

## OFFERING CIRCULAR

### T.H.F.C. (FUNDING NO.2) PLC

(Incorporated with limited liability in England and Wales with registration number 06923641)

**£191,000,000 6.35 per cent. Secured Bonds due 2039/2041**

**Issue price: 100.04 per cent. of the principal amount of the Bonds**

The £191,000,000 6.35 per cent. Secured Bonds due 2039/2041 (the **Bonds**) are issued by T.H.F.C. (Funding No.2) Plc (the **Issuer**).

Application has been made to the Financial Services Authority in its capacity as competent authority (the **UK Listing Authority**) under Part VI of the Financial Services and Markets Act 2000 for the Bonds to be admitted to the official list of the UK Listing Authority (the **Official List**) and for the Bonds to be admitted to trading on the Professional Securities Market (the **Professional Securities Market**) regulated by the London Stock Exchange plc (the **London Stock Exchange**). The Professional Securities Market is not a regulated market for the purposes of the Markets in Financial Instruments Directive 2004/39/EC. Admission to the Official List together with admission to trading on the Professional Securities Market constitute official listing on the London Stock Exchange.

It is expected that the Bonds will on issue be rated A+ by Standard & Poor's Rating Services, a division of The McGraw Hill Companies Inc. (**S&P**). The rating assigned to the Bonds by S&P is primarily dependent on S&P's ratings of The Housing Finance Corporation Limited (**THFC**). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Bonds will be represented by a global bond (the **Global Bond**), without interest coupons, which will be deposited on or about 8<sup>th</sup> July, 2009 (the **Closing Date**) with a common depository for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances - see *"Summary of Provisions Relating to the Bonds While Represented by the Global Bond"*.

The Bonds will be secured obligations of the Issuer. Payments in respect of the Bonds will be funded by payments received by the Issuer from THFC under the Loan Agreement (as defined herein). The obligations of THFC to the Issuer under the Loan Agreement will be secured by a floating charge. The Issuer will have no other material assets.

Interest on the Bonds will accrue with effect from and including the Closing Date and will be payable in arrear by equal half-yearly instalments on each Payment Date (as defined herein). The Bonds are scheduled to be redeemed on 8<sup>th</sup> July, 2039 (the **Expected Maturity Date**), but may be redeemed before that date (in whole or in part) if and to the extent that the loan made under the Loan Agreement is prepaid. In certain circumstances described herein, the date of final redemption of the Bonds may be postponed to a date not later than 8<sup>th</sup> July, 2041 (the **Legal Maturity Date**).

**An investment in the Bonds involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 9.**

**RBC CAPITAL MARKETS**

**THE ROYAL BANK OF SCOTLAND**

The date of this Offering Circular is 3<sup>rd</sup> July, 2009

This document comprises approved listing particulars with regard to the Issuer and the Bonds, in accordance with the listing rules made under section 73A of the Financial Services and Markets Act 2000 (the **FSMA**).

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

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

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

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

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

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

**IN CONNECTION WITH THE ISSUE OF THE BONDS, THE ROYAL BANK OF SCOTLAND PLC (THE STABILISING MANAGER) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT THE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE**

**TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

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

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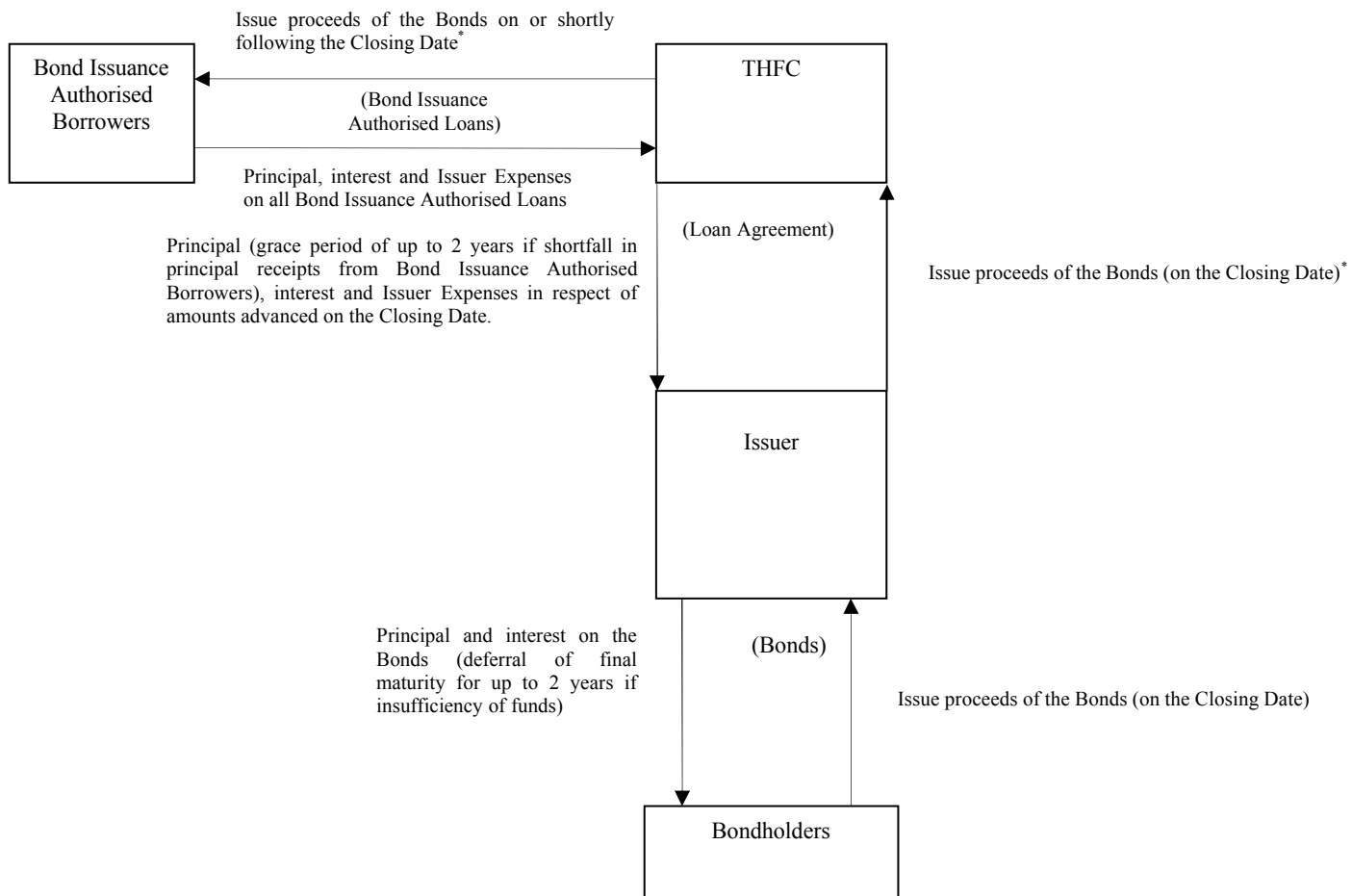
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## **TRANSACTION OVERVIEW**

*The following transaction overview does not purport to be complete, and should be read by prospective investors in conjunction with the documents mentioned herein. Capitalised terms have the meanings ascribed to them in the Conditions.*

## **DIAGRAM OF PRINCIPAL CASH FLOWS**

The diagram on the following page depicts the main features of the structure of the transaction as a whole and its principal cash flows, which will affect the amount receivable by the Bondholders under the Bonds.



\*The proceeds of any issue of Further Bonds (as defined below) may also be applied to the making of further advances to THFC under the Loan Agreement (and then on-lent to the Bond Authorised Issuance Borrowers) on terms that the drawdown of such further advances may be postponed by THFC for up to 18 months (at which time, in any event, the remaining proceeds of such issue not drawn down shall be advanced to THFC), as further described in Condition 17.

## THE ISSUE

Issuer:	T.H.F.C. (Funding No.2) Plc.
Issue:	£191,000,000 6.35 per cent. Secured Bonds due 2039/2041.
Form and Denomination	The Bonds will be issued in bearer form in denomination(s) of £50,000 and integral multiples of £1,000 in excess thereof up to and including £99,000. No Bonds in definitive form will be issued with a denomination above £99,000. The Bonds will be represented by a global bond which will be exchangeable for definitive bearer Bonds only in certain limited circumstances (see " <i>Summary of Provisions Relating to the Bonds While Represented by the Global Bond</i> ").
Status and Security:	The Bonds will constitute secured obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves. The Bonds will be secured by a first floating charge on the Issuer's undertaking, property and assets and by an assignment by way of security of the benefit of the floating charge granted to the Issuer by THFC to secure THFC's obligations under the Loan Agreement.
Interest:	6.35 per cent. per annum payable in arrear by equal half-yearly instalments on 8 <sup>th</sup> January and 8 <sup>th</sup> July in each year, commencing on 8 <sup>th</sup> January, 2010 and accruing with effect from 8 <sup>th</sup> July, 2009.
Final Redemption:	Unless redeemed early as described below, the Bonds are scheduled to be redeemed on the Expected Maturity Date (8 <sup>th</sup> July, 2039). However, if and to the extent that insufficient funds are received from THFC under the Loan Agreement to enable redemption in full on the Expected Maturity Date, the redemption of the Bonds will be postponed to a date not later than the Legal Maturity Date (8 <sup>th</sup> July, 2041).
Early Redemption:	As further described in Condition 8.2, the Bonds may be redeemed before the Expected Maturity Date (in whole or in part) if and to the extent that the Loan Agreement is prepaid. Such prepayment may occur as a result of: <ul style="list-style-type: none"><li>(i) illegality or a tax gross up obligation under the Loan Agreement being triggered, in which event the Bonds shall be redeemed at par;</li><li>(ii) optional prepayment under the Loan Agreement, in which event the Bonds shall be redeemed at either par, if the date of redemption is within 18 months of the Closing Date and a default has occurred in relation to the on-lending of such proceeds to the Bond Issuance Authorised Borrowers by THFC, as further described below, or, otherwise, the higher of par and the Redemption Price (as defined in Condition 8.2); or</li></ul>

- (iii) default prepayment under the Loan Agreement, in which event the Bonds shall be redeemed at the higher of par and the Redemption Price.

See further "*Summary of the Loan Agreement*".

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

Governing Law: English law.

Trustee: The Law Debenture Trust Corporation p.l.c.

Administrator: T.H.F.C. (Services) Limited. All of the shares in T.H.F.C. (Services) Limited are owned by THFC.

Use of Proceeds: The gross proceeds of the issue of the Bonds will be lent to THFC pursuant to the Loan Agreement, with THFC reimbursing the Issuer for the expenses of issue. THFC will lend such gross proceeds to the Bond Issuance Authorised Borrowers, as further described in "*Description of the Authorised Borrowers*", with the Bond Issuance Authorised Borrowers reimbursing THFC for the expenses of issue.

The Loan Agreement and the Bond Issuance Authorised Loans have characteristics that demonstrate capacity to produce funds to service the payments due and payable on the Bonds.

## **THE LOAN AGREEMENT**

The Issuer entered into the Loan Agreement with THFC on or about 2<sup>nd</sup> July, 2009 pursuant to which the Issuer will lend the proceeds of the issue of the Bonds to THFC, as further described in "*Summary of the Loan Agreement*". Such moneys will then be lent to the Bond Issuance Authorised Borrowers as further described in "*Description of the Authorised Borrowers*".

## RISK FACTORS

*The purchase of the Bonds is suitable only for sophisticated investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the risks and the merits of an investment in the Bonds.*

*The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. 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 the Bonds issued are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. This section is not intended to be exhaustive and prospective investors should also read the detailed information set out elsewhere in this Offering Circular and reach their own views prior to making any investment decision. If any of the following risks actually materialise, the Issuer's business, financial condition and prospects could be materially and adversely affected. No assurance can be given that prospective Bondholders will receive full and/or timely payment of interest and principal or ultimate recovery in relation to the Bonds*

### **Investor Suitability**

Investment in the Bonds is suitable only for investors who:

- (i) have the requisite knowledge and experience in financial and business matters to evaluate the merits and risks of an investment in the Bonds and rights attaching to the Bonds; and
- (ii) are capable of bearing the economic risk of an investment in the Bonds for an indefinite period of time and are capable of withstanding losses of up to their entire investment.

### **Special Purpose Vehicle Issuer**

The Issuer is a special purpose finance entity with no business operations other than the incurrence of financial indebtedness, including the issuance of the Bonds. As such the Issuer is entirely dependent upon receipt of funds received from THFC under the Loan Agreement in order to fulfil its obligations under the Bonds.

### **Credit Risk**

The ability of the Issuer to meet its obligations under the Bonds will be dependent upon the payment of principal and interest due under the Loan Agreement (which will in turn be dependent on performance by Authorised Borrowers), upon the Paying Agent making the relevant payments when received and upon all parties to the agreements relating to the Bonds (other than the Issuer) performing their respective obligations thereunder. In addition, payments by THFC under the Loan Agreement are dependent upon THFC itself having sufficient funds from Authorised Borrowers (including the Bond Issuance Authorised Borrowers) and its own reserves. Accordingly, Bondholders are exposed, *inter alia*, to the creditworthiness of the Issuer, the Authorised Borrowers, THFC and the Paying Agent.

The Bond Issuance Authorised Borrowers will be required to maintain an interest service reserve equal to 12 months interest on their Bond Issuance Authorised Loans. This reserve will be required to be put in place within 12 months of the date of the relevant Bond Issuance Authorised Loan as additional security for the payment of interest under the relevant Bond Issuance Authorised Loan.

### **Independent review and advice**

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

In so doing, and without restricting the generality of the preceding paragraph, such prospective purchaser must determine that its acquisition and holding of Bonds (i) is fully consistent with its (or, if it is acquiring Bonds in a fiduciary capacity, the beneficiary's) financial needs, objectives and condition, (ii) complies and is fully consistent with all investment policies, guidelines and restrictions applicable to it (whether acquiring Bonds as principal or in a fiduciary capacity) and (iii) is a fit, proper and suitable investment for it (or, if it is acquiring Bonds in a fiduciary capacity, for the beneficiary), notwithstanding the clear and substantial risks inherent in investing in or holding Bonds. None of the Issuer, the Trustee, the Managers, THFC or any of their respective affiliates is acting as an investment adviser, or assumes any fiduciary obligation, to any purchaser of Bonds. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation or constituting an invitation or offer that any recipient of this Offering Circular should purchase any Bonds.

### **Events of default**

The occurrence of an event of default under the Bonds as set out in Condition 11 entitles the Trustee (subject as provided in Conditions 4.2 and 11) to accelerate the maturity of the Bonds and to enforce the security for the Bonds (including converting the floating charge granted by the Issuer into a fixed charge). However, an event of default under the Bonds will not, by itself, be an event of default under the Loan Agreement and accordingly acceleration of the maturity of the Bonds and enforcement of security for the Bonds will not, by itself, entitle the Trustee to accelerate the maturity of the Loan Agreement or to enforce the security given by THFC under the Loan Agreement. Such an entitlement would arise upon the occurrence, in relation to THFC, of one of the events of default under the Loan Agreement (see further "*Summary of the Loan Agreement*").

An event of default under the Loan Agreement or under an Authorised Loan by THFC to an Authorised Borrower will not, by itself, be an event of default under the Bonds and accordingly enforcement (pursuant to the assignment referred to in Condition 4.1(b)) of the floating charge granted to the Issuer by THFC pursuant to the Loan Agreement will not, by itself, entitle the Bondholders to require the maturity of the Bonds to be accelerated. Such an entitlement would arise in accordance with Condition 4.2 or upon the occurrence, in relation to the Issuer, of a shortfall in the interest due from THFC thereby leading to a payment event of default under the Bonds or one of the other events of default referred to in Condition 11.

On an enforcement of security against THFC, the Issuer's claims will, pursuant to the Deed of Priority and the Deed of Accession, rank *pari passu* with the other lenders to, and holders of stock issued by, THFC.

## **Limited Liquidity**

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

In addition, Bondholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Offering Circular), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Bonds. Such lack of liquidity may result in investors suffering losses on the Bonds in secondary resales even if there is no decline in the performance of the assets of the Issuer. The Issuer cannot predict which of these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Bonds and instruments similar to the Bonds at that time.

## **Credit Rating**

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

Prospective investors should note that the rating assigned to the Bonds by S&P is dependent on its rating of THFC, and therefore may fluctuate in accordance with any fluctuations in the credit rating of THFC. At the date of this document, S&P has assigned THFC a general obligations rating of A+. This rating reflects THFC's lending policies and the credit quality of its Authorised Borrowers.

## **Business relationships**

Each of the Issuer, the Managers, the Trustee, the Paying Agent, THFC, the Administrator, the Authorised Borrowers and any of their affiliates may have existing or future business relationships with any of the others (including, but not limited to, lending, depositary, risk management, advisory and banking relationships and certain officers of THFC holding directorships in the Issuer), and will pursue actions and take steps that they deem or it deems necessary or appropriate to protect their or its interests arising therefrom without regard to the consequences for a Bondholder. Furthermore, the Managers, the Trustee, the Paying Agent or any of their respective affiliates may buy, sell or hold positions in obligations of, or act as investment or commercial bankers, advisers or fiduciaries to, or hold directorship and officer positions in, THFC or the Authorised Borrowers.

## **Taxation – No gross up**

Each Bondholder will assume and be solely responsible for any and all taxes of any jurisdiction or governmental or regulatory authority, including, without limitation, any state or local taxes or other like assessment or charges that may be applicable to any payment to it in respect of the Bonds.

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

### **Legality of purchase**

None of the Issuer, the Managers or any of their respective affiliates has or assumes responsibility for the lawfulness of the acquisition of any Bonds by a prospective purchaser of the Bonds, whether under laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective purchaser with any law, regulation or regulatory policy applicable to it.

### **Changes of law**

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

### **Housing Market Risk**

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 affect.

Furthermore, the Housing and Regeneration Act 2008 puts on a statutory footing the ability of the Tenant Services Authority to regulate the levels of rent which can be charged by registered providers (which includes the Authorised Borrowers) in respect of affordable housing, although these provisions have not yet been brought into effect (see further Regulation of Housing Associations in the "*Description of the Authorised Borrowers*").

Among other things, these market risks may impact upon the expenses incurred by the Authorised Borrowers 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 an Authorised 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 the relevant Authorised Loan.

### **Pensions Acts**

Under the Pensions Act 2004 a person that is an employer in relation to certain occupational pension schemes, or 'connected with' or an 'associate' of such an employer, can be subject to either a contribution notice or a financial support direction in relation to that occupational pension scheme by the Pensions Regulator (contribution notices and financial support directions require financial support to be given to a pension scheme). The Administrator is an employer under such a defined benefits occupational scheme and certain of its employees (some of whom are also directors of THFC) are members of the board of directors of the Issuer. On this basis, the Issuer is likely to be treated as 'connected with' either or both of the Administrator and/or THFC.

A contribution notice may be served on the Issuer or on THFC if it is party to an act, or a deliberate failure to act (or a series of acts or deliberate failures to act), the main purpose or one of the main purposes of which is either (i) to prevent the recovery of the whole or any part of a debt which is, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due.

The Pensions Act 2008 created a new power for the Pensions Regulator to issue a contribution notice where it considers that an act, or a deliberate failure to act (or a series of acts or deliberate failures to act) is "materially detrimental" to the likelihood of a person receiving the accrued pension scheme benefits. This is a wide power and means that the Pension Regulator does not have to show an intention to prevent the recovery of an employer debt to the pension scheme under Section 75 of the Pensions Act 1995. It is expected that this new power will come into force in the next few months and will apply retrospectively from 14<sup>th</sup> April, 2008.

A financial support direction could be served on the Issuer where the Administrator (as the employer in respect of the pension scheme) is insufficiently resourced or is a service company (i.e. a company whose turnover is solely or mainly derived from providing services to other group companies). An employer is deemed to be insufficiently resourced pursuant to the Pensions Act 2004 if the value of its resources is less than 50 per cent. of the pensions scheme's deficit (calculated on an annuity buy-out basis) and at that time there is a connected or associated person with sufficient resources (or connected or associated persons with sufficient aggregate resources) to meet at least 50 per cent. of the pensions scheme's deficit when combined with the employer's resources.

The Administrator's most recent audited accounts indicate that the value of its resources is currently in excess of 50 per cent. of the pension scheme's deficit (calculated on an annuity buy-out basis at the last actuarial valuation, carried out as at 30<sup>th</sup> September, 2008).

A financial support direction could be served on THFC or the Issuer at any time because the Administrator is a service company to THFC and to the Issuer.

A contribution notice or financial support direction could only be served where the Pensions Regulator considers it is reasonable to do so, having regard to a number of factors.

If a contribution notice or financial support direction were to be served on the Issuer or THFC this could adversely affect Bondholders.

### **Liquidation Expenses**

On 6<sup>th</sup> 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 and/or THFC, respectively, 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 Bondholders will not be adversely affected by such a reduction in floating charge realisations.

### **Denominations involving integral multiples: definitive Bonds**

The Bonds have denominations consisting of a minimum Specified Denomination (as defined in the Conditions) of £50,000 plus one or more higher integral multiples of £1,000. It is possible that such Bonds may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds such that its holding amounts to a Specified Denomination.

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

## CONDITIONS OF THE BONDS

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

The £191,000,000 6.35 per cent. Secured Bonds due 2039/2041 (the **Bonds**, which expression shall in these Conditions, unless the context otherwise requires, include any further bonds issued pursuant to Condition 17 and forming a single series with the Bonds) of T.H.F.C. (Funding No.2) Plc (the **Issuer**) are constituted and secured by a Trust Deed dated 8<sup>th</sup> July, 2009 (the **Trust Deed**) made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include its successor(s)) as trustee for the holders of the Bonds (the **Bondholders**) and the holders of the interest coupons appertaining to the Bonds (the **Couponholders** and the **Coupons** respectively, which expressions shall, unless the context otherwise requires, include the talons for further interest coupons (the **Talons**) and the holders of the Talons).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed, the Paying Agency Agreement dated 8<sup>th</sup> July, 2009 (the **Paying Agency Agreement**) made between the Issuer, the initial Paying Agent and the Trustee, the Loan Agreement entered into on or about 2<sup>nd</sup> July, 2009 (the **Loan Agreement**) made between the Issuer and The Housing Finance Corporation Limited (THFC) and the Deed of Accession entered into on or about 2<sup>nd</sup> July, 2009 (the **Deed of Accession**) made between the Issuer and THFC to the deed of priority made between, *inter alios*, the Issuer and THFC (the **Deed of Priority**) are available for inspection upon reasonable notice during normal business hours by the Bondholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Bonds at Fifth Floor, 100 Wood Street, London EC2V 7EX, and at the specified office of the Paying Agent. The Bondholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Paying Agency Agreement, the Loan Agreement, the Deed of Accession and the Deed of Priority applicable to them.

### 1. DEFINITIONS

For the purposes of the Conditions:

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

**Authorised Advisers** means Royal Bank of Canada Europe Limited and The Royal Bank of Scotland plc;

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

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

**Closing Date** means 8<sup>th</sup> July, 2009;

**Corporate Services Agreement** means the Corporate Services Agreement dated on or about 6<sup>th</sup> July, 2009 between the Issuer and T.H.F.C. (Services) Limited or any successor or replacement agreement;

**Enforcement Priority of Payments** has the meaning given in Condition 4.3;

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

**Expected Maturity Date** means 8<sup>th</sup> July, 2039;

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

**Issuer Expenses** means amounts due and payable by the Issuer (i) in respect of fees and expenses (including indemnities) to the Trustee under the Trust Deed, (ii) to the Paying Agent under the Paying Agency Agreement, (iii) to the 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), (iv) any other person in respect of any governmental fee, charge or tax, (v) to the relevant Managers in respect of any amounts payable in respect of indemnities under the Subscription Agreement, (vi) to the Rating Agency (in respect of fees and expenses in connection with the ratings of the Bonds, including the annual fees payable to the Rating Agency for monitoring such rating), (vii) to the Authorised Advisers, the UK Listing Authority and the London Stock Exchange in respect of the listing of the Bonds, (viii) to the Administrator under the Corporate Services Agreement, 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 Bonds;

**Legal Maturity Date** means 8<sup>th</sup> July, 2041;

**Managers** means Royal Bank of Canada Europe Limited and The Royal Bank of Scotland plc;

**Parent** means T.H.F.C. (Funding) Holdings Limited;

**Paying Agent** means Royal Bank of Canada Europe Limited, or any successor or replacement paying agent under the Paying Agency Agreement;

**Payment Date** means 8<sup>th</sup> January and 8<sup>th</sup> July of each year commencing on 8<sup>th</sup> January, 2010 up to, and including, the Legal Maturity Date. If any Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event it shall be brought forward to the immediately preceding Business Day;

**Payment Period** means the period beginning on and including the Closing Date and ending on but excluding the first Payment Date and each successive period beginning on and including a Payment Date and ending on but excluding the succeeding Payment Date;

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

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

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

**Rating Agency** means Standard & Poor's Rating Services, a division of The McGraw Hill Companies Inc. (or any successor to its ratings business);

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

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

**Specified Denomination** means £50,000 and integral multiples of £1,000 in excess thereof up to and including £99,000;

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

**Subscription Agreement** means the subscription agreement dated on or about 3<sup>rd</sup> July, 2009 between the Issuer, THFC and the Managers; and

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

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

### **2.1 Form and Denomination**

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

### **2.2 Title**

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

### **2.3 Holder Absolute Owner**

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

## **3. STATUS**

The Bond and the Coupons are secured obligations of the Issuer and rank *pari passu* without any preference among themselves. The Bonds are secured by the security set out in Condition 4 but (upon enforcement) rank subordinate in priority in point of payment to any claims of, *inter alios*, the Trustee against the Issuer as set out in the Enforcement Priority of Payments in Condition 4.3.

## 4. SECURITY

### 4.1 Security

Pursuant to the Trust Deed, the obligations of the Issuer under, *inter alia*, the Bonds, the Coupons, the Trust Deed and the Paying Agency Agreement are secured by:

- (a) a first floating charge on the whole of the Issuer's undertaking, property and assets, whatsoever and wheresoever situated, present and future, in favour of the Trustee; and
- (b) a first ranking assignment by way of security of the benefit of the floating charge granted to the Issuer by THFC pursuant to the Loan Agreement.

### 4.2 Enforcement of security

The security granted by the Issuer as referred to in Condition 4.1 will become enforceable upon the occurrence of an Event of Default as provided in Condition 11 or upon a default in payment by the Issuer on final redemption, in which event the Trustee may, in its discretion, and if so requested in writing by holders of at least one-fifth in aggregate principal amount of the Bonds then outstanding or by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders shall, subject to being indemnified to its satisfaction, and without any liability as to the consequence of such action and without having regard to individual Bondholders or Couponholders, take action immediately to enforce such security (including without limitation converting the floating charge into a fixed charge).

In addition, pursuant to the assignment referred to in Condition 4.1(b), upon the occurrence of an Event of Default (as defined in the Loan Agreement) under the Loan Agreement (whether or not the security granted by the Issuer as referred to in Condition 4.1 has become enforceable), the Trustee may, in its discretion, and if so requested in writing by holders of at least one-fifth in aggregate principal amount of the Bonds then outstanding or if so requested by an Extraordinary Resolution of the Bondholders shall, subject to being indemnified to its satisfaction, and without any liability as to the consequence of such action and without having regard to individual Bondholders or Couponholders, take action (as assignee of, and attorney for, the Issuer) immediately to enforce the floating charge granted to the Issuer by THFC pursuant to the Loan Agreement.

### 4.3 Application of proceeds

The Trust Deed requires that all monies received by or on behalf of the Trustee following enforcement with respect to the Bonds and/or the security therefor (in the event that the Bonds have become due and repayable in full) shall be applied according to the following priority (the **Enforcement Priority of Payments**):

- (a) to the payment of the fees, costs, charges, expenses and liabilities incurred by the Trustee or any receiver in connection with the enforcement of security;
- (b) to the payment of any accrued and unpaid taxes and statutory fees owing by the Issuer to any tax authority;
- (c) to the payment of any other unpaid fees and expenses of the Trustee (including, but not limited to, all amounts payable to the Trustee under the Trust Deed);
- (d) to the payment of any other due but unpaid Issuer Expenses;

- (e) to the payment, on a *pari passu* and *pro rata* basis, of any due but unpaid interest on the Bonds;
- (f) to the payment, on a *pari passu* and *pro rata* basis, of the principal due and payable on the Bonds; and
- (g) any surplus to the Issuer and any other person entitled thereto.

## 5. RESTRICTIONS ON ISSUER'S ACTIVITIES

So long as any of the Bonds remains outstanding, the Issuer will not, without the prior written consent of the Trustee, incur any other indebtedness or engage in any activity or business (other than the issue of Further Bonds, the investment of the proceeds of Further Bonds (in accordance with Condition 17) and the performance of its obligations under the Bonds, the Coupons, the Trust Deed, the Paying Agency Agreement, the Loan Agreement, the Deed of Accession, the Deed of Priority, the Corporate Services Agreement and other related transactions and in connection with the provision of administrative services to manage the affairs of the Issuer and to maintain its corporate existence), declare or pay any dividends (save as provided in the Trust Deed), 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 grant any security interest over its assets other than pursuant to the Trust Deed.

## 6. INTEREST

### 6.1 Interest Rate and Payment Dates

The Bonds bear interest from and including the Closing Date at the rate of 6.35 per cent. per annum, payable in arrear by equal half-yearly instalments on each Payment Date. The first payment (for the first Payment Period) shall be made on 8<sup>th</sup> January, 2010.

### 6.2 Pre-enforcement Priority of Payments

Prior to the Bonds having become due and repayable in full and the security in respect of the Bonds being enforced as described in Condition 4.2 and subject as provided in the Trust Deed, on the Closing Date and each Payment Date up to, and including, the Expected Maturity Date (and, if the Bonds are not redeemed in full on the Expected Maturity Date, each Payment Date up to, and including, the Legal Maturity Date), the Issuer shall apply the Available THFC Receipts in the order set out below (the **Pre-enforcement Priority of Payments**):

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

- (e) to the payment, on a *pari passu* and *pro rata* basis, of any principal due and payable on the Bonds.

### **6.3 Interest Accrual**

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

### **6.4 Calculation of Broken Interest**

When interest is required to be calculated in respect of a period of less than a full Payment Period, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Payment Date multiplied by two.

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

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

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

### **7.2 Method of Payment**

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

### **7.3 Missing Unmatured Coupons**

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

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

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

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

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

## **7.6 Exchange of Talons**

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

## **7.7 Initial Paying Agent**

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

- (a) there will at all times be a Paying Agent;
- (b) there will at all times be at least one Paying Agent having its specified office in a European city which so long as the Bonds are admitted to official listing on the London Stock Exchange shall be London or such other place as the UK Listing Authority may approve; and
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

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

## **8. REDEMPTION AND PURCHASE**

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

No payments of principal under the Bonds shall be made prior to the Expected Maturity Date except on an early redemption of the Bonds in accordance with Conditions 8.2 or 11. All outstanding Bonds not redeemed on or prior to the Expected Maturity Date will be redeemed in accordance with the Pre-Enforcement Priority of Payments 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 Bonds. All interest accrued on the Bonds will be paid in accordance with the Pre-Enforcement Priority of Payments on each Payment Date to and including the Legal Maturity Date, until redemption and payment in full of all amounts (including principal and interest) payable in respect of the relevant Bonds.

### **8.2 Early Redemption**

If the Loan (as defined in the Loan Agreement) becomes prepayable in whole or in part prior to the relevant repayment date as specified in the Loan Agreement, then the Issuer shall, (subject to the receipt by it from THFC under the Loan Agreement of sufficient funds to enable it to redeem the relevant principal amount of the Bonds in full, together with accrued interest) redeem Bonds in an aggregate principal amount equal to the nominal amount of the

Loan being prepaid on the date which is 3 Business Days after that on which payment is made by THFC under the Loan Agreement. Redemption of the Bonds pursuant to this Condition shall:

- (a) in the case of an Illegality Prepayment or a Tax Prepayment (each as defined in the Loan Agreement), be made at par (together with any interest accrued up to and including the date of redemption);
- (b) in the case of an Optional Prepayment (as defined in the Loan Agreement), if the date of redemption is within 18 months of the Closing Date and an event of default has occurred under any Relevant Authorised Loan Agreement (as defined in the Loan Agreement), be made at par (together with any interest accrued up to and including such date of redemption); or
- (c) in the case of a Default Prepayment (as defined in the Loan Agreement) or an Optional Prepayment (other than as described in sub-clause (b) above), the higher of the following:
  - (i) par; and
  - (ii) the price (the **Redemption Price**), determined by a market maker selected by the Trustee (the **Market Maker**) and expressed as a percentage (rounded to three decimal places, 0.0005 being rounded upwards), at which the Gross Redemption Yield on the Bonds, if they were to be purchased at such price on the fifth dealing day prior to the due date for redemption of the Bonds (the **Determination Date**), would be equal to the Gross Redemption Yield on the Determination Date of 4<sup>3</sup>/<sub>4</sub>% Treasury Gilt 2038 or, if such gilt is no longer in issue or (in the opinion of the Market Maker) is not of sufficient size to be an accurate benchmark, of such other United Kingdom gilt as the Trustee, with the advice of three brokers or market-makers operating in the gilt-edged market, shall determine to be appropriate (the **Reference Gilt**), on the basis of the middle market price of the Reference Gilt prevailing at 11.00 a.m. on the Determination Date;

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

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

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

In the case of a partial redemption of Bonds, Bonds to be redeemed will be selected in such place as the Trustee may approve and in such manner and at such time as the Trustee may deem appropriate and fair. Notice of any such selection will be given by the Issuer to the Bondholders as promptly as practicable. Each notice will specify the date fixed for redemption and the aggregate principal amount of the Bonds to be redeemed, the serial numbers of the Bonds called for redemption, the serial numbers of Bonds previously called

for redemption and not presented for payment and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.

### **8.3 Purchase of Bonds by THFC or a Bond Issuance Authorised Borrower**

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

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

The Issuer may not at any time purchase Bonds.

### **8.5 Cancellation**

All Bonds redeemed by the Issuer pursuant to Condition 8.2 shall be cancelled and may not be resold or reissued.

## **9. TAXATION**

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

## **10. PRESCRIPTION**

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

## **11. EVENTS OF DEFAULT**

If any Event of Default (as defined below) occurs and is continuing, then the Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth of the aggregate outstanding principal amount of the Bonds or if so requested by an Extraordinary Resolution of the Bondholders shall (subject to being indemnified to its satisfaction), give notice to the Issuer that the Bonds are, and they shall accordingly immediately become, due and repayable at the higher of par and the Redemption Price (calculated in accordance with Condition 8.2) together with accrued interest. Upon the occurrence of an Event of Default, the security shall become enforceable as referred to in Condition 4.2. Each of the following events is an **Event of Default**:

- (a) if the Issuer shall default in the payment when due of any monies payable on early redemption of the whole or any part of the Bonds or for a period of 14 days in the payment of any interest due on the Bonds; or
- (b) if the Issuer fails to perform or observe any of its other obligations under the Bonds, the Coupons or the Trust Deed, the breach of which obligation the Trustee certifies to be materially prejudicial to the interests of the Bondholders, and (except in any case where the Trustee considers the failure to be incapable of remedy or certifies that in its opinion any delay would be materially prejudicial to the interests of the Bondholders when no continuation or notice as is hereinafter mentioned will be required) such failure continues for a period of 21 days (or such longer period as the Trustee may permit) next following the service by the Trustee upon the Issuer of notice requiring the same to be remedied; or
- (c) if any order shall be made by any competent court or any resolution passed for the winding up or dissolution of the Issuer (save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement on terms approved by the Trustee) or the Issuer becomes unable to pay its debts as and when they fall due, or is deemed unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986; or
- (d) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer, and (ii) in any such case (other than the appointment of an administrator or an administrative receiver appointed following presentation of a petition for an administration order), is not discharged within 14 days; or
- (e) if the Issuer (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- (f) if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have, in the Trustee's opinion, an analogous effect to any of the events referred to in subparagraphs (c) to (e) above.

## **12. EXERCISE AND ENFORCEMENT**

### **12.1 Exercise and Enforcement**

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

- (a) it has been so requested in writing by the holders of at least one-fifth of the outstanding principal amount of the Bonds or has been so requested by an Extraordinary Resolution of the Bondholders; and
- (b) it has been indemnified to its satisfaction.

## **12.2 Action by Bondholders**

No Bondholder may take any action against the Issuer to enforce its rights in respect of the Bonds or to enforce all or any of the security constituted by the Trust Deed otherwise than through the Trustee.

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

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

## **14. NOTICES**

All notices to the Bondholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve. It is expected that publication will normally be made in the *Financial Times*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or relevant authority on which the Bonds are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Bondholders in accordance with this paragraph.

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

### **15.1 Meetings of Bondholders**

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be two or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds for the time being outstanding. The Trust Deed does not contain any provisions requiring higher quorums in any circumstances. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders. A resolution in writing signed by or on behalf of the holders of not less than 95 per cent. in nominal amount of the Bond shall be as valid and effectual as an Extraordinary Resolution passed at a meeting of the Bondholders duly convened and held.

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

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

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

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

## **15.4 Notification to the Bondholders**

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

## **16. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, THFC, Authorised Borrowers and their respective subsidiaries or associated companies, or any of them, without accounting to the Bondholders or Couponholders for any profit resulting therefrom.

## **17. FURTHER ISSUES**

Subject to the rest of this Condition 17, the Issuer shall have the power, without the consent of the Trustee, from time to time to create and issue further bonds (**Further Bonds**) which will be in bearer form and carry the same terms and conditions in all respects (other than the issue date and in respect of the first payment of interest) as, and shall be consolidated and form a single series and rank *pari passu* with, and share the same security as, the Bonds. The Further Bonds shall be constituted and secured by a deed supplemental to the Trust Deed (in such form as the Trustee may approve).

The proceeds of any issue of Further Bonds may be applied to the making of further advances to THFC under the Loan Agreement on terms that the drawdown of such further advances may be postponed by THFC for up to 18 months. The further advances will be made in whole or in part on 5 Business Days notice to the Issuer by THFC and the Issuer will, without notice, advance any remaining proceeds not drawn down to THFC on the date falling 18 months after the issue of such Further Bonds. The Issuer will invest any undrawn proceeds of an issue of Further Bonds in suitable investments having regard to the rating assigned to such Further Bonds. It shall be a condition precedent to the issue of any Further Bonds that: (i) they shall be assigned the same rating by the Rating Agency as is then applicable to the Bonds; (ii) the then current rating of the Bonds shall not be adversely affected by such issue; and (iii) the Issuer shall enter into such other arrangements as may be necessary to obtain the requisite rating by the Rating Agency of the Further Bonds.

The Issuer shall not be entitled to issue Further Bonds if any default exists in relation to any amount due from the Issuer or any default exists under the Loan Agreement.

**18. GOVERNING LAW**

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

**19. RIGHTS OF THIRD PARTIES**

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

## SUMMARY OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED BY THE GLOBAL BOND

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

### 1. Exchange

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

- (a) upon the happening of any of the events defined in the Trust Deed as "Events of Default";
- (b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or
- (c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Bonds in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Global Bond (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer, and (in the case of (c) above) the Issuer may give notice to the Trustee and the Bondholders, of its or their intention to exchange the Global Bond for definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Global Bond may or, in the case of (c) above, shall surrender the Global Bond to or to the order of the Paying Agent. In exchange for the Global Bond the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Bonds (having attached to them all Coupons in respect of interest which has not already been paid on the Global Bond), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Global Bond, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Bonds.

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

### 2. Payments

Payments of principal and interest in respect of Bonds represented by the Global Bond will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the Global Bond to the order of the Paying Agent. A

record of each payment made will be endorsed on the appropriate part of the schedule to the Global Bond by or on behalf of the Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Bonds.

### **3. Notices**

For so long as all of the Bonds are represented by the Global Bond and the Global Bond is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 14.

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

### **4. Accountholders**

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

### **5. Prescription**

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

### **6. Cancellation**

Cancellation of any Bond represented by the Global Bond and required by the Conditions of the Bonds to be cancelled following its redemption or purchase and surrender will be effected by endorsement by or on behalf of the Paying Agent of the reduction in the principal amount of the Global Bond on the relevant part of the schedule thereto.

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

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

## USE OF PROCEEDS

The gross proceeds of the issue of the Bonds, being approximately £191,076,400, will be lent to THFC pursuant to the Loan Agreement. The net proceeds of the issue of the Bonds (after taking account of the expenses of the issue) will amount to approximately £189,694,118. THFC will lend the gross proceeds received by it to the Bond Issuance Authorised Borrowers (as defined under "*Description of the Authorised Borrowers*") for the purposes and on the terms set out under "*Description of the Authorised Borrowers*", with the Bond Issuance Authorised Borrowers reimbursing THFC for the expenses of the issue.

## DESCRIPTION OF THE ISSUER

### INTRODUCTION

The Issuer was incorporated under the Companies Act 1985 for an unlimited duration and registered on 3<sup>rd</sup> June, 2009 under English law with registration number 06923641. The registered office of the Issuer is 4th Floor, 107 Cannon Street, London EC4N 5AF and its telephone number is (+44) (0)20 7337 9920. 49,999 issued shares of the Issuer are held by the Parent (T.H.F.C. (Funding) Holdings Limited, a holding company whose only assets comprise these shares and 49,999 issued shares in THFC (Funding No.1) Plc) and one issued share is held by T.H.F.C. (Services) Limited (the **Share Trustee**). The entire issued share capital of the Parent is held by the Share Trustee under the terms of an instrument of trust (the **Instrument of Trust**) dated 13<sup>th</sup> December, 2004 under which the Share Trustee holds the share capital of the Parent on trust for the benefit of such charities or charitable purposes as the Share Trustee shall determine and failing such determination on trust for the Worldwide Fund for Nature.

### CAPITALISATION

The authorised capital of the Issuer consists of £50,000 divided into 50,000 ordinary shares of £1 par value each, all of which have been issued one-quarter paid. The paid-up capital of the Issuer is £12,500.

The following table, has been prepared for illustrative purposes only, and sets out the unaudited capitalisation of the Issuer as at 4<sup>th</sup> June, 2009 adjusted to reflect the Bonds now being issued. Please note that due to its nature the table addresses a hypothetical situation and, therefore, does not represent the company's actual financial position or results.

	£
Share capital.....	12,500.00
The Bonds now being issued.....	191,000,000.00
Total Capitalisation.....	<u>191,012,500.00</u>

As at 4<sup>th</sup> June, 2009, other than the obligations described in this Offering Circular, the Issuer had no indebtedness, contingent liabilities, guarantees or indebtedness guaranteed by third parties.

Since 4<sup>th</sup> June, 2009 there has been no change in the capitalisation and indebtedness and the contingent liabilities and guarantees and the indebtedness guaranteed by third parties.

### BUSINESS

The Issuer was established for the limited purpose of the issue of Bonds and Further Bonds and the making of Loans to THFC.

### DIRECTORS

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

## Directors of the Issuer

Name	Business Address	Principal Activities
Roger Philip Mountford	4th Floor 107 Cannon Street London EC4N 5AF	Company Director Non-Executive Chairman
Fenella Jane Edge	4th Floor 107 Cannon Street London EC4N 5AF	Group Treasurer The Housing Finance Corporation Limited Management of Special Purpose Companies
John Piers Williamson	4th Floor 107 Cannon Street London EC4N 5AF	Company Director Chief Executive The Housing Finance Corporation Limited Management of Special Purpose Companies
Colin John Burke	4th Floor 107 Cannon Street London EC4N 5AF	Finance Manager and Company Secretary The Housing Finance Corporation Limited Management of Special Purpose Companies

The secretary of the Issuer is T.H.F.C. (Services) Limited.

With the exception of the above, the Issuer has no employees or non-executive directors.

All of the directors of the Issuer are either on the board of THFC or employed by a wholly owned subsidiary of THFC and so have a potential conflict of interest with the Issuer.

### **T.H.F.C. (SERVICES) LIMITED (THE ADMINISTRATOR)**

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

The Administrator provides certain administrative, secretarial and managerial services to the Issuer, including the keeping of proper accounting and tax records, liaison with THFC as required with relation to payments of interest, principal and any other amounts payable under the Loan Agreement and with the Trustee, THFC and the Paying Agent with respect to payments under the Bonds, the provision of such information and/or documentation as is required under the Trust Deed and providing directors for the Issuer all as more particularly described in the Corporate Services Agreement.

The Corporate Services Agreement may be terminated by:

- (a) either party upon material breach by the other party of any covenant in the Corporate Services Agreement which is not remedied within three months from notice of the material breach; or
- (b) either party upon a default leading to acceleration of the maturity of the Bonds or an event of default under the Loan Agreement.

## **AUDITORS AND FINANCIAL STATEMENTS**

Since the date of its incorporation, the Issuer has not commenced commercial operations save as described in this Offering Circular and no financial statements of the Issuer have been prepared. The Issuer has appointed PricewaterhouseCoopers LLP of 5th Floor, 80 Strand, London WC2R 0AF as its auditors. PricewaterhouseCoopers LLP are chartered accountants and registered auditors and are members of the Institute of Chartered Accountants in England and Wales.

## DESCRIPTION OF THFC

### Introduction

The Housing Finance Corporation Limited (**THFC**) was incorporated in England in 1987 and has its registered office at 4th Floor, 107 Cannon Street, London EC4N 5AF.

THFC is an industrial and provident society which is managed by a Board of nine members who are listed below. The Board carries out the equivalent functions of the board of directors of a limited liability company and the use of the term **Directors** hereinafter is to be construed accordingly. The Tenant Services Authority and The National Housing Federation both have the right to appoint a director to the Board. The National Housing Federation is represented on the Board by its Chief Executive. The Tenant Services Authority nominee is its current Head of Private Finance. The remainder of the Board consists of representatives from both the housing association and the commercial sectors, as well as the current Chief Executive of THFC and the Group Treasurer of THFC.

As at 31<sup>st</sup> March, 2009 THFC and its lending subsidiaries T.H.F.C. (Indexed) Limited, T.H.F.C. (Indexed 2) Limited, T.H.F.C. (First Variable) Limited, T.H.F.C. (Social Housing Finance) Limited, UK Rents (No.1) PLC and T.H.F.C. (Capital) PLC (and together with T.H.F.C. (Services) Limited (the **Administrator**), the **THFC Group**) had £1,885 million of loans outstanding to circa 118 registered social landlords of which £1,028 million was outstanding in THFC.

### The Business of THFC

The business of THFC is to make Authorised Loans to Authorised Borrowers, which Authorised Loans are in turn financed by means of public and private stock issues and bank loans. The terms of THFC's loans mirror the terms of its borrowings in order that the cash flows from its assets service its cash flows on its borrowings. The difference between the income, including fees, which THFC receives in respect of its Authorised Loans and Permitted Investments, and the cost of its borrowings constitutes THFC's principal source of net income. All of THFC's borrowings are secured by means of a *pari passu* floating charge on all of THFC's assets and there is no contractual linkage between the borrowers in relation to Authorised Loans and the trustees or banks in relation to the stock issues or bank loans which are raised initially to fund those loans. Accordingly, a default by an Authorised Borrower under an Authorised Loan will not of itself constitute an event of default under the terms of THFC's relevant Trust Deeds or bank loan agreements.

### THFC Directors

Name	Address	Principal Activities
Pamela Elizabeth Alexander	4 <sup>th</sup> Floor 107 Cannon Street London EC4N 5AF	Chief Executive South East England Development Agency Governor of Peabody Trust
Charles Arbuthnot	4 <sup>th</sup> Floor 107 Cannon Street London EC4N 5AF	Independent Consultant
Michael Daniel Boohan	4 <sup>th</sup> Floor 107 Cannon Street London EC4N 5AF	Company Director
Fenella Jane Edge	4 <sup>th</sup> Floor 107 Cannon Street London EC4N 5AF	Group Treasurer The Housing Finance Corporation Limited Management of Special Purpose Companies

Name	Address	Principal Activities
Roger Philip Mountford	4 <sup>th</sup> Floor 107 Cannon Street London EC4N 5AF	Company Director Non-Executive Chairman
David Orr	4 <sup>th</sup> Floor 107 Cannon Street London EC4N 5AF	Chief Executive The National Housing Federation
Gillian Rowley	4 <sup>th</sup> Floor 107 Cannon Street London EC4N 5AF	Head of Private Finance The Tenant Services Authority
Sadru Visram	4 <sup>th</sup> Floor 107 Cannon Street London EC4N 5AF	Housing Finance Consultant Management of Special Purpose Companies
John Piers Williamson	4 <sup>th</sup> Floor 107 Cannon Street London EC4N 5AF	Company Director Chief Executive The Housing Finance Corporation Limited Management of Special Purpose Companies

### **THFC Management**

In 1994, THFC established the Administrator as a wholly-owned subsidiary, whose principal place of business is at 4th Floor, 107 Cannon Street, London, EC4N 5AF to provide management and loan administration services, under management agreements, to THFC and its other subsidiaries. THFC entered into such a management agreement (the **Management Agreement**) with the Administrator on 31<sup>st</sup> March, 1994. The Management Agreement can be terminated by either party by one year's notice in writing or earlier by either party in certain circumstances. No alternative arrangements for management exist.

THFC's executive team (each of whom is employed by the Administrator) consists of Piers Williamson, a former bank treasurer, appointed Chief Executive in October 2002; Fenella Edge, a former bank director, appointed Group Treasurer in November 2002; and Colin Burke, a Chartered Accountant, who was appointed Finance Manager and Company Secretary in October 2002.

### **Listed Securities**

The following securities of THFC are listed on the regulated market of the UKLA and admitted to trading on the London Stock Exchange:

Zero Coupon Debenture Stock 2012, ISIN GB0004410295;  
5% Debenture Stock 2027, ISIN GB0004410071;  
7% Debenture Stock 2009 (Series I), ISIN GB0004397781;  
7% Debenture Stock 2009 (Series II), ISIN GB0004398086;  
8.625% Debenture Stock 2023, ISIN GB0004398318;  
9.625% Debenture Stock 2025, ISIN GB0004398425; and  
11.5% Debenture Stock 2016, ISIN GB0004398193.

## CAPITALISATION AND INDEBTEDNESS OF THFC

As at close of business on 31<sup>st</sup> March, 2009 the consolidated share capital, reserves and indebtedness of THFC as extracted from its audited consolidated accounts were as set out in the following table:

<b>Capital and Reserves</b>	<b>31 March 2009</b>
	£000
Called up share capital	—*
Profit and loss account	<u>8,484</u>
	<u>8,484</u>

\*As at 31<sup>st</sup> March 2009 the authorised allotted, called up and fully paid share capital of THFC was £7 comprising seven shares of £1 nominal each.

<b>Indebtedness of the THFC Group</b>	<b>31 March 2009</b>	
	£000	
<b>THFC Debenture Stocks</b>		
£93,502,160	Zero Coupon Debenture Stock 2012	61,424
£50,954,200	5% Debenture Stock 2027	27,535
£14,463,750	7% Debenture Stock 2009	14,178
£24,662,500	Stepped Coupon Debenture Stock 2019	35,748
£15,000,000	12.04% Annuity Debenture Stock 2021	12,752
£174,450,000	11.5% Debenture Stock 2016	174,450
£189,100,000	8.625% Debenture Stock 2023	189,100
£8,000,000	8.8% Annuity Debenture Stock 2023	6,823
£10,000,000	10.0938% Annuity Debenture Stock 2024	9,096
£49,450,000	9.625% Debenture Stock 2025	49,450
<b>THFC Bank Loans</b>		
£5,000,000	Variable Rate Facility 2010	5,000
£5,000,000	Variable Rate Facility 2010	2,000
£750,000	Fixed/Variable Rate Facility 2021	450
£5,000,000	Variable Rate Revolving Credit Facility 2011	5,000
£39,500,000	Fixed Rate Facility 2023	17,404
£31,000,000	Fixed Rate Facility 2024	24,638
£24,000,000	Fixed Rate Facility 2025	8,700
£8,700,000	Fixed Rate Facility 2028	8,700
£11,000,000	Fixed/Variable Rate Facility 2026	10,450
£10,000,000	Fixed/Variable Rate Facility 2028	6,740
£15,000,000	Variable Rate Facility 2029	13,735
£15,000,000	Fixed/Variable Rate - 25 Year	6,300
£20,000,000	Variable Rate Facility - 5 Year	2,920
£100,000,000	Fixed/Variable Rate Facility – 20 year	100,000
		<hr style="border: 0.5px solid black;"/>
		792,593
<b>THFC Loan from T.H.F.C. (Funding No. 1) PLC</b>		
£235,205,000	Long term - 5.125% due 2035 (Bullet)	235,205
<b>T.H.F.C. (Social Housing Finance) Limited</b>		
<b>Debenture Stocks</b>		
£86,300,000	8.75% Debenture Stock 2016/2021	86,300

**T.H.F.C. (Social Housing Finance) Limited****Bank Loans**

£4,500,000	Fixed Rate Loan 2023	3,477
£18,500,000	Fixed Rate Loan 2024	14,738
£14,900,000	Fixed Rate Loan 2025	11,995
		<hr/> 116,510

**T.H.F.C. (Indexed) Limited Indexed Linked Debenture Stock**

£89,633,922	5.65% Index Linked Debenture Stock 2020	<hr/> 97,531
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**T.H.F.C. (Indexed 2) Limited Indexed Linked Debenture Stock**

£52,500,000	5.50% Index Linked Debenture Stock 2024	<hr/> 62,853
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**T.H.F.C. (First Variable) Limited**

£18,200,000	Variable Rate Loan 2023	<hr/> 14,947
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**UK Rents (No. 1) PLC**

£36,143,000	Rental Securitisation 2025	34,333
£723,000	Subordinated loan	723
		<hr/> 35,056

**T.H.F.C. (Capital) PLC**

£239,500,000	6.38% Secured Bond 2042	239,500
£375,000,000	Fixed & Variable Rate Loans	292,000
		<hr/> 531,500

**1,886,195****Premium/discount<sup>4</sup>****12,387****Total****---

1,898,582****Notes:**

<sup>1</sup>As at 31<sup>st</sup> March, 2009 the balance on the audited unconsolidated Income Statement of THFC was £4,954,000.

<sup>2</sup>At 31<sup>st</sup> March, 2009 THFC had no outstanding contingent liabilities and guarantees nor any indebtedness guaranteed by a third party.

<sup>3</sup>All of THFC's borrowings are secured by means of a *pari passu* floating charge on all of THFC's assets.

<sup>4</sup>Following the adoption of IFRS by THFC in the year ended 31<sup>st</sup> March, 2006 loans and debenture stocks are stated at amortised cost. Any discounts or premiums on issue are deducted from/ added to the original loan or debenture stock value and charged or credited to the income statement over the expected life of the loan/debenture stock so that the interest payable, as adjusted for the amortisation of discount/premiums, gives a constant yield to maturity.

## DESCRIPTION OF THE AUTHORISED BORROWERS

### Authorised Borrowers

Each Authorised Borrower is an entity whose principal purpose, objects and powers are to provide, construct, improve, manage, facilitate or encourage the construction or improvement of housing accommodation. Each is either an industrial and provident society or a charitable trust and all are registered social landlords whose activities are regulated by The Tenant Services Authority (in England), or the Welsh Assembly Government (in Wales). Each Authorised Borrower is prohibited by its constitution from trading for profit and any surplus which may result from its operations may not be distributed, either directly or indirectly, in any way whatsoever among its members.

### The Bond Issuance Authorised Borrowers

THFC has covenanted to the Issuer in the Loan Agreement that the proceeds of the Loan (as defined in the Loan Agreement) will be on-lent to specified Authorised Borrowers (the **Bond Issuance Authorised Borrowers**) under separate loan agreements with THFC entered into on or about 2<sup>nd</sup> July, 2009 (the **Bond Issuance Authorised Loans**).

Each Bond Issuance Authorised Loan has been and will be made by THFC in the normal course of its business and will comply with THFC's current core terms as required in THFC's existing trust deeds (the **Standard Lending Criteria**, which are described in "*Existing THFC Core Terms relating to Authorised Loans*"). Each Bond Issuance Authorised Loan is or will be governed by English law. Each Bond Issuance Authorised Loan will have a bullet repayment maturity to take place on 4<sup>th</sup> July, 2039 with no grace period. It is anticipated that payments of interest under each Bond Issuance Authorised Loan will be made to the main bank account of THFC held with Barclays Bank plc as set out in paragraph 8 under "*General Information*". THFC is obliged under the Loan Agreement to maintain an up-to-date list of Bond Issuance Authorised Loans (as amended or replaced from time to time) which will be provided annually to, and may be inspected at any time by, the Issuer and the Trustee. The Bond Issuance Authorised Borrowers will grant Fixed Charge Security or an initial charge over cash and where land or property has been or will be charged have received or will receive consent under Section 9 of the Housing Act 1996. It should be noted that THFC is entitled under the terms of its existing trust deeds and the Loan Agreement to allow an Authorised Borrower to swap from fixed charge security to floating charge security. In addition, the Bond Issuance Authorised Borrowers will be required to maintain an interest service reserve equal to 12 months interest on their respective loans as additional security for the payment of interest under the relevant Bond Issuance Authorised Loan. THFC believes that the interest and other amounts (other than principal) payable by the Bond Issuance Authorised Borrowers will (assuming that the Bond Issuance Authorised Borrowers comply with their obligations under the Bond Issuance Authorised Loans) be sufficient to service all amounts due and payable on the Loan Agreement.

### The Existing Authorised Borrowers

The **Existing Authorised Borrowers** are borrowers from THFC under loan agreements other than the Bond Issuance Authorised Loans complying with the relevant Standard Lending Criteria, which are described in "*Existing THFC Core Terms relating to Authorised Loans*" (the **Existing Authorised Loans**).

Details of Existing Authorised Loans are set out below:

<b>The Housing Finance Corporation Limited</b>			
<b>Authorised Borrowers</b>	<b>Authorised Loans Existing as at 31 March, 2009<sup>1</sup></b>	<b>Other Movements<sup>2</sup></b>	<b>New<sup>3</sup></b>
	£000	£000	£000
A2Dominion London Limited	25,098		50,000
A2Dominion North Limited	5,000		
A2Dominion South Limited	2,500		
Accent Nene Housing Society Limited	1,832		
Adactus Housing Association Limited	5,500		
Agudas Israel Housing Association Limited	202		
Aldwyck Housing Association Limited	2,764		
AmicusHorizon Group Limited	28,500		
Arena Housing Group Limited	5,000		
Asra Greater London Housing Association Limited	10,000		
Axiom Housing Association Limited	21,795		
Beth Johnson Housing Association Limited	4,000		
Black Country Group Limited	7,000		
Bromford Carinthia Housing Association	4,500		
Cambridge Housing Society Limited	4,200		
Catalyst Communities Housing Association Limited	4,290		
Cheviot Housing Association Limited	12,607		
Clwyd Alyn Housing Association Limited	2,000		
Community Housing Association Limited	43,738		
Connect Housing Association Limited	2,750		
Cotman Housing Association Limited	1,500		
Contour Homes Limited	2,500		
Cymdeithas Tai Clwyd	1,500		
Cymdeithas Tai Eryri Limited	2,500		
De Montfort Housing Society Limited	11,800		
Devon & Cornwall Housing Association Limited	2,549		
East Homes Limited	1,403		
East Midlands Housing Association Limited	19,120		
English Churches Housing Group Limited	19,823		
Estuary Housing Association Limited	7,729		
Equity Housing Group Limited	8,251		
Family Housing Association (Birmingham) Limited	6,000		
Family Mosaic Housing	43,544		
Friendship Care and Housing Association Limited	2,000		
Gateway	1,250		
Habinteg Housing Association Limited	6,048		
Heantun Housing Association Limited	10,000		
Hexagon Housing Association Limited	1,500		
Hightown Praetorian and Churches Housing Association Limited	1,100		
Home Group Limited	2,549		
Innisfree Housing Association Limited	3,000		
Islington & Shoreditch Housing Association Limited	3,059		
Johnnie Johnson Housing Trust Limited	18,500		
Knightstone Housing Association Limited	8,918		
Kush Housing Association Limited	4,000		

**The Housing Finance Corporation Limited**

<b>Authorised Borrowers</b>	<b>Authorised Loans Existing as at 31 March, 2009<sup>1</sup></b>	<b>Other Movements<sup>2</sup></b>	<b>New<sup>3</sup></b>
	£000	£000	£000
Leeds Federated Housing Association Limited	3,000		6,000
Leeds & Yorkshire Housing Association Limited	2,000		
Leicester Housing Association Limited	22,769		
Liverpool Housing Trust Limited	7,000		
London & Quadrant Housing Trust	31,496		
Longhurst Homes Limited	9,400		
Manchester Methodist Housing Association Limited	5,531		
Manningham Housing Association Limited	27,860	(446)	
Mercian Housing Association Limited	11,733	(1,350)	
Metropolitan Housing Trust Limited	34,651		
Midland Heart Limited	48,572	(109)	
Minster General Housing Association Limited	5,435	(208)	
Moat Homes Limited	3,500		
Moseley & District Churches Housing Association Limited	3,050		
Mosscares Housing Limited	33,247	(67)	
Newlon Housing Trust	5,046		
North London Muslim Housing Association Limited	1,000		
North Wales Housing Association Limited	2,500		
Nottingham Community Housing Association Limited	17,633		
Octavia Housing and Care	2,000		
Oxford Citizens Housing Association Limited	1,500		
Paddington Churches Housing Association Limited	2,500		30,000 <sup>4</sup>
Pembrokeshire Housing Association Limited	1,000		
Penwith Housing Association Limited	5,418		
Places for People Homes Limited	26,451		
Portal Housing Association Limited	11,000		5,000
Portsmouth Housing Association Limited	7,178		
Sadeh Lok Housing Group Limited	650		
Sanctuary Housing Association Limited	13,481		
South Yorkshire Housing Association Limited	4,676		
Southern Housing Group Limited	33,599	(152)	100,000
Spirita Limited	2,490		
Springboard Housing Association Limited	6,000		
Stadium Housing Association Limited	43,510		
Staffordshire Housing Association Limited	3,800		
St Pancras & Humanist Housing Limited	5,600		
St Vincent 's Housing Association Limited	3,050		
Sutton Housing Society Limited	250		
Swaythling Housing Society Limited	22,500		
Taff Housing Association Limited	500		
Thames Valley Charitable Housing Association Limited	14,915		
Three Rivers Housing Association Limited	6,000		
Toynbee Housing Association Limited	1,100		
Trident Housing Association Limited	5,000		
Tuntum Housing Association Limited	7,000		
United Welsh Housing Association Limited	4,500		
Wales and West Housing Association Limited	9,000		
Wandle Housing Association Limited	21,418		
Waterloo Housing Association Limited	6,000		

**The Housing Finance Corporation Limited**

<b>Authorised Borrowers</b>	<b>Authorised Loans Existing as at 31 March, 2009<sup>1</sup></b>	<b>Other Movements<sup>2</sup></b>	<b>New<sup>3</sup></b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Westcountry Housing Association Limited	37,000		
West Mercia Homes Limited	12,500		
West Pennine Housing Association Limited	3,000		
Wiltshire Rural Housing Association Limited	1,050		
Wirral Methodist Housing Association Limited	1,200		
Womens Pioneer Housing Limited	1,000		
Wycombe Friendship Housing Association Limited	618		
Yorkshire Housing Limited	40,500		
<b>Total</b>	<b>1,027,786</b>	<b>(2,332)</b>	<b>191,000</b>

<sup>1</sup> Authorised loans are derived without material change from the audited accounts of THFC dated 31<sup>st</sup> March, 2009

<sup>2</sup> Other movements on loans since 31<sup>st</sup> March, 2009

<sup>3</sup> New Authorised Loans are derived without material change from the Authorised Loan Agreements dated on or about 2<sup>nd</sup> July, 2009

<sup>4</sup> This New Authorised Loan may be split between Paddington Churches Housing Association Limited and Springboard Housing Association Limited, another member of Genesis Housing Group, under one Bond Issuance Authorised Loan

The difference between the THFC indebtedness and THFC loans to Authorised Borrowers arises through timing differences on principal repayments.

## **Regulation of housing associations**

The funding and regulation of housing associations is currently undergoing significant change. Housing associations in England were until recently grant funded and regulated by the Housing Corporation. The Housing and Regeneration Act 2008 (the **Act**) changed this. The Act received Royal Assent on 22<sup>nd</sup> July, 2008, but a limited number of provisions of the Act actually came into force on that date and it is being introduced incrementally by statutory instruments.

The Act established the Housing and Communities Agency (the **HCA**) and the Office for Tenants and Social Landlords (the name used in the Act) which has become known as and operates under the name Tenant Services Authority (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 is now the regulator of housing associations in England. The Housing Corporation no longer carries on any functions. Wales is the subject of a separate regulatory and funding regime.

Part 2 of the Act establishes and defines the role and powers of the TSA. However, much of this part of the Act is not yet in force. This is because the TSA is going through a transitional phase, while it carries out extensive consultation with tenants and other stakeholders as to the detail of its regulatory regime. Only once this process is complete (no earlier than Autumn 2009) will the remainder of this part of the Act be brought into force.

In the meantime, the TSA has adopted much of the regulatory guidance published by the Housing Corporation, and is functioning under the regulatory powers set out in current legislation (predominantly the Housing Act 1996). In particular, it can continue to rely on powers in the Housing Act 1996 to require information from registered social landlords (**RSLs**), make appointments to boards, conduct statutory inquiries and enforce a moratorium period in the event of various insolvency situations arising. It is also continuing to operate the regulatory process of supervision, which is a level of regulatory engagement applied in relation to RSLs which the regulator considers to be significantly underperforming against the Housing Corporation's Regulatory Code. Supervision tends to be relatively rare and may be triggered by failures of a variety of types, not necessarily financial

### *The new regime*

The Act sets 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 Act also introduces some new terminology: RSLs will become known as registered providers, and registered providers are subdivided into the categories profit-making and non-profit. Profit-making registered providers are subject to a slightly lighter regulatory regime. All existing RSLs will automatically become non-profit registered providers (subject to the full regulatory regime).

Central to the regulation of housing associations is that the Act provides 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 can also publish codes of practice which relate to and may amplify these standards. Having set the standards, TSA can monitor compliance, and take regulatory action when the standards are not met. Registered providers will still require consent from TSA to dispose of social housing dwellings.

The TSA's enforcement powers are in many ways similar to those available under the Housing Act 1996. In particular, they include powers to require information, make appointments to board, conduct inquiries and enforce a moratorium period in various insolvency situations, although in some cases

there are slight alterations to the form of the legislation. There are also some new powers to issue enforcement notices and penalties, to require payment of compensation to tenants and to outsource management functions.

## SUMMARY OF THE LOAN AGREEMENT

On or about 2<sup>nd</sup> July, 2009 the Issuer and THFC entered into a loan agreement (the **Loan Agreement**) for the loan to THFC of £191,000,000 (the **Loan**). The Issuer believes that the interest and other amounts (other than principal) payable by THFC will (assuming THFC complies with its obligations under the Loan Agreement in full) be sufficient to pay the amounts payable under items (a) to (e) of the Pre-Enforcement Priority of Payments, being the amounts required to be paid in order to service all amounts due and payable on the Bonds.

The principal terms of the Loan Agreement are set out below.

### *Advances*

Subject to, *inter alia*, the issue of the Bonds and the receipt by the Issuer of the proceeds thereof, the Issuer will make the Loan available to THFC and THFC will make loans to the Bond Issuance Authorised Borrowers on the Closing Date. The initial principal amount of the Loan to THFC and the aggregate initial principal amount of the loan to the Bond Issuance Authorised Borrowers is £191,000,000. Further loans may be made to THFC by way of further advances in the event that the Issuer issues Further Bonds as more particularly described in Condition 17. Such further loans may be made at par, at a premium or at a discount and may be drawn down by THFC at any time in whole or in part up to 18 months after the receipt of the proceeds of Further Bonds by the Issuer (at which time, in any event, any remaining proceeds will be advanced to THFC).

### *Security*

THFC has granted security in the form of a floating charge to the Issuer in respect of the Loan made under the Loan Agreement. In respect of such floating charge, the Issuer will on the Closing Date enter into a Deed of Priority with THFC's existing lenders and the trustees of THFC's existing stocks. The Issuer will accordingly share in the security granted to all the lenders to THFC and trustees of THFC's stocks in the manner set out in the Deed of Priority.

### *Interest*

The Loan bears interest from and including 8<sup>th</sup> July, 2009, at the rate of 6.35 per cent. per annum, payable in arrear (in respect of each interest period ending on a Payment Date under the Bonds) by half-yearly instalments on each Interest Payment Date (which is three Business Days before the relative Payment Date on the Bonds). The first payment in respect of the Loan (for the period from and including the Closing Date, to but excluding 8<sup>th</sup> January, 2010 and amounting to £6,064,250) shall be made on 5<sup>th</sup> January, 2010.

## REPAYMENT AND PURCHASE

### *Repayment*

Subject to the provisions described below under "*Events of Default – Grace Period*", THFC shall repay the Loan in full on the Expected Final Repayment Date (which is three Business Days prior to the Expected Maturity Date). Such repayment amount will be paid directly to the Paying Agent by THFC and the Paying Agent will, at the Issuer's direction, apply the same in accordance with the Pre-Enforcement Priority of Payments.

### ***Restriction on Prepayment***

THFC may not prepay or repay the Loan otherwise than in accordance with the provisions of the Loan Agreement.

### ***Prepayment Provisions***

THFC may, if it has given to the Issuer not less than five weeks' prior written notice to that effect (or such shorter notice period as the Issuer may agree), prepay the whole, or any part, of the Loan (an **Optional Prepayment**). Any such notice of prepayment given by THFC shall be irrevocable and shall specify the date upon which such prepayment is to be made and shall oblige THFC to make such prepayment on such date. Any amount so prepaid may not be redrawn.

Where THFC is obliged to pay to the Issuer any additional amounts pursuant to a requirement to gross up then THFC may on giving ten Business Days' prior written notice to that effect prepay the whole, or any part (in each case representing a Bond Issuance Authorised Loan or Loans which are themselves prepaying), of the Loan (a **Tax Prepayment**). Any such notice of prepayment given by THFC shall be irrevocable and shall oblige THFC to make such prepayment on the day falling ten Business Days after delivery of the prepayment notice. Any amount so prepaid may not be redrawn.

THFC shall prepay the whole of the Loan where the Issuer declares the Loan, or THFC declares any loan or loans to any Bond Issuance Authorised Borrower or Borrowers, to be immediately due and payable due to illegality (an **Illegality Prepayment**). Any amount so prepaid may not be redrawn.

THFC shall immediately prepay the whole of the Loan where the Issuer declares the Loan to be immediately due and payable following an event of default under the Loan Agreement (a **Default Prepayment**). Any amount so prepaid may not be redrawn.

### ***Prepayment Amounts***

THFC shall pay the following amounts in relation to any such prepayment together with all other sums then owed by THFC under the Loan Agreement:

- (a) in the case of an Optional Prepayment not falling within paragraph (b) below or a Default Prepayment THFC shall prepay an amount equal to the Redemption Price (as defined in Condition 8.2) in relation to the nominal amount of the Loan prepaid together with any accrued interest then unpaid;
- (b) in the case of an Optional Prepayment (if the date of prepayment is on or before the date falling 5 business days before the date which falls 18 months after the Drawdown Date (as defined in the Loan Agreement) and an event of default has occurred under one or more Relevant Authorised Loan Agreements (as defined in the Loan Agreement) THFC shall prepay the nominal amount of the Loan (or relevant part thereof) together with any accrued interest then unpaid; and
- (c) in the case of a Tax Prepayment or an Illegality Prepayment THFC shall prepay the nominal amount of the Loan together with any accrued interest then unpaid.

### ***Upstairs Bonds Purchase***

THFC or any Bond Issuance Authorised Borrower may at any time purchase Bonds on the London Stock Exchange or by tender (available to all Bondholders alike) or by private treaty at any price. Following any such purchase THFC or such Bond Issuance Authorised Borrower may surrender the Bonds to the Issuer to be cancelled. In that event, an amount of the Loan equivalent to the

outstanding principal amount of the Bonds being surrendered shall be deemed to be prepaid under the Loan Agreement.

## GENERAL COVENANTS AND RESTRICTIONS

So long as any of the Loan remains outstanding THFC shall:

- (a) use the Loan exclusively for the purposes specified in the Loan Agreement;
- (b) obtain, comply with the terms of and do all that is necessary to maintain in full force and effect all authorisations, approvals, licences and consents required in or by the laws and regulations of England (including, without limitation, its registration under the Industrial and Provident Societies Act 1965) to enable THFC and each subsidiary which charges its assets in relation to the Loan (each a **Charging Subsidiary**) lawfully to enter into and perform its obligations under the Loan Agreement and the related security documents or to ensure the legality, validity, enforceability or admissibility in evidence in England of the Loan Agreement and the related security documents;
- (c) promptly inform the Issuer of the occurrence of any potential THFC Default (as defined below) and, upon receipt of a written request to that effect from the Issuer, promptly confirm to the Issuer that, save as previously notified to the Issuer or as notified in such confirmation, no such event has occurred and is continuing;
- (d) immediately upon becoming aware that the same may be threatened or pending and immediately after the commencement thereof give to the Issuer notice in writing of all actions or administrative proceedings of or before any court or other authority which are reasonably likely to have a material adverse effect on its ability to meet its obligations under the Loan Agreement and/or the related security documents;
- (e) observe and perform every covenant and provision contained in the Loan Agreement and in the related security documents;
- (f) carry on its business in accordance with the objects specified in its rules (as amended from time to time);
- (g) carry on and conduct its business and that of each Charging Subsidiary in a proper and efficient manner, keep proper accounting records and therein make true and proper entries of all dealings and transactions of and in relation to its business and keep the said accounting records and all other records relating to its affairs at its registered office or other place or places where the said accounting records and records of similar nature may in the ordinary course be kept and allow the Issuer and any receiver or any person nominated by the Issuer in writing at all reasonable times and for any reasonable purposes in connection with the Loan in circumstances where the Issuer, acting reasonably, is concerned as to the performance by THFC of its obligations under the Loan Agreement or the related security documents to examine and have full access to all its books, accounts and documents relating to its affairs and to investigate such affairs, provided that the Issuer is obliged to pay the proper costs charges and expenses of and incidental to any such examination and investigation save where a THFC Default has occurred;
- (h) only create or permit to arise or leave outstanding any mortgage or charge created by it or any Charging Subsidiary as security for any stock or Pari Passu Borrowing (as defined in the Loan Agreement) if the same will not rank in priority to the floating charge granted by THFC pursuant to the Loan Agreement and subject to the beneficiary of any such charge entering into a deed in such form as the Issuer shall properly require in order to protect the interests of

the Issuer governing the appointment of joint receivers and all other matters incidental to the exercise by the Issuer and such beneficiary of their respective rights under the security documents relating to the Loan and provided further that THFC may create a fixed mortgage or fixed charge by way of security for any borrowing of THFC incurred in the purchase or improvement of the property being mortgaged or charged and which is not given by way of collateral security;

- (i) procure that in any period of three consecutive accounting reference periods of THFC (each a **Relevant Period**) the income of THFC and all Charging Subsidiaries as shown in its audited accounts (that is, before expenditure and taxation) in accordance with normal accounting principles is not less than the aggregate gross expenditure including interest payable on all borrowings of THFC and all Charging Subsidiaries as shown on the same basis during the Relevant Period;
- (j) save as expressly permitted under the Loan Agreement neither THFC nor any Charging Subsidiary shall sell, transfer or otherwise dispose of (whether by a single transaction or a number of transactions, related or not) the whole or any part of its undertaking or assets being substantial in relation to the undertaking and assets of THFC and the Charging Subsidiaries taken as a whole;
- (k) not, nor permit any Charging Subsidiary to, carry on any undertaking or business except that of making Authorised Loans and giving advice to registered providers provided that neither the holding of shares in any subsidiary nor the carrying on of any of the acts and activities described in the THFC Core Terms Trust Deed (as defined in the Loan Agreement) shall be deemed to be in breach of the restriction contained in this paragraph;
- (l) procure that no Charging Subsidiary shall without the prior written consent of the Issuer cease to be a subsidiary of THFC. Power is, however, reserved to THFC or any Charging Subsidiary to procure a members' voluntary winding up of a Charging Subsidiary and the distribution of its surplus assets freed from the floating charge thereon as collateral security for the Loan or its supporting guarantee thereof if such assets are distributed in the winding up to any one or more of THFC or any Charging Subsidiary or Charging Subsidiaries;
- (m) procure that it complies with the provisions of Clause 8(N)(1) of the THFC Core Terms Trust Deed (relating to lending on the Standard Lending Criteria which are described in "*Existing THFC Core Terms relating to Authorised Loans*"); and
- (n) maintain an up-to-date list of Bond Issuance Authorised Loans. Such list shall be provided to the Issuer and to the Trustee on an annual basis and shall be certified by an authorised officer of THFC as being correct, complete and up-to-date. The Issuer and the Trustee shall each have the right upon giving not less than five Business Days' written notice to THFC to inspect the list of Bond Issuance Authorised Loans and the documentation relating thereto.

The provisions referred to in paragraph (m) above include (without limitation) a requirement to ensure that THFC's agreements with Authorised Borrowers contain provisions requiring 150% cover (in the case of fixed charge security) or, in most cases, three times asset cover (in the case of floating charge security). See further "*Existing THFC Core Terms relating to Authorised Loans*".

In determining whether the provisions of paragraph (j) above have been observed and performed the following transactions shall be disregarded:-

- (a) the making of Authorised Loans and the repayment by any Authorised Borrower of any Authorised Loan and the making of further Authorised Loans;

- (b) the application by THFC or any Charging Subsidiary of any funds not immediately required for the purpose of its business or undertaking in the acquisition of investments and the subsequent sale of the same;
- (c) the application of the proceeds of an issue of share or loan capital for the purposes for which such issue is intended as stated in the prospectus, loan document or other issue document;
- (d) the sale, transfer or disposal by THFC or any Charging Subsidiary of the whole or any part of the undertaking or assets to any one or more of THFC and the other Charging Subsidiaries; and
- (e) any transaction to which the Issuer shall have previously given its consent or which is expressly contemplated by the Loan Agreement.

## EVENTS OF DEFAULT

### *THFC Defaults*

If any of the following events (each, a **THFC Default**) occurs and is continuing, the Issuer may (subject to the provisions described under "*Grace Period*" below) declare by written notice to THFC that the Loan is immediately due and payable. A THFC Default shall have occurred if:

- (a) THFC shall default on the due date in the case of the payment of any principal monies payable or for a period of 14 days in the case of the payment of any other monies (not being principal) payable under the Loan Agreement and/or the related security documents provided that where THFC's failure to pay such other monies results from a technical or administrative delay in the transmission of funds and such amount is paid within three Business Days of the due date there shall be no default under this provision;
- (b) THFC or any Charging Subsidiary shall default in the performance or observance of any covenant, undertaking, condition or provision binding on it under or pursuant to the Loan Agreement or the related security documents (other than a default under paragraph (a) above) and (except where such default shall be incapable of remedy) the same shall not be remedied to the satisfaction of the Issuer within twenty-one days after notice in writing of such default shall have been given to THFC by the Issuer;
- (c) the security for any other debenture, mortgage or charge of THFC or any Charging Subsidiary shall become enforceable and steps are taken to enforce the same or any unsecured loan stock, debenture or other indebtedness of THFC or any Charging Subsidiary shall by reason of default become repayable prior to the originally scheduled due date for repayment or shall not be repaid when originally scheduled to be due and validly demanded and steps are taken to obtain repayment of the same;
- (d) any representation made by THFC in or pursuant to the Loan Agreement is or proves to have been incorrect or misleading in any material respect when made;
- (e) any guarantee of any loan or debt of any third party given by THFC or any Charging Subsidiary shall not be honoured when due and called on and steps are taken to enforce the same;
- (f) an order shall be made or an effective resolution passed for the winding-up of THFC or any Charging Subsidiary;

- (g) a petition shall be presented for the winding up or dissolution of THFC or any Charging Subsidiary or an encumbrancer shall take possession or a trustee, receiver, administrative receiver or similar officer shall be appointed of the whole of the undertaking, property, assets and rights of THFC or any material part thereof other than by the Issuer which has not been discharged within 14 days of the occurrence thereof;
- (h) a distress, execution or other process shall be levied or enforced or sued out upon or against any material part of the whole of the undertaking, property, assets and rights of THFC and shall not be discharged within twenty one days of being levied or enforced upon or sued out;
- (i) THFC or a Charging Subsidiary shall cease without the consent of the Issuer either to be a registered industrial and provident society or to be incorporated in England or, in the case of a Charging Subsidiary, Wales or Scotland;
- (j) it is or becomes unlawful for THFC or any Charging Subsidiary to perform any of its obligations under the Loan Agreement or the related security documents;
- (k) the related security documents cease to be effective;
- (l) THFC or any Charging Subsidiary ceases to carry on its respective business or a substantial part thereof (except in the case of a Charging Subsidiary in connection with or in pursuance of a winding up for the purposes of a reconstruction or amalgamation of the Charging Subsidiary the terms of which have previously been approved in writing by the Issuer) or THFC or any Charging Subsidiary stops or threatens to stop payment of its obligations generally; or
- (m) THFC shall for the purposes of Section 123 of the Insolvency Act 1986 be deemed to be unable to pay its debts.

### ***Grace Period***

Where a payment of principal THFC Default has occurred under paragraph (a) of "*THFC Defaults*" above and such event has been caused as a direct or indirect consequence of a failure by one or more Bond Issuance Authorised Borrowers (each a **Defaulting Authorised Borrower**) to pay any amount of principal (the **Downstairs Shortfall**) owing by it to THFC under a Bond Issuance Authorised Loan (a **Downstairs Payment Default**) there shall be deemed, subject to no other event under that paragraph (a) having occurred or subsequently occurring apart from one or more Downstairs Payment Defaults, to be no THFC Default unless and until such failure to pay principal is still continuing on the expiry of the Grace Period (as defined below).

In those circumstances the Issuer shall not be entitled to declare the Loan to be immediately due and repayable until the earlier of (i) the Legal Maturity Date or (ii) two years from the relevant payment failure (the **Grace Period**).

### **EXPENSES**

#### ***Initial Costs***

THFC shall on the Closing Date reimburse the Issuer such sum as the Issuer shall certify as being the proper costs and expenses (including, without limitation, stock exchange, legal, accountants, financial advisers, managers and printing expenses) and any value added tax incurred and/or payable by the Issuer in respect of the negotiation, preparation and execution of the Loan Agreement and the related security documents and all the costs, fees and expenses the Issuer incurs in issuing the Bonds or related thereto and the completion of the transactions contemplated in the Loan Agreement.

### ***Ongoing Costs***

THFC shall from time to time on demand of the Issuer reimburse the Issuer for all proper costs and expenses (including legal fees) and any value added tax incurred by it in connection with the creation of or any substitution or withdrawal of security or any additional security given by THFC or any Charging Subsidiary from time to time and in connection with any prepayment of monies owing to the Issuer under the Loan Agreement (including any costs in respect of redeeming any part of the Bonds incurred by the Issuer as a result thereof).

THFC shall also pay within 14 days of demand of the Issuer the ongoing costs of the Issuer (including without limitation in respect of its administration, annual audit, rating fees and all other costs, fees and expenses relating to the Bonds).

### ***Amendment Costs***

If THFC or any Charging Subsidiary requests an amendment, waiver or consent in respect of the Loan Agreement or any related security document THFC shall, within three Business Days of demand, reimburse the Issuer for the amount of all pre-agreed costs and expenses (including legal fees) reasonably incurred by the Issuer in responding to, evaluating, negotiating or complying with that request or requirement.

### ***Enforcement Costs***

THFC shall, within three Business Days of demand, pay to the Issuer the amount of all costs and expenses (including legal fees) incurred by the Issuer in connection with the enforcement of, or the preservation of any rights under, the Loan Agreement, the related security documents and any document executed in connection with the Loan Agreement or the related security documents including any losses, costs and expenses incurred by the Issuer in connection with the Bonds and interest thereon as a consequence of the action against THFC or default of THFC.

### **GOVERNING LAW**

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

## EXISTING THFC CORE TERMS RELATING TO AUTHORISED LOANS

This section contains a summary of the existing "Core Terms" which THFC is required by its existing Trust Deeds to impose on all Authorised Borrowers who borrow monies which have been funded by THFC through the mechanic of a "*pari passu* borrowing" – i.e. a borrowing by THFC which ranks *pari passu* with the money lent by the Issuer under the Loan Agreement through the mechanics of the Deed of Priority.

THFC is entitled to lend money to a borrower which is a registered social landlord within the meaning of Chapter I of the Housing Act 1996 (**RSL**) or to a subsidiary of an RSL, even if that borrower is not itself an RSL (a **Non-RSL Borrower**). The Core Terms contain certain limitations in respect of lending to Non-RSL Borrowers including the following:

- (a) Monies lent by THFC to any Non-RSL Borrower are required to be on-lent by that Non-RSL Borrower to one or more RSLs in the same RSL group as the Non-RSL Borrower on terms approved by THFC. Those terms will include terms which are the equivalent of the THFC "Core Terms" including asset cover and income cover.
- (b) Security arrangements at the underlying RSL borrower level will enable a specific allocation of identified security rather than a proportional allocation.
- (c) THFC will only lend to a Non-RSL Borrower which does not employ a material number of people. This is to guard against the remote likelihood that the Pensions Regulator might issue a financial support direction in relation to a pension scheme which is in deficit.

This is a summary of the Core Terms only and full details are contained in the existing THFC Trust Deeds (one of which, the Trust Deed dated 4<sup>th</sup> July, 1995, is a document on display) as amended by the fourth special supplemental trust deed dated 27<sup>th</sup> March, 2007 (which is also a document on display).

## CORE TERMS

All of THFC's agreements with Authorised Borrowers must contain the following core terms:-

### 1. **Security**

Each Authorised Borrower must create either:-

- (a) a first floating charge over the whole or an identifiable part of its property, undertaking and assets in favour of THFC (**Floating Charge Security**); or
- (b) a first fixed charge in favour of THFC (**Fixed Charge Security**).

Both such charges may, if THFC so requires, be all monies charges.

### 2. **Change of Security Basis**

Each Authorised Borrower may but only with THFC's prior written consent switch between Floating Charge Security and Fixed Charge Security and between Floating Charge Security over the whole of its property, undertaking and assets and Floating Charge Security over an identifiable part of its property, undertaking and assets.

### 3. *Negative Pledge*

The only charges which may rank ahead of Floating Charge Security are:

- (a) fixed mortgages or charges over property not given by way of collateral security for the indebtedness or other liabilities of any other person; or
- (b) *pari passu* floating charges.

### 4. *Purpose*

Borrowing from THFC may only be used by an RSL in furtherance of the provision of housing (widely defined) or the making of permitted investments or for the payment of necessary ancillary costs. Where monies are borrowed by a Non-RSL Borrower (or to a RSL borrower who wishes to on-lend all or part of the relevant loan), they are required to be on-lent to a RSL who in turn is required only to use such monies in furtherance of the provision of housing (widely defined) or the making of permitted investments or for the payment of necessary ancillary costs.

### 5. *Asset Cover Levels – Fixed Charge Security*

- (a) There must be a fixed asset cover of not less than 150% of the cover level (which is broadly the nominal redemption value of the loan, net of any amounts standing to the credit of any sinking fund, plus accrued interest) save that 100% of the value of any cash which forms part of the assets charged to THFC by way of security will satisfy the requirement. After an initial period, Authorised Borrowers will be required to provide charges over real property with a value of not less than 135% of the value of the loan (net of any amounts standing to the credit of any sinking fund) so there will be an overall limit on the amount of charged cash which will qualify for 100% treatment when considering the asset cover level.
- (b) THFC may at any time require revaluation of property charged to THFC.
- (c) Withdrawals from Fixed Charge Security may be made if the remaining Fixed Charge Security remains at least two times cover level.
- (d) Substitution of assets supplied as Fixed Charge Security may be made at an equivalent value to the assets being replaced.

### 6. *Asset Cover Level – Floating Charge Security*

All loans made by THFC to Authorised Borrowers from November 1991 onwards (**Post 1991 Borrowers**) require three times asset cover on an accounting test basis where Floating Charge Security is given. If that cover test is not met then the Authorised Borrower is required to provide within 60 days a valuation of real property charged to THFC by fixed charges of at least 150%.

Higher levels of cover are required where an Authorised Borrower provides Floating Charge Security over an identifiable part only of its property, undertaking and assets. To date, no Authorised Borrower has provided floating charge security over part only of its property, undertaking and assets.

In relation to Authorised Borrowers who have loans made by THFC prior to November 1991, their obligation is to provide 150% cover in relation to Floating Charge Security on an accounting test basis.

#### **7. *Fixed Charge Income Cover***

Post 1991 Borrowers who have granted Fixed Charge Security are required to show that the income from the property in charge is not less than 100% of the amount of interest paid or payable in respect of the loan concerned.

Within three months of so certifying, an Authorised Borrower may withdraw property from the Fixed Charge Security or related security provided that the security remaining will continue to provide not less than 100% income cover.

In the event that the relevant certificate shows that income cover is below 95% then such Authorised Borrower has three months to provide additional security to top-up the relevant security to the appropriate amount. Such top-up security will be provided in relation to income cover only and will not be caught by the above referred to Fixed Charge Security asset cover requirement of maintaining security at two times cover level on a withdrawal.

If there is an income cover shortfall whereby net annual income is between 95% and 100% of interest payable then the relevant Authorised Borrower will be required within six weeks of the shortfall being identified to deposit in a charged account an amount of cash sufficient to make up the annualised shortfall. In addition, the relevant Authorised Borrower would be required to ensure that income cover from charged assets returns to 100% within twelve months of the shortfall being identified.

#### **8. *Floating Charge Income Cover***

Post 1991 Borrowers are required to show on an accounting based test (subject to adjustments as set out in the THFC Trust Deeds) that their income and expenditure account does not show any deficit at the end of each financial period.

In the event that any such Authorised Borrower is unable to comply with this requirement, the Authorised Borrower is required to procure that its auditors provide to THFC a certificate or report confirming that the amount of any deficit will not adversely affect the ability of the Authorised Borrower concerned to perform its obligations under its loan agreement with THFC, and that after taking into account the Authorised Borrower's business as carried on since the end of the relevant accounting period and having regard to the level of reserves of the Authorised Borrower concerned and its projected or expected expenditure and business over the period of 12 months following the date of the auditor's certificate or report, the Authorised Borrower will, in the auditor's opinion, be able to meet its obligations under the loan agreement over such period of 12 months.

THFC may also require the Authorised Borrower concerned to procure the provision of a further certificate or report from a firm of accountants other than the Authorised Borrower's auditors to the effect that in the opinion of the accountants concerned the deficit shown is not materially detrimental to the interests of THFC and does not adversely affect the ability of the Authorised Borrower to meet its obligations under its loan agreement with THFC.

#### **9. *Borrowing Limit***

Each Post 1991 Borrower who has Floating Charge Security must procure that the aggregate amount of its unsecured borrowings from time to time shall not equal or exceed 5% of its net

assets unless THFC receives a certificate to the effect that any borrowing greater than that amount would not adversely affect the ability of the Authorised Borrower to comply with its obligations to THFC in relation both to its floating charge asset cover and its floating charge income cover requirement.

**10. *On-Lending***

Each Post 1991 Borrower must undertake not to on-lend any monies lent to such Authorised Borrower by THFC without THFC's prior written consent. As noted at paragraph 4 above, THFC may loan monies to Authorised Borrowers on the understanding that all or part of the monies may be on-lent to an Authorised Borrower which is an RSL.

**11. *Disposals***

Any Post 1991 Borrower who has given Floating Charge Security must undertake not to sell, transfer or otherwise dispose of the whole or any part its undertaking or assets being substantial in relation to the undertaking or assets of the Authorised Borrower taken as a whole. Specific transactions are disregarded for the purposes of this covenant including any transactions to which THFC shall previously have given its consent.

**THFC'S ABILITY TO ACCEPT AMENDMENTS OR GRANT WAIVERS IN RELATION TO THE CORE TERMS**

THFC covenants with its various Trustees (and through the Loan Agreement with the Issuer) that without their prior written consent it will not assent to any modification, abrogation, waiver or release in respect of any of the obligations of any Authorised Borrower under any Authorised Loan if such modification, abrogation, waiver or release would have the effect of making the terms and conditions on which the amount for the time being outstanding is lent less onerous to the Authorised Borrower or less beneficial to THFC than the core terms. THFC further covenants that it will promptly and diligently enforce in all material respects the core terms and the payment terms of the various loans and that unless the relevant Trustee or Trustees and the Issuer as the case may be shall have consented to any waiver or release of any specific default in circumstances where in the opinion of the Trustee concerned the interests of the stockholders, or in the case of the Issuer, in the Issuer's opinion, the interests of the Bondholders, will not be materially prejudiced thereby.

**CHARGING SUBSIDIARY**

THFC's existing Trust Deeds and other borrowings and the Loan Agreement contemplate the establishment by THFC of a charging subsidiary or subsidiaries set up to conduct equivalent business to THFC. Although THFC has set up a number of subsidiaries, no subsidiary has yet been set up as a charging subsidiary.

## UNITED KINGDOM TAXATION

The following deals only with the United Kingdom tax position for persons who are the beneficial owners of Bonds and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. It is not advice, and is given for information purposes only. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may be subject to change in the future. All prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

### A. Interest on the Bonds

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

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

Interest on the Bonds may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Bonds 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 Bonds 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 & Customs (**HMRC**) has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

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

Bondholders 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 Bondholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes.

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

Under EC Council Directive 2003/48/EC on the taxation of savings income, 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, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15<sup>th</sup> September, 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission's advice on the need for changes to the Directive. On 13<sup>th</sup> November, 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24<sup>th</sup> April, 2009. If any of the proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

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

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

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

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

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

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

##### ***Taxation of Chargeable Gains***

The Bonds will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder of a Bond will not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

### *Accrued Income Scheme*

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

### *Taxation of Discount*

HM Revenue & Customs published practice is that securities having similar terms of early redemption as the Bonds are not treated by HM Revenue & Customs as "deeply discounted securities" and accordingly the Bonds should not be treated as "deeply discounted securities" for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005.

### **D. Stamp Duty and Stamp Duty Reserve Tax ("SDRT")**

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

## SUBSCRIPTION AND SALE

Royal Bank of Canada Europe Limited and The Royal Bank of Scotland plc (the **Managers**) have, pursuant to a subscription agreement (the **Subscription Agreement**) dated on or about 3<sup>rd</sup> July, 2009, agreed to subscribe or procure subscribers for the Bonds at the issue price of 100.04 per cent. of the principal amount of the Bonds, less a management commission. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to the issue of the Bonds.

### *United States*

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

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

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

### *United Kingdom*

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

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

### *General*

No action has been taken by the Issuer, THFC or any of the Managers that would, or is intended to, permit a public offer of the Bonds or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Bonds or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of the Bonds by it will be made on the same terms.

## GENERAL INFORMATION

### Authorisation

1. The issue of the Bonds was duly authorised by a resolution of the Board of Directors of the Issuer dated 23<sup>rd</sup> June, 2009.

### Listing

2. The estimated cost of the admission of the Bonds to the Official List will be expressed as a percentage of their nominal amount (excluding accrued interest). It is expected that official listing will be granted on or about 8<sup>th</sup> July, 2009 subject only to the issue of the Global Bond. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.

### Clearing Systems

3. The Bonds have been accepted for clearance through Euroclear (1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium) and Clearstream, Luxembourg (42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg). The ISIN for the Bonds is XS0438974205 and the Common Code is 043897420.

### No Significant Change

4. There has been no significant change in the financial or trading position of the Issuer since 3<sup>rd</sup> June, 2009, the date of its incorporation, and there has been no material adverse change in the financial position or prospects of the Issuer since 3<sup>rd</sup> June, 2009, the date of its incorporation.
5. There has been no significant change in the financial or trading position of THFC since 31<sup>st</sup> March, 2009 and there has been no material adverse change in the financial position or prospects of THFC since 31<sup>st</sup> March, 2009.

### Litigation

6. The Issuer is not and has not been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document, a significant effect on the financial position or profitability of the Issuer.
7. THFC is not and has not been involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the financial or profitability position of THFC.

### Accounts

8. The current auditors of the Issuer and THFC are PricewaterhouseCoopers LLP. No financial statements have been prepared for the Issuer since its incorporation. THFC's accounts have been audited, without qualification, in accordance with generally accepted auditing standards in the United Kingdom by PricewaterhouseCoopers LLP for the financial year ended on 31<sup>st</sup> March, 2007, the financial year ended on 31<sup>st</sup> March, 2008 and the financial year ended on 31<sup>st</sup> March, 2009.

Any certificate or report of the auditors of the Issuer or THFC or any other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of the auditors of the Issuer or THFC or such other person in respect thereof and notwithstanding that the scope and/or basis of such certificate or report may be limited by any engagement or similar letter or by the terms of the certificate or report itself.

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

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

9. The Bonds and (if issued) Coupons will contain the following legend: "*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.*"

### **Documents**

10. For so long as the Bonds remain outstanding, copies of the following documents will be available for inspection at the registered office of the Issuer, 4<sup>th</sup> Floor, 107 Cannon Street, London EC4N 5AF, during usual business hours on any weekday (Saturdays and public holidays excepted):
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the Rules of THFC;
  - (c) the published consolidated accounts of the THFC Group for the financial years ended 31<sup>st</sup> March, 2007, 2008 and 2009;
  - (d) the Subscription Agreement, the Corporate Services Agreement, the Loan Agreement, the Deed of Priority, the Deed of Accession and drafts (subject to modification) of the Trust Deed and the Paying Agency Agreement to be dated the Closing Date;
  - (e) the forms of Authorised Loan Agreements and the associated security documents;
  - (f) the trust deed dated 4<sup>th</sup> July, 1995 referred to under "*Existing THFC Core Terms relating to Authorised Loans*"; and
  - (g) the fourth special supplemental trust deed dated 27<sup>th</sup> March, 2007 referred to under "*Existing THFC Core Terms relating to Authorised Loans*".

### **Reporting**

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

**ISSUER**

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