Directive* means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression *2010 PD Amending Directive* means Directive 2010/73/EU.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE APPLICABLE PRICING SUPPLEMENT MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF A 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 RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES

**AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

**All references in this document to *Sterling* and £ refer to pounds Sterling.**

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## OVERVIEW OF THE PROGRAMME

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

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

<b>Issuer:</b>	GB Social Housing plc
<b>Description:</b>	Secured Note Programme
<b>Programme Size:</b>	£2,000,000,000, provided that the Issuer may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
<b>Arranger:</b>	Barclays Bank PLC
<b>Dealers:</b>	Barclays Bank PLC and any other Dealers appointed in accordance with the Programme Agreement.
<b>Principal Paying Agent:</b>	BNP Paribas Securities Services, Luxembourg Branch
<b>Trustee:</b>	BNP Paribas Trust Corporation UK Limited
<b>Operations Manager:</b>	Trifinium Advisors (UK) Limited ( <b>Trifinium</b> )
<b>Risk Factors:</b>	There are certain factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme. These are set out under " <i>Risk Factors</i> " below and include factors which may affect the Issuer's and/or a Borrower's ability to fulfil their obligations under the Notes and the relevant Loan Agreement, respectively. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme. These are set out under " <i>Risk Factors</i> " and include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of particular Series of Notes and certain market risks.
<b>Form of Notes:</b>	The Notes will be issued in bearer form as described in " <i>Form of the Notes</i> ".
<b>Status of the Notes:</b>	The Notes will be direct obligations of the Issuer, will be secured in the manner set out in Condition 4.2 ( <i>Security</i> ), and will rank <i>pari passu</i> among themselves.

<b>Currencies:</b>	Notes will be denominated in Sterling only.
<b>Denomination of Notes:</b>	The Notes will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to Sterling, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be £100,000.
<b>Issue Price:</b>	Notes will be issued on a fully-paid basis and at an issue price which is at par, a discount to par or a premium over par.
<b>Loan Agreements:</b>	Subject as set out under "Interest Reserves" below, the issue proceeds in respect of each Series of Notes shall be on-lent by the Issuer to one or more non-profit registered providers of social housing, registered social landlords or registered housing associations, as applicable, within England, Wales, Scotland and Northern Ireland pursuant to one or more Associated Loan Agreements in respect of such Series of Notes.
<b>Interest Reserves:</b>	In respect of each issue of Notes, a proportion of the net proceeds (calculated as set out in Condition 4.1 ( <i>Interest Reserves</i> )) will be retained by the Issuer, credited to the Reserve Account, and invested in UK Gilts. The proceeds of maturity of such UK Gilts will be used (or, if and to the extent necessary, such UK Gilts will be realised and the proceeds of realisation will be used) by the Issuer (a) to meet shortfalls in the amounts available to the Issuer to pay interest and expenses in respect of the relevant Series of Notes which are due to non-payment by an Associated Borrower under an Associated Loan Agreement and (b) on a redemption of the Notes of the relevant Series, to fund part of the redemption amount payable by the Issuer (with the amount(s) payable by the Associated Borrower(s) under the Associated Loan Agreement(s) being calculated so as to fund the remainder of the redemption amount). Interest earned on the UK Gilts relating to a Series of Notes will be used to fund part of each interest payment payable by the Issuer on the relevant Series of Notes (with the remainder of such interest payment being funded by the relevant amount(s) payable by the Associated Borrower(s) under the Associated Loan Agreement(s)).
<b>Interest:</b>	Fixed interest will be payable at such rate and on such date or dates as may be agreed between the Issuer and the relevant Dealer.
<b>Final redemption:</b>	Unless redeemed early as described below, each Series of Notes is scheduled to be redeemed on the Expected Maturity Date. However, if and to the extent that insufficient funds are received



from the Associated Borrowers under the Associated Loan Agreements in respect of such Series of Notes (after taking account of the proceeds of maturity or realisation of the relevant UK Gilts) to enable redemption in full on the Expected Maturity Date, the redemption of such Series of Notes will be postponed to a date not later than the Legal Maturity Date of such Series of Notes (subject as set out in "*Deferred Principal*" below).

**Early redemption for tax or loan illegality reasons:**

Pursuant to Condition 9.2 (*Redemption for tax or loan illegality reasons*) if, in accordance with an Associated Loan Agreement in respect of the relevant Series of Notes, an Associated Borrower elects or is required to prepay its Loan prior to the repayment date specified in such Associated Loan Agreement pursuant to a Tax Prepayment or an Illegality Prepayment, then the Issuer may redeem Notes of such Series, in an aggregate principal amount not exceeding the aggregate of the principal amount of the Loan to be repaid and the principal amount of the corresponding proportion of the relevant UK Gilts, at their principal amount together with any interest accrued up to (but excluding) the Loan Prepayment Date.

**Early redemption at the option of the Issuer:**

Pursuant to Condition 9.3 (*Redemption at the option of the Issuer*), the Issuer may redeem all or some only of the Notes of each Series on any date having given notice in accordance with Condition 9.3, in each case at the higher of their principal amount and an amount calculated by reference to the yield on the relevant Benchmark Gilt (unless and to the extent otherwise provided in the applicable Pricing Supplement), together with accrued interest to, but excluding, the date of redemption.

**Deferred Principal:**

In the event that the Issuer shall be unable to pay in full any amount of principal otherwise due on any Series of Notes (in accordance with Condition 9 (*Redemption and purchase*) or Condition 12.1 (*Events of Default*)) on any date prior to the Expected Maturity Date by reason of a default in any principal payment (or associated adjustment amount to take account of the proceeds of maturity or realisation of the relevant UK Gilts) due under an Associated Loan Agreement in respect of such Series of Notes, that proportion of the principal otherwise due and payable on each Note that is referable to the unpaid principal or associated adjustment amount under such Associated Loan Agreement(s) shall be deemed not to be due and payable on such date and such amount shall instead be deferred (the **Deferred Principal**).

Amounts in respect of Deferred Principal will be paid to the holders of the Notes of such Series as soon as reasonably practicable after receipt by the Issuer of any unpaid principal or associated adjustment amount in respect of such Associated Loan Agreement, provided, however, that all Deferred Principal shall become due and payable on (a) the Legal Maturity Date or, if earlier, on the date falling 2 years after the date on which such Deferred Principal would otherwise have been paid but for the application of Condition 9.5 (*Deferral of principal*) or (b) subject

to confirmation from the Operations Manager to the Issuer and the Trustee that, in its opinion, further recoveries are likely, such later date as the Issuer, in its sole discretion, considers appropriate.

**Security:**

The holders of all Series of Notes will be secured under the Trust Deed by a first floating charge over the whole of the assets and undertaking of the Issuer (other than, *inter alia*, the money representing paid up ordinary share capital of the Issuer) which will become enforceable upon (i) any Series of Notes becoming due and repayable pursuant to Condition 12.1 (*Events of Default*); (ii) subject to Condition 9.5 (*Deferral of principal*), any failure for any reason of the Issuer to repay the Notes when due; (iii) formal notice being given of an intention to appoint an administrator in relation to the Issuer; or (iv) an application being made to, or a petition being lodged or documents being filed, with the court for administration in relation to the Issuer.

If the floating charge is enforced pursuant to (i) and/or (ii) above in respect of any Series of Notes (each a **Defaulted Series**) in circumstances where no Event of Default or non-payment is subsisting in respect of any other Series of Notes, the floating charge shall automatically de-crystallise upon the Defaulted Series having been redeemed in full and the assets and undertaking of the Issuer (other than, *inter alia*, the money representing paid up ordinary share capital of the Issuer, but including any assets which were acquired by the Issuer (or the Trustee on its behalf) while the enforcement was in effect) shall thereafter be subject to a floating charge pursuant to the Trust Deed as if such assets and undertaking had never been subject to a fixed charge.

**Taxation:**

All payments in respect of the Notes of each Series will be made without deduction for or on account of withholding taxes imposed by any Tax Jurisdiction unless such withholding or deduction is required by law. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 10 (*Taxation*), be required to pay such additional amounts as will result in the receipt by the Noteholders after the withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, and the relevant Associated Borrowers shall be obliged under the Associated Loan Agreements in respect of such Series of Notes to put the Issuer in funds accordingly.

**Rating:**

The Issuer has been rated "A" by S&P. The rating to be assigned to the Notes by S&P will be primarily dependent on S&P's rating of the Issuer. The rating of each Series of Notes to be issued under the Programme will be specified in the applicable Pricing Supplement. 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.

**Listing and admission to trading:**

Application has been made to the Channel Islands Stock Exchange for the approval of the Programme and for the listing of and permission to deal with the Notes to be issued under the Programme on the Official List of the Channel Islands Stock Exchange.

Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the Issuer and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued.

The applicable Pricing Supplement will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.

**Governing Law:**

The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.

**Distribution:**

Notes may be distributed by way of private or public placement and, in each case, on a syndicated or non-syndicated basis.

**Selling Restrictions:**

There are restrictions on the offer, sale and transfer of the Notes in the United States and the European Economic Area (including the United Kingdom) and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes. See "*Subscription and Sale*".

## **RISK FACTORS**

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under Notes issued under the Programme. 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.*

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

*The Issuer believes that the factors described below represent the principal risks inherent in investing in Notes issued under the Programme, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes 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. Prospective investors should also read the detailed information set out elsewhere in this Programme Memorandum and reach their own views prior to making any investment decision.*

### **Factors that may affect the Issuer's ability to fulfil its obligations under Notes issued under the Programme**

#### ***Special purpose vehicle issuer***

The Issuer is a newly formed entity and has no operating history. The Issuer will not engage in any business activity other than the issuance of Notes under the Programme, the lending of proceeds of the issue of Notes to registered providers of social housing, registered social landlords or registered housing associations, as applicable, in England, Wales, Scotland and Northern Ireland under Loan Agreements, the investment of Available Interest Shortfall Reserves in UK Gilts, the entry into and performance of its obligations under the Programme Documents and the performance of any act incidental to or necessary in connection with the aforesaid.

#### ***Credit risk***

The Issuer's only material assets will be its rights under the Loan Agreements and the other Programme Documents, the UK Gilts and its capital reserves. The ability of the Issuer to pay amounts due on any Series of Notes will primarily be dependent upon receipt by the Issuer from the Associated Borrowers in respect of such Series of Notes of all amounts due under the relevant Associated Loan Agreements. The Issuer, and therefore payments by the Issuer in respect of each Series of Notes, will therefore be subject to the credit risk of the relevant Associated Borrowers in respect of such Series. The Issuer will be subject to the risk of delays in the receipt, or risk of defaults in the making, of payments due from the relevant Associated Borrowers in respect of the relevant Associated Loan Agreements.

However, in the event that any Borrower fails to make a payment of interest (or other relevant amounts) under its Loan Agreement such that the Issuer would be unable to pay in full the interest that is due on the Notes of the relevant Series, the Issuer shall realise some or all of the UK Gilts in respect of such Series in order to fund such shortfall. In the event that the sale proceeds of the relevant UK Gilts are insufficient to fund such shortfall in full, the failure to pay interest on the relevant Series of Notes will constitute an Event of Default under the Notes of such Series.

In the event that any Borrower fails to make a payment of principal (or associated adjustment amount, if applicable, to take account of the proceeds of maturity or realisation of the relevant UK Gilts) under its Loan Agreement such that the Issuer is unable to pay in full the principal which would otherwise be due on the Notes of the relevant Series, the due date for payment of such principal in respect of such Series shall be deferred for a period of up to 2 years (or such later date as the Issuer considers appropriate). See Condition 9.5 (*Deferral of principal*).

Notwithstanding the fact that the dates of payment of interest and principal in respect of each Series of Notes are dependent on receipt by the Issuer of the corresponding amounts from the Associated Borrowers under the relevant Associated Loan Agreements in respect of such Series of Notes, an Event of Default in relation to one Series of Notes will trigger a cross default in respect of each other Series of Notes and, upon any Series of Notes becoming due and repayable as a result thereof, the security created pursuant to the Trust Deed over all the Issuer's assets and undertaking will become enforceable. Such security is granted for the benefit of the holders of each Series of Notes. Consequently, the holders of each Series of Notes will ultimately be exposed to the credit risk of all Borrowers. In particular, if any one Borrower fails to repay principal under its Loan Agreement and recoveries from the security granted by it in respect thereof are not obtained in full within 2 years of such principal becoming due, this will lead to an Event of Default in respect of the Series for which it is an Associated Borrower and may also trigger cross default on each other Series.

### ***UK taxation position of the Issuer***

For so long as the Issuer satisfies the conditions of the Taxation of Securitisation Companies Regulations 2006 (S.I. 2006/3296) (the **Securitisation Regulations**), it should be taxed only on the amount of its "retained profit" (as that term is defined in the Securitisation Regulations). However, if the Issuer does not satisfy the conditions to be taxed in accordance with the Securitisation Regulations (or subsequently does not), then profits or losses could arise in the Issuer which could have tax effects not contemplated in the cashflows for the transaction described in this Programme Memorandum and the applicable Pricing Supplement and as such adversely affect the tax treatment of the Issuer and consequently payment on the Notes.

### **Factors which may affect the Borrowers' ability to fulfil their obligations under the Loan Agreements**

#### ***Rental Income, Housing Benefit and Social Housing Spending***

A proportion of the rent received by each Borrower is derived from housing benefit payable by local authorities. The funding of housing benefit is currently undergoing significant change. Noteholders are exposed to the creditworthiness of Borrowers and any change in the welfare framework that could lead to the termination or reduction of tenants' housing benefit payments, or any delay in the payment of housing benefit, may increase the risks associated with this exposure.

If payments of housing benefit are reduced or terminated by the UK government, this may accordingly have an adverse impact on the payment of rent, as tenants would then have to pay a higher proportion of the rent themselves. Payments of housing benefit by local authorities may be delayed as a result of, among other things, the need to establish a new claimant's entitlement thereto. The receipt of rental payments by a Borrower, as landlord, may be delayed by the failure of the claimant to regularly pay rent which is due in addition to the housing benefit and/or, in circumstances where the housing benefit is not paid directly to the landlord, a failure to pass on the housing benefit payments to the landlord. In such circumstances, non-payment, or any delay in payment, could affect the ability of a Borrower to meet its payment obligations on a timely basis under the Loan Agreement to which it is a party. In certain circumstances (such as where the tenant consents), housing benefit is currently paid directly to the landlords of tenants of social housing, although see below as to reform of the welfare system.

The Welfare Reform Act (the **Act**), which received royal assent on 8th March, 2012, sets out significant changes in the provision of welfare benefits. The Act provides for the introduction of a number of reforms including a total household benefit cap, which is expected to be set at a maximum of £26,000 per household per year, new size criteria for working age social housing tenants in receipt of housing benefit, which will see a reduction in the amount of housing benefit (or the housing credit which will replace it) received by those who are under-occupying, and the introduction of Universal Credit. Caps have already been introduced to the local housing allowance which applies to those living in the private rented sector and this is particularly affecting those living in central London and the south-east. Currently, these caps do not apply to tenants living within social housing, but local authorities do currently have powers to restrict social rents if

they think they are unreasonably high so, in practice, registered providers of social housing are often setting rents within local housing allowance levels as a risk management measure.

Universal Credit, which will be phased in from October 2013, will be a single means-tested benefit paid to those of working age (in and out of work), which will include an amount in respect of housing costs, which will replace housing benefit. Currently, housing benefit is paid directly to registered providers of social housing and it has been acknowledged by the UK government that some households may go into rent arrears as a consequence of the introduction of Universal Credit and the related plans to introduce direct payment of housing benefit to claimants as the default position. This could affect the ability of a Borrower to meet its payment obligations on a timely basis under the Loan Agreement to which it is a party.

The UK government white paper entitled "*Universal Credit: welfare that works*" considered that there would be advantages in paying the housing component of universal credit directly to tenants, although it stated "we also recognise the importance of stable rental income for social landlords to support the delivery of new homes and will develop Universal Credit in a way that protects their financial position". In order to allay the fears of landlords and their lenders, the Department of Work and Pensions (**DWP**) has stated that it will safeguard landlords' income by putting in place protection mechanisms to allow for the payment of rent direct to landlords in certain circumstances, which look likely to include if tenants are vulnerable or fall into arrears of rent above a certain level. The DWP has set up a working group to look at which vulnerable claimants will fall within such groups and will be assessing the results of the pilot projects to identify the approach to arrears triggers, which could, for example, be based on the length of time for which arrears have been outstanding or the amount of arrears. Changes to the structure of the benefit system (including any system of direct payment of the housing component of Universal Credit to tenants) may affect the ability of claimants to pay their rent or lead to delays in the payment of rent and so could also affect the ability of a Borrower to meet its payment obligations on a timely basis under the Loan Agreement to which it is a party.

Whilst existing social tenancies and rent levels remain unchanged, the Localism Act introduces new provisions that allow registered providers of social housing to charge intermediate rents up to a maximum of 80 per cent. of the market rent level on both newly developed stock and on an agreed proportion of existing stock for permitted registered providers of social housing. This new rent is known as Affordable Rent. The option of charging Affordable Rent is only available to registered providers of social housing who have entered into a Framework Delivery Agreement with the HCA relating to the 2011-2015 Affordable Homes Programme and can only be exercised in relation to newly developed stock and on new lettings of a proportion of existing stock.

The new delivery model assumes that significant reductions in capital grant funding that will be offset by increased debt funding which in turn will be funded by higher rents. The increased rent generated from this new rent flexibility is to be used to fund increased interest costs as a result of an increased debt requirement. There is a risk that those tenants on Affordable Rent may find it harder to pay their rent and that this may have a corresponding effect on the ability of a Borrower to meet its payment obligations on a timely basis under the Loan Agreement to which it is a party.

### ***Rental growth risk***

Levels of rental income are currently impacted upon each year by the Retail Price Index (**RPI**) at the time of the annual increase. They may also be affected by any limitations on rent increases imposed by the UK government and are currently reviewed annually when the Department for Communities and Local Government sets its guideline limits for rent changes and cap levels under its rent convergence policy. The Borrowers will apply future rent increases, or decreases in the case of a negative RPI, in accordance with the UK government rent regime in place at that time subject to any ability of the Borrowers to take advantage of a "waiver" which may be granted by the Regulation Committee of the HCA (the **Regulator**) (or by any other regulatory body which replaces it) in respect of a Borrower's ability to comply with any such governmental target rent regime. In April 2011, the government implemented plans to increase welfare benefits (including Housing Benefit) each year in accordance with the Consumer Price Index (**CPI**) rather than the RPI. The

CPI is typically lower than the RPI and does not include housing costs. The decision to increase benefits in accordance with this lower index may therefore increase the risk of rent shortfalls occurring, particularly in expensive areas, or if Borrowers choose to grant tenancies at 80 per cent. of market rent. However, in August 2010 the Office for National Statistics indicated that it was developing an owner-occupiers' housing component and exploring the scope for its inclusion in the CPI. If this is introduced the difference between CPI and RPI may reduce.

### ***Non-payment risks***

The tenants of the Borrowers' properties are personally responsible for the rental payments on the relevant occupied properties. There is a greater risk of non-payment for those tenants who are not in receipt of full or partial housing benefit. In the event that any such tenants fail to pay rent in full or fail to pay rent in full on a timely basis, this could also affect the ability of the relevant Borrower to meet its payment obligations on a timely basis under the Loan Agreement to which it is a party.

### ***Regulatory risk***

The funding and regulation of housing associations has recently undergone significant change. Noteholders are exposed to the creditworthiness of Borrowers and any change in the regulatory framework which could lead to Borrowers being less tightly regulated may increase the risks associated with this exposure.

Under the Housing and Regeneration Act 2008 the Office for Tenants and Social Landlords, operating as the Tenant Services Authority (TSA), became responsible for regulating registered providers, replacing the Housing Corporation in England and Wales on 1st December, 2008. Under the same Act, the HCA was created as the national housing and regeneration agency for England with power for the distribution of government capital grants for new housing, again replacing a responsibility previously carried out by the Housing Corporation.

The TSA published "*The regulatory framework for social housing in England from April 2010*", setting out its six standards applying to registered providers from 1st April, 2010. The standards cover tenant involvement and empowerment; quality of accommodation; allocations, rent and tenure; neighbourhood management; value for money and governance and financial viability. Registered providers are expected to comply with the standards, although the TSA stated that its approach is to allow the providers greater freedoms to enable them to innovate in the best interests of their tenants. Registered providers are expected to establish their own framework to ensure that they are accountable to their tenants and governing bodies. The new standards replace a significant proportion of the previous regulatory framework which applied to registered providers. There is a risk that the standards may create uncertainty over the expectations for registered providers.

The Borrowers receive social housing grant funding through the HCA, the government agency that provides funding for affordable homes in England. Grant funding could be withdrawn if the Borrowers fail to comply with the Regulator's regulatory framework or if development performance falls below agreed levels in terms of delivery of its approved development programme. Grant funding may be required to be repaid under certain circumstances. Any such reduction in, withdrawal of or repayment of grant funding could have an adverse impact on the future development of the Borrowers.

On 18th October, 2010, the UK government published its "*Review of Social Housing Regulation*". The Review announced the UK government's intention of abolishing the TSA and moving its economic regulation and "backstop" consumer regulation functions to the HCA, with the stated aim of generating efficiency savings in back office functions and exploiting synergies across the functions of investment and regulation. The Localism Act 2011 established the Regulator as a separate committee of the HCA to undertake this role which has been appointed by the Secretary of State. This new arrangement and a new regulatory framework came into force from April 2012. The statutory powers available to the HCA, as regulator, are largely unchanged from those previously in place. The HCA will continue to provide

economic regulation for registered providers of social housing in order to ensure that they are financially viable and well governed and to support the confidence of private lenders to provide funds at competitive rates. It is intended that there will be a greater role for tenants' panels, councillors, MPs and the Ombudsmen in dealing with consumer issues.

Wales, Scotland and Northern Ireland are the subject of separate regulatory and funding regimes. The Welsh Assembly Government (**WAG**) is the housing regulator in Wales. It has powers under the Housing Associations Act 1985 and the Housing Act 1996 in respect of both the registration and regulation of Welsh registered social landlords (**RSLs**) and the funding of social housing. WAG published the "*Self-Assessment – Guiding Principles for Housing Associations in Wales*" circular in 2009 and "*Developing a modern regulatory framework for Housing Associations in Wales – Delivery Outcomes 2010*", which, in line with the approach taken by the Regulator, are less prescriptive than the previous regulatory regime.

The Scottish Housing Regulator was established on 1st April, 2008 to exercise the functions set out in Part 3 of the Housing (Scotland) Act 2001 relating to registration, regulation and inspection of RSLs in Scotland. The Housing (Scotland) Act 2010 received Royal Assent on 9th December 2010. This has formally restated and expanded the powers of the Scottish Housing Regulator and contains many of the same key concepts as those contained in the Housing and Regeneration Act 2008.

The Issuer is not aware of any proposed amendments to the regulatory regime which currently applies in Northern Ireland.

Further details of the regulatory regimes in England, Wales, Scotland and Northern Ireland are set out in "*Regulation of housing associations*" in the section headed "*Description of the Borrowers*".

### ***Moratorium***

In order to protect the interests of tenants and to preserve the housing stock of a registered provider of social housing within the social housing sector and within the regulatory regime, a 28 working day moratorium on the disposal of land (including the enforcement of any security) by an insolvent non-profit registered provider of social housing will apply, upon certain steps being taken in relation to that provider, such as presenting a winding-up petition or appointing an administrator. The Regulator will then seek to agree proposals about the future ownership and management of the provider's land with its secured creditors. The moratorium procedure may adversely affect the Issuer's ability to enforce the security provided by Borrowers as it stipulates actions that must be taken by a secured creditor prior to that secured creditor being able to enforce its security and gives powers to the Regulator in respect of certain secured assets.

### ***Housing market risk***

The Borrowers may generate a portion of their revenue from their housing for sale (and shared ownership) programmes and may, therefore, be exposed to market risk in relation to housing for sale, including both demand and pricing risks. Market risks which may impact upon both the rental market and the development of residential properties include the risk of changes to UK government regulation, including, but not limited to, regulation relating to planning, taxation, landlords and tenants and welfare benefits. The maintenance of existing properties, development of existing sites and acquisition of additional sites may be subject to the availability of finance facilities and the costs of facilities, interest rates and inflation may also have an effect.

The latest figures from the Nationwide House Price Index show that there has been little change in the generally weaker buyer demand for the UK housing market with a typical UK property increasing by a seasonally adjusted 0.6 per cent. month on month for October 2012. The 3 month on 3 month rate of change, which is considered to be a better measure of the underlying trend, indicated a modest increase of 0.5 per cent. On an annual basis, house price inflation was -0.9 per cent. for the year to October 2012. The figures seem to indicate that the property market remains uncertain.



Among other things, these market risks may impact upon the expenses incurred by a Borrower associated with existing residential properties, rental income produced by these properties, the value of its existing investments, its ability to develop land that it has acquired and its ability to acquire additional sites. This could, in turn, impact upon a Borrower's cash flow and its ability to satisfy any covenants which it is required to maintain pursuant to the terms of existing facility arrangements or the relevant Loan Agreement.

### ***Loan Covenants***

Each of the Borrowers will, under the terms of the Loan Agreement to which it is a party, have the ability to change the financial covenants by which it is bound under that Loan Agreement and thereby reduce the required levels of asset cover, income cover or gearing (subject to the prior written consent of the Issuer, such consent not to be unreasonably withheld). However, the options available to the Borrower will be fixed at the outset in the relevant Loan Agreement, and will be as set out in "*Description of the Loan Agreements*" below, or as agreed by the Operations Manager on behalf of the Issuer. The Operations Manager is not permitted to agree other terms that will adversely affect the then current rating of the Issuer and/or the associated Notes.

### **Factors which are material for the purpose of assessing the market risks associated with Notes issued under the Programme**

#### ***The Notes may not be a suitable investment for all investors***

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

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

#### ***Modification, waivers and substitution***

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

The conditions of the Notes also provide that the Trustee may, without the consent of Noteholders, agree to (i) any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Notes or (ii) determine without the consent of the Noteholders that any Event of Default or

potential Event of Default shall not be treated as such or (iii) the substitution of another company as principal debtor under any Notes in place of the Issuer, in the circumstances described in Condition 17 (*Meetings of Noteholders, Modification, Waiver and Substitution*).

### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

### ***Change of law***

The conditions of the Notes are based on English law in effect as at the date of this Programme Memorandum. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Programme Memorandum.

### ***Notes where denominations involve integral multiples: definitive Notes***

In relation to any issue of Notes which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts 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 Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

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

### ***Optional redemption by the Issuer***

The Notes contain an optional redemption feature which is likely to limit their market value. The market value generally will not rise substantially above the price at which they can be redeemed.

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

In the event that the Notes become repayable prior to maturity pursuant to Condition 9.2 (*Redemption for tax or loan illegality reasons*), the Notes will be redeemed at their principal amount, plus accrued interest. In

such circumstances it may not be possible for an investor to reinvest the redemption proceeds at an effective rate of interest as high as the interest rate on the Notes.

### ***Partial redemption***

The Notes may be redeemed in part either (a) where there is more than one Associated Loan Agreement in relation to any Series of Notes, pursuant to Condition 9.2 (*Redemption for tax or loan illegality reasons*) or Condition 9.3 (*Redemption at the option of the Issuer*), in the event that one Associated Borrower chooses or is required to prepay its Loan in circumstances where the other Associated Loan Agreements in respect of such Series of Notes will remain outstanding or (b) otherwise at the option of the Issuer pursuant to Condition 9.3 (*Redemption at the option of the Issuer*). In such circumstances, this will reduce the overall liquidity in the Notes which may affect an investor's ability to sell its Notes.

### ***Fixed interest rate***

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

### ***The secondary market generally***

Notes may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The development or continued liquidity of any secondary market for the Notes will be affected by a number of factors such as the state of credit markets in general and the creditworthiness of the relevant Borrowers, as well as other factors such as the time remaining to the maturity of the Notes.

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

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

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

### ***Liquidation expenses***

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

As a result of the changes described above, upon the enforcement of the floating charge security granted by the Issuer, floating charge realisations which would otherwise be available to satisfy the claims of secured

creditors will be reduced by at least a significant proportion of any liquidation expenses. There can be no assurance that the Noteholders will not be adversely affected by such a reduction in floating charge realisations.

***Credit ratings may not reflect all risks***

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Pricing Supplement.

***Legal investment considerations may restrict certain investments***

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

## FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will be initially issued in the form of a temporary global note (a **Temporary Global Note**) or, if so specified in the applicable Pricing Supplement, a permanent global note (a **Permanent Global Note**) which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depository (the **Common Depository**) for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**).

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

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Note is issued, interests in such Temporary Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Global Note of the same Series or (b) definitive Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Pricing Supplement and subject, in the case of definitive Notes, to such notice period as is specified in the applicable Pricing Supplement), in each case against certification of beneficial ownership as described above unless such certification has already been given. The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for definitive Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Global Note without any requirement for certification.

The applicable Pricing Supplement will specify that a Permanent Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Notes with, where applicable, receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 12.1 (*Events of Default*)) has occurred and is continuing, (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Notes represented by the Permanent Global Note in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Noteholders in accordance with Condition 16 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Note) or the Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Notes which have an original maturity of more than 365 days and on all receipts and interest coupons relating to such Notes:

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

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

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

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Principal Paying Agent and the Trustee.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

## TERMS AND CONDITIONS OF THE NOTES

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

This Note is one of a Series (as defined below) of Notes issued by GB Social Housing plc (the **Issuer**) constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 13th November, 2012 made between the Issuer and BNP Paribas Trust Corporation UK Limited (the **Trustee**, which expression shall include any successor as Trustee).

Unless the context otherwise requires, references herein to the **Notes** shall be references to the Notes of this Series and shall mean:

- (a) in relation to any Notes represented by a global Note (a **Global Note**), units of each Specified Denomination in Sterling;
- (b) any Global Note; and
- (c) any definitive Notes issued in exchange for a Global Note.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 13th November, 2012 and made between the Issuer, the Trustee, BNP Paribas Securities Services, Luxembourg Branch as issuing and principal paying agent (the **Principal Paying Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Notes in definitive form have interest coupons (**Coupons**) and, if indicated in the applicable Pricing Supplement, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Notes repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement attached to or endorsed on this Note which supplement these Terms and Conditions (the **Conditions**) and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note. References to the **applicable Pricing Supplement** are to Part A of the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

The Trustee acts for the benefit of the holders for the time being of the Notes (the **Noteholders**, which expression shall, in relation to any Notes represented by a Global Note, be construed as provided below), the

holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Notes which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee being at 13th November, 2012 at 55 Moorgate, London EC2R 6PA and at the specified office of each of the Paying Agents. Copies of the applicable Pricing Supplement are available for viewing at the registered office of the Issuer and at the specified office of the Principal Paying Agent and copies may be obtained from those offices save that the applicable Pricing Supplement will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Issuer and the Principal Paying Agent as to its holding of such Notes and identity. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Trust Deed, the Agency Agreement and the applicable Pricing Supplement which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

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

## 1. DEFINITIONS

**Associated Borrower** means each borrower pursuant to an Associated Loan Agreement;

**Associated Borrower Default** means, in respect of any Associated Loan Agreement, an event of default (howsoever described) specified therein pursuant to which the Issuer is entitled to call in the Loan;

**Associated Loan Agreement** means each agreement specified as such in the applicable Pricing Supplement of each Tranche of the Notes and, to the extent that any Loan has been prepaid prior to its maturity date, each other loan agreement which the Issuer enters into to as a replacement therefor and which has been designated as such by the Issuer;

**Associated UK Gilts** has the meaning given to it in Condition 4.1 (*Interest Reserves*);

**Associated Sinking Fund Trust Deed** means each sinking fund trust deed entered into by an Associated Borrower in accordance with the terms of its respective Associated Loan Agreement;

**Available Associated Loan Receipts** means all amounts from time to time received from the Associated Borrowers pursuant to the Associated Loan Agreements, and available for distribution by the Issuer, the Trustee or any receiver appointed by the Issuer or the Trustee;

**Available Cash Reserves** means any amounts from time to time standing to the credit of the Reserve Account which represent capital and other amounts available for the payment of expenses (excluding, for the avoidance of doubt, any Interest Reserves);



**Available Interest Shortfall Reserves** means, in respect of any Series of Notes, any amounts from time to time standing to the credit of the Reserve Account which represent Interest Reserves and which are attributable to such Series;

**Blocked Account** means, in respect of each Associated Borrower, the account established by such Associated Borrower in respect of its Associated Loan Agreement which is subject to first fixed security in favour of the Issuer pursuant to the terms of the Associated Sinking Fund Trust Deed;

**Blocked Account Balance** means, in respect of any Blocked Account, any amounts from time to time standing to the credit of such Blocked Account;

**Borrower Interest Adjustment Amount** means, in relation to an interest payment due on the Notes of the relevant Series, an amount payable by an Associated Borrower under an Associated Loan Agreement and determined by the Issuer as being that Borrower's *pro rata* share of the amounts required to fund such interest payment on the Notes after taking into account the interest due under the Associated Loan Agreements and under the Associated UK Gilts;

**Borrower Principal Adjustment Amount** means, in relation to a principal payment due on the Notes of the relevant Series, an amount (if any) payable by an Associated Borrower under an Associated Loan Agreement and determined by the Issuer as being that Borrower's *pro rata* share of the amounts required to fund such principal payment on the Notes after taking into account the principal due under the relevant Associated Loan Agreement(s) and the proceeds of maturity or realisation of the Associated UK Gilts;

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

**CISX Listing Sponsor** means Walkers Capital Markets Limited or any successor or replacement Channel Islands Stock Exchange listing sponsor appointed by the Issuer from time to time;

**Dealers** means Barclays Bank PLC and any other dealers appointed in accordance with the Programme Agreement from time to time;

**Deferred Principal** has the meaning given to it in Condition 9.5 (*Deferral of principal*);

**Enforcement Priority of Payments** has the meaning given to it in Condition 5 (*Order of Payments*);

**Interest Reserves** means any interest shortfall reserves for the time being held by the Issuer and shall include any UK Gilts in which such interest shortfall reserves are from time to time invested;

**Issuer Account** means an account in the name of the Issuer at Barclays Bank PLC divided into an operating sub-account (the **Operating Account**) and a reserve sub-account (the **Reserve Account**) (or such other account(s) as the Issuer may from time to time open for the purpose of paying expenses, holding capital and/or holding Interest Reserves);

**Loan** means a loan made by the Issuer to an Associated Borrower pursuant to an Associated Loan Agreement;

**Nominated Financial Adviser** means, in respect of any relevant calculation of a redemption price or an adjustment to the interest or principal amount payable in respect of the Notes, a financial adviser nominated by the Issuer for the purpose of such calculation and approved in writing by the Trustee;

**Operating Expenses** means amounts due and payable by the Issuer (i) to the Trustee under the Trust Deed; (ii) to the Principal Paying Agent and the other Paying Agents under the Agency Agreement; (iii) to the Operations Manager and any Agent (as defined in the Operations Management Agreement) under the Operations Management Agreement (other than the Operations Manager Incentive Fee); (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 Dealers in respect of any amounts payable in respect of indemnities under the Programme Agreement; (vii) to the Rating Agency (in respect of fees and expenses in connection with the ratings of the Notes, including the annual fees payable to the Rating Agency for monitoring such rating); (viii) to the Channel Islands Stock Exchange and the CISX Listing Sponsor in respect of the listing of the Notes; and (ix) 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 Notes;

**Operations Management Agreement** means the Operations Management Agreement dated 13th November, 2012 between the Issuer and the Operations Manager (as the same may be amended and/or supplemented and/or restated from time to time);

**Operations Manager** means Trifinium Advisors (UK) Limited or any successor or replacement operations manager under the Operations Management Agreement;

**Operations Manager Incentive Fee** has the meaning given to the term "Incentive Fee" in the Operations Management Agreement;

**Pre-Enforcement Priority of Payments** has the meaning given to it in Condition 5 (*Order of Payments*);

**Programme Agreement** means the Programme Agreement dated 13th November, 2012 between the Issuer and the Dealers (as the same may be amended and/or supplemented and/or restated from time to time);

**Programme Amount** means £2,000,000,000 or such other amount as agreed between the Issuer and the Dealers pursuant to the Programme Agreement;

**Programme Documents** means the Associated Loan Agreements, any loan agreements entered into in relation to any other Series, the Trust Deed, the Agency Agreement, the Programme Agreement and the Operations Management Agreement;

**Rating Agency** means Standard & Poor's Credit Market Services Europe Limited or such other internationally recognised rating agency which has assigned a rating to the Notes at the request of the Issuer (or any successor to its rating business);

**Required Retention** has the meaning given to it in Condition 4.1 (*Interest Reserves*);

**Retained Profit** means, in relation to each accounting period,

$$\frac{\pounds 26,000}{1 - CT}$$

(where CT means the applicable corporation tax rate for such applicable accounting period),

or such lesser amount as is available to be paid pursuant to Condition 5.1(f) or 5.2(f), as applicable; and

**UK Gilts** means one or more series of conventional (i.e., not index-linked) UK Government Gilts, as selected by the Issuer.

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

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in Sterling and in the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination.

Subject as set out below, title to the Notes, Receipts and Coupons will pass by delivery. The Issuer, the Paying Agents and the Trustee will (except as otherwise required by law) deem and treat the bearer of any Note, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, société anonyme (**Clearstream, Luxembourg**), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Paying Agents and the Trustee as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such principal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Issuer, any Paying Agent and the Trustee as the holder of such principal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular principal amount of Notes as aforesaid, the Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

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

## 3. **STATUS OF THE NOTES**

The Notes and any relative Receipts and Coupons are direct obligations of the Issuer, are secured in the manner set out in Condition 4 (*Security*), and rank *pari passu* among themselves.

## 4. **INTEREST RESERVES; SECURITY**

### 4.1 **Interest Reserves**

In respect of each Tranche of Notes, the Issuer will credit an amount of the net proceeds of issue equal to the Required Retention to the Reserve Account, and will invest such amount in UK Gilts (the UK Gilts acquired with the proceeds of issue of the Notes of this Series being the **Associated UK Gilts** in respect of this Series). The proceeds of maturity of the Associated UK Gilts will be

used (or, if and to the extent necessary, the Associated UK Gilts will be realised and the proceeds of the realisation will be used) by the Issuer (a) to meet shortfalls in the amounts available to the Issuer to pay interest and expenses in respect of the Notes which are due to non-payment by an Associated Borrower under an Associated Loan Agreement and (b) on a redemption (in whole or in part) of the Notes, to fund part of the redemption amount payable by the Issuer (with the remainder of the redemption amount being funded by the principal and (if applicable) Borrower Principal Adjustment Amount payable by the Associated Borrower(s) under the Associated Loan Agreement(s)). Interest earned on the Associated UK Gilts will be used to fund part of each interest payment payable by the Issuer on the Notes (with the remainder of such interest payment being funded by the relevant interest and Borrower Interest Adjustment Amount payable by the Associated Borrower(s) under the Associated Loan Agreement(s)).

For these purposes, the amount of the **Required Retention**, in respect of any Tranche of Notes, shall be as specified in the applicable Pricing Supplement, and shall be calculated to be such amount as is necessary to ensure that the Available Interest Shortfall Reserves immediately following the issue date of such Tranche of Notes is at least equal to:

- (a) 25 per cent. of the aggregate amount of interest payable by all Associated Borrowers under the Associated Loan Agreements in respect of this Series of Notes during the period of one year following the issue date of such Tranche of Notes (and assuming for this purpose that such Associated Loan Agreements had all been entered into and were fully and immediately drawn); or, if greater,
- (b) the aggregate amount of interest payable by the relevant Borrowers under the two Associated Loan Agreements in respect of this Series of Notes that contain the largest commitments by the Issuer to lend (or, if only one Associated Loan Agreement has been entered into in respect of this Series of Notes, the aggregate amount of interest payable by the Borrower thereunder) during the period of one year following the issue date of such Tranche of Notes (and assuming for this purpose that such Associated Loan Agreements had all been entered into and were fully and immediately drawn).

## 4.2 Security

The Issuer's obligations in respect of all Series of Notes are secured under the Trust Deed by a first floating charge over the whole of the assets and undertaking of the Issuer (other than, *inter alia*, the money representing paid up ordinary share capital of the Issuer) which will become enforceable upon (i) any Series of Notes becoming due and repayable pursuant to Condition 12.1 (*Events of Default*); (ii) subject to Condition 9.5 (*Deferral of principal*), any failure for any reason of the Issuer to repay any Series of Notes when due; (iii) formal notice being given of an intention to appoint an administrator in relation to the Issuer; or (iv) an application being made to, or a petition being lodged or documents being filed, with the court for administration in relation to the Issuer. All Series of Notes shall rank *pari passu* under such floating charge.

If the floating charge is enforced pursuant to (i) and/or (ii) above in respect of another Series of Notes (each a **Defaulted Series**) in circumstances where no Event of Default or non-payment is subsisting in respect of this Series or any other Series of Notes, the floating charge shall automatically de-crystallise upon the Defaulted Series having been redeemed in full and the assets and undertaking of the Issuer (other than, *inter alia*, the money representing paid up ordinary share capital of the Issuer, but including any assets which were acquired by the Issuer (or the Trustee on its behalf) while the enforcement was in effect) shall thereafter be subject to a floating charge pursuant to the Trust Deed as if such assets and undertaking had never been subject to a fixed charge.

## 5. ORDER OF PAYMENTS

### 5.1 Pre-enforcement Priority of Payments

Prior to the Notes having become due and repayable in full and the security in respect of the Notes being enforced as described in Condition 4.2 (*Security*) and subject as provided in the Trust Deed, on each Interest Payment Date up to, and including, the Expected Maturity Date (and, if the Notes are not redeemed in full on the Expected Maturity Date, each Interest Payment Date up to, and including, the Legal Maturity Date), the Issuer shall apply the Available Associated Loan Receipts, any Available Cash Reserves and (in respect of items (a) to (e) below only) any Available Interest Shortfall Reserves 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 (insofar as they relate to the Notes);
- (b) to the payment of any unpaid fees, expenses and liabilities of the Trustee or any appointee thereof (including, but not limited to, all amounts payable to the Trustee or any appointee thereof under the Trust Deed) (insofar as they relate to the Notes);
- (c) to the payment of any other due but unpaid Operating Expenses (insofar as they relate to the Notes);
- (d) to the payment, on a *pari passu* and *pro rata* basis, of the interest due and payable on the Notes;
- (e) to the payment, on a *pari passu* and *pro rata* basis, of any principal due and payable on the Notes;
- (f) in retention of any Retained Profit by the Issuer to the extent that such Retained Profit has not been retained in full on a previous Interest Payment Date (or other previous date on which a payment is due in respect of the Notes) falling within the relevant accounting period; and
- (g) to the payment of any due but unpaid Operations Manager Incentive Fee.

### 5.2 Enforcement Priority of Payments

The Trust Deed requires that all monies received by or on behalf of the Trustee following enforcement with respect to the Notes or any other Series of Notes and/or the security therefor 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, any appointee of the Trustee or any receiver in connection with the enforcement of security;
- (b) to the payment of any other unpaid fees, expenses and liabilities of the Trustee or any appointee thereof (including, but not limited to, all amounts payable to the Trustee or any appointee thereof under the Trust Deed);
- (c) to the payment of any other due but unpaid Operating Expenses;
- (d) to the payment, on a *pari passu* and *pro rata* basis, of any due but unpaid interest on each Series of Notes;

- (e) to the payment, on a *pari passu* and *pro rata* basis, of the principal due and payable on each Series of Notes;
- (f) in retention of any Retained Profit by the Issuer to the extent that such Retained Profit has not been retained in full on a previous Interest Payment Date (or other previous date on which a payment is due in respect of the Notes) falling within the relevant accounting period; and
- (g) to the payment of any due but unpaid Operations Manager Incentive Fee.

## 6. COVENANTS

So long as any of the Notes remain outstanding, the Issuer covenants that it will not, without the prior consent in writing of the Trustee:

- (a) engage in any activity or do anything other than: (i) issue notes subject to a maximum aggregate principal amount outstanding at any time of the Programme Amount; (ii) invest the proceeds of the issue of notes in loan agreements with registered providers of social housing, registered social landlords or registered housing associations, as applicable, in England, Wales, Scotland and Northern Ireland or (in the case of Interest Reserves) UK Gilts; (iii) perform its obligations under the Programme Documents; and (iv) perform any act incidental to or necessary in connection with the aforesaid;
- (b) have any employees or subsidiary companies, consolidate or merge with any other person, convey or transfer its properties or assets substantially as an entirety to any person (save as provided in the Trust Deed), give any guarantee or indemnity or create or permit to subsist any mortgage or charge or any other security interest over its assets other than pursuant to the Trust Deed;
- (c) issue any further shares (other than the issue of further preference shares to Trifinium but only to the extent that the Issuer reasonably requires additional capital to provide for losses or expenses arising from the Issuer's business or to maintain or enhance the Issuer's creditworthiness); or
- (d) apply to become part of any group for the purposes of section 43 of the Value Added Tax Act 1994 with any other company or group of companies, or for the purposes of any act, regulation, order, statutory instrument or directive which, from time to time, may re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994, unless required to do so by law.

## 7. INTEREST

### 7.1 Interest Rate and Interest Payment Dates

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

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

## 7.2 Calculation of Coupon Amounts and Broken Amounts

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

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

and, in each case, multiplying such sum by the Day Count Fraction, and rounding the resultant figure to the nearest penny, half a penny being rounded upwards. Where the Specified Denomination of a Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In the Conditions:

**Day Count Fraction** means, in respect of the calculation of an amount of interest in accordance with this Condition 7.2, the actual number of days in the Interest Period divided by 365; and

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

## 7.3 Accrual of interest

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

## 8. PAYMENTS

### 8.1 Method of payment

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

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*).

### 8.2 Presentation of definitive Notes, Receipts and Coupons

Payments of principal in respect of definitive Notes will (subject as provided below) be made in the manner provided in Condition 8.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Notes, and payments of interest in respect of definitive Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 8.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 8.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Note to which it appertains. Receipts presented without the definitive Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Notes in definitive form (other than Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 10 (*Taxation*)) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 11 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

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

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

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

### **8.3 Payments in respect of Global Notes**

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



## 8.4 General provisions applicable to payments

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

## 8.5 Payment Day

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

For these purposes, **Payment Day** means any day which (subject to Condition 11 (*Prescription*)) is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and, in the case of Notes in definitive form only, the relevant place of presentation.

## 8.6 Interpretation of principal and interest

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

- (a) any additional amounts which may be payable with respect to principal under Condition 10 (*Taxation*);
- (b) in relation to Notes redeemable in instalments, the Instalment Amounts; and
- (c) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes.

Any reference in these Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 10 (*Taxation*).

## 9. REDEMPTION AND PURCHASE

### 9.1 Redemption at maturity

No payments of principal under the Notes shall be made prior to the Expected Maturity Date except on an early redemption of the Notes in accordance with Condition 9.2 (*Redemption for tax or loan illegality reasons*), 9.3 (*Redemption at the option of the Issuer*) or 12 (*Events of Default and Enforcement*). All outstanding Notes not redeemed in full on or prior to the Expected Maturity Date will be redeemed in accordance with the Pre-Enforcement Priority of Payments on each date on which funds are available in the period from and including the Expected Maturity Date to and including the Legal Maturity Date, until redemption and payment in full of all amounts (including principal and interest) payable in respect of the Notes. All interest accrued on the Notes will be paid in accordance with the Pre-Enforcement Priority of Payments on each Interest Payment Date to and including the Legal Maturity Date, until redemption and payment in full of all amounts (including principal and interest) payable in respect of the Notes.

## 9.2 Redemption for tax or loan illegality reasons

If, in accordance with an Associated Loan Agreement, an Associated Borrower elects or is required to prepay its Loan prior to the repayment date specified in such Associated Loan Agreement pursuant to a Tax Prepayment or an Illegality Prepayment, then the Issuer may redeem Notes in an aggregate principal amount not exceeding the aggregate of the principal amount of the Loan to be repaid and the principal amount of the corresponding proportion of the Associated UK Gilts. Any redemption of Notes pursuant to this Condition 9.2 must take place within 3 Business Days of the date on which prepayment is made by the relevant Associated Borrower under such Associated Loan Agreement (the **Loan Prepayment Date**) at their principal amount together with any interest accrued up to (but excluding) the Loan Prepayment Date.

Notice of any early redemption in accordance with this Condition 9.2 (which notice shall be irrevocable) shall be given by the Issuer to the Trustee, the Paying Agents and the Noteholders, in accordance with Condition 16 (*Notices*), as promptly as practicable following notification by the Associated Borrower of prepayment. Such notice shall specify the reason for such redemption and the relevant Loan Prepayment Date and the date of such redemption.

In these Conditions:

**Illegality Prepayment** means the prepayment by an Associated Borrower of its Loan as a result of it becoming unlawful, or contrary to any request from or requirement of any fiscal, monetary or other authority, for the Issuer to fund the Loan or to allow the Loan to remain outstanding or for the Notes to remain outstanding; and

**Tax Prepayment** means the optional prepayment by an Associated Borrower of its Loan as a result of its obligation to make additional payments to the Issuer under the Associated Loan Agreement in respect of withholding or deduction of taxes on its Loan or the Notes.

## 9.3 Redemption at the option of the Issuer

Notwithstanding Condition 9.2, the Issuer may redeem all or some only of the Notes then outstanding on any date having given (i) not less than 10 nor more than 25 days' notice (which notice shall be irrevocable and shall specify the date fixed for redemption) to the Noteholders in accordance with Condition 16 (*Notices*) and (ii) not less than 5 days before the giving of notice referred to in (i), notice to the Trustee and the Principal Paying Agent.

Redemption of the Notes pursuant to this Condition 9.3 shall (unless and to the extent otherwise provided in the applicable Pricing Supplement) be made at the higher of the following:

- (x) par; and
- (y) the amount (the **Redemption Amount**) (as calculated by a Nominated Financial Adviser and reported in writing to the Issuer and the Trustee) which is equal to the principal amount of the Notes to be redeemed multiplied by the price (expressed as a percentage and calculated by the Nominated Financial Adviser) (rounded to three decimal places (0.0005 being rounded upwards)) at which the Gross Redemption Yield on the Notes (if the Notes were to remain outstanding until the Maturity Date) on the Determination Date would be equal to the Gross Redemption Yield at 3:00 pm (London time) on the Determination Date of the Benchmark Gilt,

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

For the purposes of this Condition:

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

**Determination Date** means ten Business Days prior to the date of redemption; and

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

#### 9.4 Partial Redemption

In the case of a partial redemption of Notes pursuant to Condition 9.2 (*Redemption for tax or loan illegality reasons*) or 9.3 (*Redemption at the option of the Issuer*) above, the Notes to be redeemed (**Redeemed Notes**) will:

- (a) in the case of Redeemed Notes represented by definitive Notes, 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; and
- (b) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion).

Notice of any such selection will be given by the Issuer to the Noteholders in accordance with Condition 16 (*Notices*) as promptly as practicable. Each notice will specify the date fixed for redemption, the early redemption amount, the aggregate principal amount of the Redeemed Notes and the aggregate principal amount of the Notes which will be outstanding after the partial redemption and, in the case of Redeemed Notes represented by definitive Notes, the serial numbers of the Redeemed Notes and the serial numbers of Notes previously called for redemption and not presented for payment.

#### 9.5 Deferral of principal

In the event that the Issuer shall be unable to pay in full any amount of principal otherwise due on the Notes (in accordance with this Condition 9 or Condition 12.1 (*Events of Default*)) on any date prior to the Expected Maturity Date by reason of a default in any principal payment or Borrower Principal Adjustment Amount due under an Associated Loan Agreement (the principal and Borrower Principal Adjustment Amount not paid being, the **unpaid principal**), that proportion of the principal otherwise due and payable on each Note that is referable to the unpaid principal under such Associated Loan Agreement(s) (as calculated by a Nominated Financial Adviser) shall be deemed not to be due and payable on such date and such amount shall instead be deferred in accordance with this Condition 9.5 (the **Deferred Principal**).

Amounts in respect of Deferred Principal will be paid to the holders of the Notes as soon as reasonably practicable after receipt by the Issuer of any unpaid principal in respect of any such Associated Loan Agreement, provided, however, that all Deferred Principal shall become due and payable on the Legal Maturity Date or, if earlier, on the date falling 2 years after the date on which such Deferred Principal would otherwise have been paid but for the application of this Condition 9.5.

Interest shall continue to accrue on Deferred Principal in accordance with Condition 7 (*Interest*) until the date on which such Deferred Principal is paid.

Notice of the application of this Condition 9.5 (including the amount of any unpaid interest and the subsequent receipt of any unpaid interest) shall be given by the Issuer to the Trustee, the Paying Agents, any stock exchange on which the Notes are for the time being listed and the Noteholders, in accordance with Condition 16 (*Notices*), as promptly as practicable.

## **9.6 Purchases**

The Issuer may at any time purchase Notes (provided that, in the case of definitive Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. All Notes so purchased will be surrendered to a Paying Agent for cancellation.

Any Borrower may at any time purchase Notes in the open market or otherwise at any price. Following a purchase of Notes by an Associated Borrower, the Associated Borrower may (but is not obliged to) surrender the Notes to the Issuer for cancellation. An amount equal to the aggregate principal amount of the Notes being surrendered shall be deemed to be prepaid under the relevant Associated Loan Agreement and, to the extent that any portion of the Loan is then deposited in such Associated Borrower's Blocked Account, an amount of cash equal to the lesser of (i) the aggregate principal amount of the Notes being surrendered and (ii) the Blocked Account Balance, shall be released from such Associated Borrower's Blocked Account to the Associated Borrower.

## **9.7 Cancellation**

All Notes which are redeemed in full will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 9.6 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

## **10. TAXATION**

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

- (a) the holder of which is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or
- (b) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 8.5 (*Payments - Payment Day*)); or

- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made 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; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

- (i) **Tax Jurisdiction** means the United Kingdom or any political subdivision or any authority thereof or therein having power to tax; and
- (ii) the **Relevant Date** means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Trustee or the Principal Paying Agent on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 16 (*Notices*).

## 11. PRESCRIPTION

The Notes, Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 10 (*Taxation*)) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 8.2 (*Payments - Presentation of definitive Notes, Receipts and Coupons*) or any Talon which would be void pursuant to Condition 8.2 (*Payments - Presentation of definitive Notes, Receipts and Coupons*).

## 12. EVENTS OF DEFAULT AND ENFORCEMENT

### 12.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, (subject in each case to being indemnified and/or secured and/or pre-funded to its satisfaction) (but in the case of the happening of any of the events described in paragraphs (b) to (d) (other than the winding up or dissolution of the Issuer) or (e) to (g) inclusive below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Noteholders), give notice in writing to the Issuer that each Note is, and each Note shall thereupon immediately become, due and repayable at the higher of par and the Redemption Amount (calculated in accordance with Condition 9.3) together with accrued interest as provided in the Trust Deed if any of the following events (each an **Event of Default**) shall occur:

- (a) if default is made (subject as provided in Condition 9.5 (*Deferral of principal*)) in the payment of any interest or principal due in respect of the Notes or any of them and the default continues for a period of 7 days in the case of principal and 14 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under the Conditions or the Trust Deed and (except in any case where, in the opinion of the Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be

required) the failure continues for the period of 21 days next following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or

- (c) if the Issuer fails to pay when due any amount of interest or principal in respect of any other Series of Notes (subject to any applicable grace periods or deferral provisions with respect thereto); or
- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, save for the purposes of reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution; or
- (e) if the Issuer ceases or threatens to cease to carry on the whole or a substantial part of its business, save for the purposes of reorganisation on terms previously approved in writing by the Trustee or by an Extraordinary Resolution, or the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (f) if (A) 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 a substantial part of the undertaking or assets of the Issuer, or an encumbrancer takes possession of the whole or a substantial 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 a substantial part of the undertaking or assets of the Issuer and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or
- (g) if the Issuer 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).

## **12.2 Enforcement**

The Trustee may at any time, at its discretion and without notice, take such proceedings or other action against the Issuer as it may think fit to enforce the provisions of the Trust Deed, these Conditions, the Notes, the Receipts and the Coupons, but it shall not be bound to take any such proceedings or other action in relation to the Trust Deed, these Conditions, the Notes, the Receipts or the Coupons unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-fifth in aggregate principal amount of the Notes then outstanding and (ii) it shall have been indemnified and/or secured and/or pre-funded to its satisfaction.

No Noteholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

### **12.3 Associated Borrower Default**

Following the occurrence of an Associated Borrower Default, the Issuer shall take such action as it considers necessary and/or appropriate against the relevant Associated Borrower to enforce its obligations under the relevant Associated Loan Agreement including, without limitation, participating in negotiations for a rescheduling or workout of the relevant Associated Loan Agreement if applicable. Notwithstanding the foregoing, the Issuer shall only be obliged to take such action:

- (a) if it believes, in its reasonable opinion, that it will have sufficient Available Cash Reserves to pay any expenses it may incur in taking such action; or
- (b) if it believes, in its reasonable opinion, that it will not have such sufficient Available Cash Reserves, to the extent that it has been indemnified and/or secured and/or pre-funded to its satisfaction by or on behalf of the holders of the Notes.

For the avoidance of doubt, an Associated Borrower Default does not, by itself, constitute an Event of Default.

### **13. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS**

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

### **14. PAYING AGENTS**

The names of the initial Paying Agents and their initial specified offices are set out below.

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

- (a) there will at all times be an Principal Paying Agent;
- (b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;
- (c) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders by the Issuer in accordance with Condition 16 (*Notices*).

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or

relationship of agency or trust with, any Noteholders, Receipholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

## **15. EXCHANGE OF TALONS**

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of the Principal Paying Agent or any other Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 11 (*Prescription*).

## **16. NOTICES**

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

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

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent. Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the Principal Paying Agent through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

## **17. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION**

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Trust Deed or these Conditions. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in principal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not



less than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the principal amount of the Notes so held or represented. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Trustee may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Notes or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or potential Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which, in the opinion of the Trustee, is proven. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified by the Issuer to the Noteholders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Noteholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders, Receiptholders or Couponholders except to the extent already provided for in Condition 10 (*Taxation*) and/or any undertaking or covenant given in addition to, or in substitution for, Condition 10 (*Taxation*) pursuant to the Trust Deed.

The Trustee may, without the consent of the Noteholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Notes, the Receipts, the Coupons and the Trust Deed of another company, subject to (a) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution and (b) certain other conditions set out in the Trust Deed being complied with.

## **18. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER**

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

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

## **19. FURTHER ISSUES**

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

To the extent that the Notes are listed on the Channel Islands Stock Exchange, application to the Official List of the Channel Islands Stock Exchange will be made to list such further notes.

## **20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

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

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

### **21.1 Governing law**

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

### **21.2 Submission to jurisdiction**

The Issuer irrevocably agrees, for the benefit of the Trustee, the Noteholders, the Receiptholders and the Couponholders, that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, these Conditions, the Notes, the Receipts and/or the Coupons (including a dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, these Conditions, the Notes, the Receipts and/or the Coupons) and accordingly submits to the exclusive jurisdiction of the English courts.

The Issuer waives any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee, the Noteholders, the Receiptholders and the Couponholders may take any suit, action or proceedings (together referred to as **Proceedings**) arising out of or in connection with the Trust Deed, these Conditions, the Notes, the Receipts and the Coupons (including any Proceedings relating to any non-contractual obligations arising out of or in connection with the Trust Deed, these Conditions, the Notes, the Receipts and the Coupons) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

## APPLICABLE PRICING SUPPLEMENT

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

[Date]

### GB SOCIAL HOUSING PLC

#### Issue of an unlimited number of £[●] Secured Notes due [●] under the £2,000,000,000 Secured Note Programme

#### PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Programme Memorandum dated 13th November, 2012. This document constitutes the Pricing Supplement of the Notes described herein and must be read in conjunction with the Programme Memorandum and the Trust Deed (together, the **Listing Document**). Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Programme Memorandum.

Neither the admission of the Notes to the Official List nor the approval of the Listing Document pursuant to the listing requirements of the Channel Islands Stock Exchange shall constitute a warranty or representation by the Channel Islands Stock Exchange as to the competence of the service providers or any other party connected with the Issuer, the adequacy and accuracy of information contained in the Listing Document or the suitability of the Issuer for investment or for any other purpose.

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Pricing Supplement.]*

1. Issuer: GB Social Housing plc
2. (a) Series Number: [ ]  
(b) Tranche Number: [ ]  
*(If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*
3. Aggregate Principal Amount:  
(a) Series: [ ]  
(b) Tranche: [ ]
4. Issue Price: [ ] per cent. of the Aggregate Principal Amount  
[plus accrued interest from *[insert date]* (if applicable)]
5. (a) Specified Denominations: [ ]

*(Note – where multiple denominations above £[100,000] are being used the following sample wording should be followed:*

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

*(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.)*

(b) Calculation Amount: [ ]

*(If only one Specified Denomination, insert the Specified Denomination.*

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

6. (a) Issue Date: [ ]

(b) Interest Commencement Date: [specify][Issue Date]

7. Required Retention: [ ]

8. Expected Maturity Date: [ ]

9. Legal Maturity Date: [ ]

10. Method of distribution: [Syndicated][Non-syndicated]

#### **PROVISIONS RELATING TO INTEREST PAYABLE**

11. Rate(s) of Interest: [ ] per cent. per annum payable semi-annually in arrear

12. Interest Payment Dates: [ ] and [ ] in each year up to and including the Legal Maturity Date.  
*(N.B. This will need to be amended in the case of long or short coupons)*

13. Coupon Amount(s): [ ] per Calculation Amount  
*(Applicable to Notes in definitive form.)*

14. Broken Amount(s): [ ] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [ ]  
*(Applicable to Notes in definitive form.)*

**PROVISIONS RELATING TO REDEMPTION**

15. Instalment Notes: [Yes][No]
16. Details relating to Instalment Notes:
- (a) Instalment Amount(s): [Not Applicable/give details]
- (b) Instalment Date(s): [Not Applicable/give details]
17. Redemption at the option of the Issuer:
- (a) Benchmark Gilt: [ ]
- (b) Redemption price (if different to that specified in Condition 9.3) [ ]

**PROVISIONS RELATED TO THE ASSOCIATED LOAN AGREEMENTS**

18. Associated Loan Agreements:

<b>Associated Borrower (name and address)</b>	<b>Date of Associated Loan Agreement</b>	<b>Principal Amount of Loan</b>
[ ]	[ ]	£[ ]
[ ]	[ ]	£[ ]

**GENERAL PROVISIONS APPLICABLE TO THE NOTES**

19. Form of Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event]
- [Temporary Global Note exchangeable for Definitive Notes on and after the Exchange Date]
- [Permanent Global Note exchangeable for Definitive Notes only upon an Exchange Event]
- (N.B. Temporary Global Note exchangeable for Definitive Notes is not permitted if the Specified Denomination of the Notes in paragraph 5 includes language substantially to the following effect: "£[100,000] and integral multiples of £[1,000] in excess thereof up to and including £[199,000].")*

20. Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature): [Yes][No][*If yes, give details*]

#### **DISTRIBUTION**

21. (a) If syndicated, names of Managers: [Not Applicable][*give names*]  
(b) Stabilising Manager(s) (if any): [Not Applicable][*give name*]
22. If non-syndicated, name of relevant Dealer: [Not Applicable][*give name*]
23. U.S. Selling Restrictions: [Reg. S Compliance Category; TEFRA D/TEFRA C/TEFRA not applicable]
24. Additional selling restrictions: [Not Applicable][*give details*]

#### **LISTING APPLICATION**

This Pricing Supplement comprises the details required to list the issue of Notes described herein pursuant to the listing of the £2,000,000,000 Secured Note Programme of GB Social Housing plc.

#### **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in this Pricing Supplement. 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 Pricing Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Signed on behalf of  
**GB Social Housing plc:**

By: .....  
Duly authorised

## PART B – OTHER INFORMATION

### 1. LISTING AND ADMISSION TO TRADING

[Application has been made by the Issuer (or on its behalf) for the Notes to be admitted to trading on Channel Islands Stock Exchange.]

[Not Applicable.]

### 2. RATINGS

The Notes to be issued have been rated:

[S&P: [ ]]

[[Other]: [ ]]

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

### 3. OPERATIONAL INFORMATION

(i) ISIN Code: [ ]

(ii) Common Code: [ ]

(iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

(iv) Delivery: Delivery [against/free of] payment

(v) Names and addresses of additional Paying Agent(s) (if any): [ ]

## **USE OF PROCEEDS**

Subject to retention of the Required Retention (which will be invested in UK Gilts), the net proceeds from each issue of Notes will be advanced by the Issuer to one or more Borrowers under Loan Agreements. See further "*Description of the Borrowers*" and "*Description of the Loan Agreements*" below.



## DESCRIPTION OF THE ISSUER

### Incorporation and Status

GB Social Housing plc (the **Issuer**) is a public limited company incorporated in England and Wales with registered number 7165018 on 22nd February, 2010 under the Companies Act 2006.

The registered address of the Issuer is 1 Great St Helen's, London EC3A 6HX. The telephone number of its registered address is 020 7920 6375 / 020 7920 6384. The Issuer has no subsidiaries.

### Principal Activities of the Issuer

The Issuer is a special purpose vehicle established for the purpose of issuing the Notes (and incurring other indebtedness) and lending the proceeds thereof to one or more registered providers of social housing, registered social landlords or registered housing associations, as applicable, in England, Wales, Scotland and Northern Ireland to be applied in the achievement of such registered provider's, such registered social landlord's or such registered housing association's objects.

### Directors

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

<b>Name</b>	<b>Other Principal Activities</b>
Sir Duncan Michael	Director of the Arup Trustee companies
John Pilkington	Non Executive Director of Alumasc Group plc Executive Chairman of Spring Rehabilitation Centres Ltd Non Executive Director of Fortel Services Limited Trustee of the Vocational Rehabilitation Association
Mike Jones	Director, Savills Financial Consultants
Andrew Dixon	Director, Trifinium
Gerhard Oberholzer	Managing Director, Trifinium

The business address of each of the directors is 1 Great St Helen's, London EC3A 6HX.

Company secretarial services of the Issuer are provided by Trifinium whose business address is at 1 Great St Helen's, London EC3A 6HX.

Subject as follows, there are no potential conflicts of interest between any duties to the Issuer of the directors of the Issuer and their private interests and/or duties. Two directors of Trifinium, which acts as Operations Manager to the Issuer, are also directors of the Issuer. It is possible that the duties of these directors of Trifinium, may give rise to a potential conflict with their duties to the Issuer. Mike Jones is also an employee of Savills Financial Consultants which may act on behalf of the Issuer and/or any of the Borrowers. It is possible that the duties of Mike Jones to Savills Financial Consultants may give rise to a potential conflict with his duties to the Issuer.

Potential conflicts of interest exist between Trifinium and the Issuer in that Trifinium is the ordinary shareholder of GB Social Housing (Holdings) Limited, the holder of the Preference Shares (as defined

below) of the Issuer and it also has the right to receive both a basic fee and an Incentive Fee (as defined below) from the Issuer pursuant to the provisions of the Operations Management Agreement.

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

The entire issued ordinary share capital of the Issuer (the **Ordinary Shares**) is held by GB Social Housing (Holdings) Limited (the **Parent**). The shares of the Parent are held by Trifinium Advisors (UK) Limited (the **Share Trustee**) under the terms of a trust established under English law by a Declaration of Trust dated 13th November, 2012 and made by the Share Trustee.

While any Notes remain outstanding, the Share Trustee is required, upon and subject to the terms of the Declaration of Trust, to hold the shares in the Parent on trust exclusively for charitable purposes.

The Issuer will, on or prior to the issue of the first Series of Notes under the Programme, issue 250,000 preference shares of £1 each (the **Preference Shares**) to Trifinium. The Preference Shares will not carry any right to vote but will carry a right to receive a variable non-cumulative dividend (subject to the Issuer having profits available for distribution and having resolved to be distributed) at a rate, for the time being, of 10 per cent. per annum on the capital for the time being paid up on that Preference Share.

The Preference Shares may be redeemed at the option of the Issuer at any time (subject to the Issuer having profits available for such redemption which are in excess of the maximum amount reasonably required to provide for losses or expenses arising from the Issuer's business or to maintain or enhance the Issuer's creditworthiness, as determined by the Issuer) and will be redeemed in priority to the Ordinary Shares on any winding up of the Issuer.

Other than the Preference Shares, Trifinium has no commitment or obligation to acquire or subscribe for further shares of the Issuer.

### **Operations**

Since its date of incorporation, the Issuer has not commenced operations. However, it has prepared dormant financial statements for the financial periods ending 28th February, 2011 and 31 December, 2011 (following a change in its accounting reference date to 31st December, for the financial year ended 31st December, 2011). Copies of such financial statements are available for inspection from the registered office of the Issuer.

### **Operations Management Agreement**

#### *Duties*

Pursuant to an Operations Management Agreement dated 13th November, 2012 (the **Operations Management Agreement**) between the Issuer, the Parent and Trifinium (the **Operations Manager**), the Operations Manager has agreed to perform various financing and ancillary services set out therein.

These services include, *inter alia*:

- (a) arranging financing and other services on behalf of the Issuer, including:
  - (i) in respect of the Loans, undertaking marketing to potential Borrowers and sourcing lending opportunities, negotiating the commercial terms of the Loans, reviewing and approving Loan documentation, record-keeping, surveillance and monitoring in respect of the Loans, monitoring the performance of the Borrowers in respect of the Loans and taking such action as the Issuer and the Operations Manager consider appropriate in the event that payments due under the Loans are not received on the due date;

- (ii) in respect of any security granted by the Borrowers in favour of the Issuer, checking for initial suitability of the relevant housing stock, assisting the Issuer in reviewing and approving security documentation, managing substitution requests from Borrowers, reviewing security (including reviewing any valuations received from Borrowers), reporting to the Issuer on security and facilitating approvals and consents by the Issuer in respect of the above as required; and
  - (iii) monitoring the financing and liquidity requirements of the Issuer and assisting the Issuer with the management of its assets and liabilities, including making recommendations to the board of directors of the Issuer and carrying out any administrative functions as may be required in respect of any issuance, redemption or purchase or exchange of Notes; and
- (b) providing various corporate administration services including:
- (i) administrative services relating the establishment of the Programme, the entry by the Issuer into new Loans, the monitoring and administration of the Issuer's accounts, the preparation of various notices and reports and record-keeping;
  - (ii) financial services relating to the maintenance of management accounts and the preparation of financial statements and corporate tax returns; and
  - (iii) additional services necessary to enable the Issuer to comply with its obligations under the Programme Documents (other than the Operations Management Agreement).

In performing its duties under the Operations Management Agreement, the Operations Manager has covenanted, *inter alia*, (a) to devote such time and effort and provide such facilities and make available such staff of such skill and experience as may be required from time to time to enable it to perform its duties under the Operations Management Agreement efficiently and in a proper and businesslike manner, (b) at all times, to act in accordance with all reasonable and proper directions, orders and instructions given to it by the Issuer and (c) not to do or omit to do anything which would constitute a breach by the Issuer of any provision of the Notes, the Programme Documents (other than the Operations Management Agreement), its articles of association or of any other legally binding restrictions applicable to the Issuer (together, the **Required Standard of Care**).

#### *Delegation*

Pursuant to Clause 11 of the Operations Management Agreement, the Operations Manager may delegate any of its functions to an Agent on such terms as it thinks reasonably fit. In respect of any Agent appointed by it, the Operations Manager has covenanted to ensure that such Agent complies with the Required Standard of Care.

#### *Remuneration*

The Operations Manager shall be paid (x) a basic fee, payable in such amount and at such times as agreed between it and the Issuer, (y) an incentive fee (the **Incentive Fee**), payable at the end of each accounting period of the Issuer and (z) for the performance of all corporate services performed by it. The Incentive Fee shall be an amount (which will be deemed to be inclusive of any value added tax payable thereon, if any) calculated as an amount equal to:

- (a) the sum of:
  - (i) all amounts received by the Issuer in the immediately preceding accounting period (the **Relevant Accounting Period**); and

- (ii) all capital and other amounts retained by the Issuer in respect of any accounting period prior to the Relevant Accounting Period (each a **Previous Accounting Period**) (other than any Retained Profit retained by the Issuer in respect of each Previous Accounting Period); less
- (b) the sum of:
- (i) all payments made out by the Issuer in the Relevant Accounting Period (including any Retained Profit to be retained by the Issuer in respect the Relevant Accounting Period);
  - (ii) the maximum amount reasonably required to provide for losses or expenses arising from the Issuer's business or to maintain or enhance the Issuer's creditworthiness, as determined by the Operations Manager and the Issuer, together, in good faith and
  - (iii) all amounts paid or resolved to be paid by the Issuer as redemption payments in respect of the Preference Shares in the Relevant Accounting Period.

### *Change of Operations Manager*

Subject as follows, the Operations Management Agreement may be terminated by the Issuer or the Parent (with the prior written consent of the Trustee) by providing not less than six months' written notice and the Operations Manager may terminate the Operations Management Agreement by providing not less than six months' written notice at any time.

However, no such termination will take effect unless a replacement operations manager (who has an appropriate level of expertise in providing services of the kind to be provided under the Operations Management Agreement), has been appointed and has taken over all of the Operations Manager's duties and obligations under the Operations Management Agreement as of date of termination.

In addition, the parties have the right to terminate the Operations Management Agreement at any time by giving notice in writing to the other parties if another party:

- (a) commits a material breach of any of the terms or conditions of the Operations Management Agreement and fails to remedy the same within 20 business days of being required in writing so to do; or enters into liquidation whether compulsorily or voluntarily (other than for the purpose of amalgamation or reconstruction) or compounds with its creditors generally or has a receiver, administrative receiver or administrator appointed of all or any part of its assets or takes or suffers any similar action in consequence of its debt;
- (b) ceases or threatens to cease to carry on its business or a substantial part of its business; or
- (c) purports to assign the burden or benefit or charge the benefit of the Operations Management Agreement (but excluding the floating charge granted by the Issuer over all of its assets pursuant to the provisions of the Trust Deed) without the express written consent of the other parties, such consent not to be unreasonably withheld.

### *Operations Manager*

Trifinium (formerly Cutwater Asset Management UK Limited) was incorporated with limited liability in England and Wales on 1st June, 2004 pursuant to the Companies Act 1985 with registered number 5142022. The company changed its name to Trifinium Advisors (UK) Limited on 7th August, 2012. Trifinium is licensed by the Financial Services Authority to act as an investment manager and to advise on and arrange investments for clients in the United Kingdom and the European Economic Area on a cross-border services basis in accordance with section 37 of the Financial Services and Markets Act 2000 (**FSMA**) and Part III of Schedule 3 of FSMA.

Trifinium is an indirect, wholly owned subsidiary of MBIA Inc.

Trifinium's businesses primarily focus on managing discrete pools of assets on behalf of affiliated companies. In addition, they also focus on:

- (a) facilitating the creation and management of pooled funding vehicles, including the provision of social housing funding;
- (b) provision of transaction structuring and ongoing monitoring services facilitating efficient debt finance for infrastructure and social housing projects; and
- (c) provision of advisory and asset management services for infrastructure equity and debt on behalf of related and third party investors.

## DESCRIPTION OF THE BORROWERS

### **Borrowers**

Subject to retention of the Required Retention, the net proceeds from each issue of Notes will be advanced by the Issuer to one or more non-profit registered providers of social housing, registered social landlords or registered housing associations, as applicable, in England, Wales, Scotland and Northern Ireland (each, a **Borrower**) pursuant to one or more loan agreements (each, a **Loan Agreement**).

Each Borrower will be required to be:

- (a) an entity whose principal purpose, objects and powers are to provide, construct, improve, manage, facilitate or encourage the construction or improvement of housing accommodation;
- (b) a registered provider of social housing, registered social landlord or registered housing association whose activities are regulated by the Regulation Committee of the Homes and Communities Agency (in England), the Welsh Assembly Government (in Wales), the Scottish Housing Regulator (in Scotland) or the Department for Social Development (in Northern Ireland); and
- (c) prohibited by its constitution from trading for profit and any surplus which may result from its operations must not be distributed, either directly or indirectly, in any way whatsoever among its members.

In addition, in order to be eligible to be a Borrower, the relevant non-profit registered provider of social housing, registered social landlord or registered housing association, the case may be, (the **Potential Borrower**) must fulfil certain loan eligibility criteria to the satisfaction of the Operations Manager. Such criteria includes an assessment of the credit analysis of the Potential Borrower, the compliance of the Potential Borrower with the financial covenants to which it will be subject under its Loan Agreement and confirmation that the entry into a Loan Agreement with the Potential Borrower will not adversely affect the then current rating of the Issuer.

### **Regulation of housing associations**

#### *England*

The funding and regulation of housing associations has recently undergone significant change. Housing associations in England were, until 2008, grant funded and regulated by the Housing Corporation. The Housing and Regeneration Act 2008 (the **2008 Act**) changed this and the Housing Corporation closed on 30th November, 2008. Further change has since been made by the Localism Act 2011 (the **2011 Act**).

The 2008 Act established the HCA and the TSA. In England, the HCA is now responsible for providing grant funding for social housing (amongst other functions, including some inherited from the Communities and Local Government Department and all those previously carried out by English Partnerships). The TSA was until April 2012 the regulator of housing associations in England.

#### *The regime under the 2008 Act*

The regime under the 2008 Act commenced on 1st April, 2010. The TSA published, in respect thereof, a decision statement and a regulatory framework on 16th March, 2010. Implementation of this framework was effected when the relevant elements of the 2008 Act were brought into force.

The 2008 Act set out objectives for the TSA, including the objectives to regulate in a manner which minimises interference and is proportionate, consistent, transparent and accountable and to ensure that registered providers of social housing are financially viable and properly managed.

The TSA's approach to regulation, as set out in its published framework, was described as co-regulatory. The TSA stated that this means robust self-regulation by the boards who govern the delivery of housing services, incorporating effective tenant involvement, and subject to a backbone of regulation by the TSA. Providers would have to report annually on their performance against the TSA's standards to their tenants and the TSA would adopt a risk-based approach to regulation. There was a move away from prescriptive regulatory requirements, and the TSA's standards were primarily focussed on outcomes. Almost all the former Housing Corporation regulatory documentation ceased to be effective.

The 2008 Act introduced some new terminology. In England, registered social landlords became known as registered providers. Private registered providers (as opposed to local authority registered providers, as to which see further below) are subdivided into the categories profit-making and non-profit. Profit-making registered providers are subject to a slightly lighter regulatory regime. On 1st April, 2010 existing registered social landlords automatically became non-profit registered providers (subject to the full regulatory regime). As indicated, there are also local authority registered providers. Like profit-making registered providers, local authority registered providers are subject to a slightly different regime.

Central to the regulation of housing associations is that the 2008 Act provided for the TSA to set standards for registered providers on matters such as rent levels and the criteria for allocating accommodation, as well as on matters relating to the management of their financial and other affairs. It could also publish codes of practice which relate to and may amplify these standards. Having set the standards, the TSA could monitor compliance, and take regulatory action when the standards are not met. Registered providers still required consent from the TSA to dispose of social housing dwellings.

The TSA set a standard on Governance and Financial Viability for all private (i.e. not local authority) registered providers. It did not issue any codes of practice. Providers were expected to comply with the TSA's standards, but also to engage with their tenants to provide services tailored to tenants' priorities in certain areas.

The TSA's enforcement powers included powers to require information, to make appointments to a private registered provider's board, to conduct inquiries and to enforce a moratorium period in various insolvency situations. There were also some new powers (not previously available to the Housing Corporation) to issue enforcement notices and penalties against registered providers, to require payment of compensation to tenants and to outsource management functions.

#### *Revisions to the regime under the 2008 Act*

In the UK government's white paper "*Review of Social Housing Regulation*" the UK government announced its intention to abolish the TSA and move its economic regulation and "backstop" consumer regulation functions to the HCA. The 2011 Act established the Regulator as a separate committee of the HCA to undertake this regulatory role which has been appointed by the Secretary of State. This new arrangement and a new regulatory framework came into force from April 2012. The statutory powers available to the HCA, as regulator, are largely unchanged from those previously in place. The HCA will continue to provide economic regulation for registered providers of social housing in order to ensure they are financially viable and well governed and to support the confidence of private lenders to provide funds at competitive rates. It is intended that there will be a greater role for tenants' panels, councillors, MPs and the Ombudsmen in dealing with consumer issues.

## ***Wales, Scotland and Northern Ireland***

Wales, Scotland and Northern Ireland are the subject of separate regulatory and funding regimes, operated by the Welsh Assembly Government, the Scottish Housing Regulator and the Housing and Regeneration Directorate of the Scottish Government, and the Northern Ireland Department for Social Development and Northern Ireland Housing Executive, respectively.

### *Wales*

The Welsh Assembly Government (**WAG**) is the housing regulator in Wales. It has powers under the Housing Associations Act 1985 and the Housing Act 1996 in respect of both the registration and regulation of Welsh RSLs and the funding of social housing. The Welsh framework is currently set out in the Regulatory Code for Housing Associations registered in Wales, which is published under section 36 of the Housing Act 1996, outlining the expectations of Welsh RSLs regarding services and governance. In addition, the "*Self-Assessment – Guiding Principles for Housing Associations in Wales*" circular of 2009 and "*Developing a modern regulatory framework for Housing Associations in Wales – Delivery Outcomes 2010*" outline the core elements of the new regulatory framework being introduced by WAG and set out performance standards towards which Welsh RSLs can aspire.

The new framework is in line with the approach taken by the Regulator in that it provides Welsh RSLs with the opportunity to design and deliver services and aspire to become well-managed, tenant-focused organisations while being less prescriptive than the previous regulatory regime.

### *Scotland*

Scottish RSLs are now regulated by the Scottish Housing Regulator which was created pursuant to the Housing (Scotland) Act 2010 as an independent regulator directly accountable to the Scottish Parliament. Its powers include the maintenance of a register of RSLs, setting standards of performance, financial management and governance. The Scottish Housing Regulator published a framework of regulation in February 2012 which includes six regulatory standards and detailed supporting guidance. The Scottish Ministers have a duty to establish standards and outcomes which social landlords should aim to achieve and to publish these in a Scottish Social Housing Charter. The Scottish Parliament approved the current Charter which came into force on 1st April, 2012. Each Scottish RSL is responsible for meeting these outcomes and standards. The Scottish Housing Regulator is responsible for monitoring and reporting on this performance against these outcomes and standards. It will name any Scottish RSL it considers to have failed to achieve the outcomes and standards or which is considered to be at risk of doing so. It has the power to set performance improvement targets for individual RSLs or categories of RSL.

### *Northern Ireland*

The Department for Social Development (part of the Northern Ireland Executive) is the housing regulator in Northern Ireland. The Department for Social Development's functions are set out in paragraph 4 of the Housing (Northern Ireland) Order 1992 and include, amongst other matters, the functions of promoting and assisting the development of registered housing associations in Northern Ireland; facilitating the proper exercise and performance of the functions; and publicising the aims and principles of registered housing associations in Northern Ireland. It is also responsible for establishing and maintaining a register of housing associations in Northern Ireland, for exercising supervision and control over registered housing associations in Northern Ireland and for considering applications for, and to make payments of, grants to registered housing associations in Northern Ireland. The Department for Social Development performs equivalent functions in Northern Ireland with regard to the registration and supervisory functions of the Regulator in England and, to a more limited extent, to the funding functions of the HCA (as its funding abilities are not as extensive as the HCA's). Pursuant to the Housing (Amendment) (Northern Ireland) Order 2006, the strategic and funding powers of the Department for Social Development were delegated to the Northern Ireland Housing Executive.



## DESCRIPTION OF THE LOAN AGREEMENTS

Each Loan Agreement entered into by the Issuer with a Borrower will include the following terms or such other terms as the Operations Manager agrees from time to time, on behalf of the Issuer, provided that such other terms will not adversely affect the then current rating of the Issuer.

### Purpose

Each Loan may only be used by the relevant Borrower to finance its general non profit corporate and working capital requirements or for any other purpose which is permitted by its constitution and is compatible with its status as a non-profit registered provider of social housing, registered social landlord or registered housing association with the relevant regulator and which does not breach any restriction in any relevant statutory authorisations.

### Initial Security

Each Loan will be initially deposited in the Blocked Account of the relevant Borrower and will be released to the relevant Borrower upon sufficient fixed security over social housing property being granted in favour of Prudential Trustee Company Limited (as **Security Trustee**) for the benefit of the Issuer. The Loan must be fully secured by fixed security over social housing property (in accordance with the financial covenants specified therein) within 18 months of such Loan.

### Financial Covenants

Each Loan will include an initial set of financial covenants that comprise a minimum asset cover and may include a minimum interest cover and/or a maximum gearing covenant, together with a framework comprising minimum and maximum levels of asset cover, interest cover and gearing (the **Covenants Framework**). The initial Covenants Framework is set out below.

Each Borrower will have the ability to vary the covenants applicable to it once a year (subject to the prior written approval of the Issuer) within the pre-agreed minimum and maximum levels as set out in the Covenants Framework. This means that covenants could vary across Borrowers depending on their individual choices within the Covenants Framework. If a Borrower chooses to reduce its interest cover and/or increase its gearing covenants, additional asset cover will be required by the Issuer. Borrowers electing not to have any interest cover and gearing covenant in any given year will be obliged to provide 140 per cent. (EUV-SH) asset cover and comply with a minimum net income test (annual net income on charged properties equal to or greater than annual interest payable on the loan).

<b>Asset Cover</b>	<b>Minimum</b>	<b>Maximum</b>
EUV-SH basis	105 per cent.	140 per cent.
MV-T basis	115 per cent.	150 per cent.
<b>Interest Cover</b>	<b>Minimum</b>	<b>Maximum</b>
One Year Interest Cover	105 per cent.	110 per cent.
Three Year Rolling Interest Cover	110 per cent.	120 per cent.

<b>Gearing (Total Financial Indebtedness as % of Asset Value)</b>	<b>Minimum</b>	<b>Maximum</b>
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EUV-SH	75 per cent.	80 per cent.
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All financial covenants will be tested by the Issuer on an annual basis for compliance purposes and monitored quarterly. These tested as follows:

**Asset Cover Test**

Each Borrower shall ensure that the aggregate nominal amount of its Loans does not exceed:

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

where:

- A = the Value of such Borrower's interest in those completed residential Charged Properties which have been valued in accordance with Valuation Basis I;
- B = the Value of such Borrower's interest in those completed residential Charged Properties which have been valued in accordance with Valuation Basis II;
- C = pre-agreed EUV-SH asset cover levels between 105 per cent. and 140 per cent. as per the Covenants Framework (if applicable);
- D = pre-agreed MV-T asset cover levels between 115 per cent. and 150 per cent. as per the Covenants Framework (if applicable); and
- E = the amount standing to the credit of its Sinking Fund.

**Interest Cover Test**

Each Borrower shall procure that, for so long as the Notes remain outstanding:

- (a) its One Year Interest Cover Test shall not be less than pre-agreed cover levels between 105 per cent. and 110 per cent.; and
- (b) its Three Year Rolling Interest Cover Test shall not be less than pre-agreed cover levels between 110 per cent. and 120 per cent.

**Gearing Test**

Each Borrower shall procure that at all times its Total Financial Indebtedness shall not be more than pre-agreed cover levels between 75 per cent. and 80 per cent. of such Borrower's Asset Value or as otherwise agreed between such Borrower and the Issuer.

**Definitions**

For the purpose of this section:

**Annual Expenditure** means the minimum level of expenditure in relation to the charged properties over the forthcoming twelve month period taking into account, without limitation, ground and head rents, service

charges, council tax (or equivalent), insurance, repairs, maintenance and other outgoings, amortisation of leaseholds from time to time in force and depreciation of any fixed plant and machinery thereon, in accordance with generally accepted accounting principles, which would be required to manage and maintain such property in good and tenable condition;

**Borrower's Asset Value** means, in relation to each Borrower, the value of all such Borrower's housing assets valued on Valuation Basis I (after deducting the value of the properties under construction, if included) as shown in such Borrower's latest audited accounts;

**Net Income** means, at any time when it falls to be determined, in relation to the charged properties, the amount representing the annual income from such charged properties then accruing (such income to be annualised where it is not receivable on an annual basis) after deducting applicable taxes and after making proper provision for Annual Expenditure and providing that no such income shall be attributed to any charged properties in which a Borrower holds a leasehold interest the terms of which expires before the maturity date of the Loan;

**Net Interest Payable** means, in relation to each Borrower and any financial year, as determined from the audited accounts of such Borrower, the aggregate amounts shown as interest paid after deducting any cash interest received and other cash investment income and for the avoidance of doubt including capitalised and deferred interest and adding the interest element of finance lease rentals, financing costs, servicing of finance and other finance payments paid by such Borrower as shown in the cash flow statements of the audited accounts of such Borrower for that financial year;

**One Year Interest Cover Test** means, in respect of each Borrower and any financial year, the Operating Surplus determined by reference to such Borrower's audited accounts for that financial year divided by the aggregate Net Interest Payable in relation to that financial year (expressed as a percentage);

**Operating Surplus** means, in relation to each Borrower and any financial year, such Borrower's net cash inflow from operating activities before working capital changes as shown in the audited accounts of such Borrower for that financial year together with any gift aid receipts from wholly owned subsidiaries and deducting (a) changes in working capital directly related to increasing arrears; and (b) income from joint ventures to the extent included, all as shown in the audited accounts of such Borrower;

**Sinking Fund** means, in respect of each Borrower, any amount held in a sinking fund account which is for the time being held by the sinking fund trustee on a trust not revocable at the instance of such Borrower to be applied in repayment of such Borrower's Loan or otherwise held in a manner which in the absolute opinion of the Issuer is of equivalent effect;

**Three Year Rolling Interest Cover Test** means, in relation to any financial year, the average of the One Year Interest Cover Test for that financial year and the two most recent prior financial years;

**Total Financial Indebtedness** means, in relation to each Borrower and at any time, the aggregate of all such Borrower's financial indebtedness including intra-group loans (after deducting the value of any sums held in any sinking fund and all unencumbered cash held in such Borrower's bank accounts) as shown in such Borrowers latest audited accounts most recently delivered to the Issuer;

**Valuation Basis I** means EUV-SH (existing use value for social housing) as determined in accordance with the guidance set out in the Royal Institution of Chartered Surveyors Valuation Standards as at the date of the loan agreement (if such guidance is amended the consent of the Issuer (not to be unreasonably withheld) will be required before properties relating to any Borrower can be valued on the basis of such amended guidance) (effectively assuming that the properties will continue to be let as social housing and that any vacant Units will be re-let to tenants on normal social housing terms); and

**Valuation Basis II** means MV-T (market value subject to tenancies) as determined in accordance with the guidance set out in the Royal Institution of Chartered Surveyors Valuation Standards as at the date of the loan agreement (if such guidance is amended the consent of the Issuer (not to be unreasonably withheld) will be required before properties relating to any Borrower can be valued on the basis of such amended guidance).

### **Release and substitution**

Properties which are charged in favour of the Security Trustee for the benefit of the Issuer may be released and substituted in accordance with the terms of the relevant Loan Agreement subject to compliance with the applicable asset cover covenant.

### **Note Purchase Option**

Each Borrower may at any time purchase Notes issued by the Lender on the Channel Islands Stock Exchange, by tender or by private treaty at any price. Where the Loan Agreement is an Associated Loan Agreement in respect of such Notes (such Notes, the **Associated Notes**), following any such purchase the Borrower may surrender such Associated Notes to the Issuer to be cancelled. A nominal amount of the outstanding balance of the Loan equal to the principal amount of the purchased Associated Notes surrendered shall be deemed to be prepaid.

Pursuant to the Trust Deed, any Notes which are for the time being held by an Associated Borrower, a holding company of an Associated Borrower or a subsidiary of an Associated Borrower shall be deemed not to remain outstanding for the purpose of, *inter alia*, the right to attend and vote at any meeting of the Noteholders.

### **Events of Default**

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

- (a) non-payment by the Borrower on the due date of principal or other monies due under the Loan Agreement unless failure to pay is caused by administrative or technical error or a disruption event, and payment is made within two business days of its due date;
- (b) breach of any financial covenant;
- (c) failure to comply with any other provision of the Loan Agreement and associated security deeds and agreements and such failure continuing for 14 business days following the service by the Issuer on the Borrower of notice requiring the same to be remedied;
- (d) misrepresentation by the Borrower;
- (e) change of status of the Borrower;
- (f) cross default of the Borrower's obligations, subject to an appropriate minimum amount;
- (g) insolvency, insolvency proceedings or creditor's process in relation to the Borrower;
- (h) regulator action against the Borrower; and
- (i) material adverse change with respect to the Borrower.

### **Tax**

In the event that withholding or deduction for United Kingdom taxes is required by law in respect of payments by a Borrower under its Loan and/or payments by the Issuer to holders of the Associated Notes, the Borrower shall be obliged to pay such additional amounts as may be necessary in order to ensure that (i) the net amount received by the Issuer after the withholding or deduction shall equal the amount which would have been receivable in respect of the Loan in the absence of the withholding or deduction and/or (as the case may be) (ii) the gross amount received by the Issuer shall be sufficient to enable it (after such withholding or deduction) to pay the amounts that would have been payable by the Issuer in respect of the Associated Notes (or the relevant proportion thereof, as the case may be) in the absence of the withholding or deduction.

## TAXATION

### UK Taxation

**The following applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating only to United Kingdom withholding tax treatment of payments of principal and interest in respect of Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.**

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The Channel Islands Stock Exchange is a recognised stock exchange. The Notes will satisfy this requirement if they are officially listed in the Channel Islands in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on the Channel Islands Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; provided that HM Revenue and Customs (**HMRC**) has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where the maturity of the Notes is less than 365 days and those Notes do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

Noteholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Noteholder. HMRC also has power, in certain circumstances, to obtain information from any person in the United Kingdom who pays amounts payable on the redemption of Notes which are deeply discounted securities for the purposes of the Income Tax (Trading and Other Income) Act 2005 to or receives such amounts for the benefit of another person, although HMRC published practice indicates that HMRC will not exercise the power referred to above to require this information in respect of amounts payable on the redemption of deeply discounted securities where such amounts are paid on or before 5th April, 2013. Such information may include the name and address of the beneficial owner of the amount payable on redemption. Any information obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Noteholder is resident for tax purposes.

## **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented amend or broaden the scope of the requirements described above.

## SUBSCRIPTION AND SALE

Barclays Bank PLC has, in a programme agreement (the **Programme Agreement**) dated 13th November, 2012, agreed with the Issuer a basis upon which it or any further Dealer may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

### United States

The Notes 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. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes 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.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

### Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**), the Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Programme Memorandum as completed by the pricing supplement in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an **offer of Notes to the public** in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient



information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression **Prospectus Directive** means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression **2010 PD Amending Directive** means Directive 2010/73/EU.

## **United Kingdom**

The Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

## **General**

The Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Programme Memorandum and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Trustee and the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Issuer and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

## GENERAL INFORMATION

### Authorisation

The establishment of the Programme and the issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 12th November, 2012.

### Listing of Notes

Application has been made to the Channel Islands Stock Exchange for the approval of the Programme and for the listing of and permission to deal with the Notes to be issued under the Programme on the Official List of the Channel Islands Stock Exchange. The listing of the Programme in respect of Notes is expected to be granted on or before 13th November, 2012.

### Documents Available

Copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and from the specified office of the Principal Paying Agent for so long as any Notes remain outstanding:

- (a) the constitutional documents of the Issuer;
- (b) the dormant financial statements of the Issuer for the financial years ending 28th February, 2011 and 28th February, 2012 (and, following a change in its accounting reference date to 31st December, for the financial year ended 31st December, 2011);
- (c) the most recently published audited annual financial statements of the Issuer, together with any audit or review reports prepared in connection therewith;
- (d) the Trust Deed and the Agency Agreement;
- (e) a copy of this Programme Memorandum; and
- (f) any future programme memoranda and supplements including Pricing Supplements (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer, the Trustee and the Paying Agent as to its holding of Notes and identity) to this Programme Memorandum and any other documents incorporated herein or therein by reference.

### Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking, 42 Avenue JF Kennedy, L-1855 Luxembourg.

**Conditions for determining price**

The price and amount of Notes to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

**Significant Change**

There has been no significant change in the financial or trading position or prospects of the Issuer since the date of its incorporation.

**Litigation**

The Issuer is not involved, and has not been involved, in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which have or may have had since the date of its incorporation a significant effect on the financial position or profitability of the Issuer.

**Auditors**

The auditors of the Issuer are Price Bailey LLP, Chartered Accountants. As at the date of this Programme Memorandum no financial statements have been prepared in respect of the Issuer. The auditors of the Issuer have no material interest in the Issuer.

**Dealers transacting with the Issuer**

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business.

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**PRINCIPAL PAYING AGENT**

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