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T.H.F.C. (FUNDING NO.3) PLC

(Incorporated with limited liability in England and Wales with registration number 07765422)

£55,200,000 5.20 per cent. Secured Bonds due 2043/2045 (including £2,000,000 of Retained Bonds)

Issue price: 114.854 per cent. of the principal amount of the Fifth Issue Bonds (as defined below) (plus four days' accrued interest in respect of the period from and including 11th April, 2013 to but excluding the Fifth Issue Closing Date (as defined below) at a rate of 5.20 per cent. per annum)

The £55,200,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Fifth Issue Bonds**), including £2,000,000 of Retained Bonds (as defined herein), are issued by T.H.F.C. (Funding No.3) Plc (the **Issuer**).

The Fifth Issue Bonds have the same terms and conditions as, and will be consolidated, form a single series and rank *pari passu* with, the £100,000,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Original Bonds**) issued by the Issuer on 11th October, 2011 (the **Original Closing Date**), the £131,000,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Second Issue Bonds**) issued by the Issuer on 25th January, 2012 (the **Second Issue Closing Date**), the £130,500,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Third Issue Bonds**) issued by the Issuer on 25th April, 2012 (the **Third Issue Closing Date**) and the £127,100,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Fourth Issue Bonds** and, together with the Original Bonds, the Second Issue Bonds, the Third Issue Bonds and the Fifth Issue Bonds, the **Bonds**) issued by the Issuer on 27th September, 2012 (the **Fourth Issue Closing Date**).

Application has been made to the Financial Conduct Authority in its capacity as competent authority (the **UK Listing Authority**) under Part VI of the Financial Services and Markets Act 2000 (as amended) (the **FSMA**) for the Fifth Issue Bonds to be admitted to the official list of the UK Listing Authority (the **Official List**) and for the Fifth Issue 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 Fifth Issue Bonds will on issue be rated A+ by Standard & Poor's Credit Market Services Europe Limited (**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 Fifth Issue Bonds will be represented by a global bond (the **Fifth Issue Global Bond**), without interest coupons, which will be deposited on or about 15th April, 2013 (the **Fifth Issue Closing Date** and, together with the Original Closing Date, the Second Issue Closing Date, the Third Issue Closing Date and the Fourth Issue Closing Date, the **Closing Dates** and each, a **Closing Date**) with a common depository for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme (**Clearstream, Luxembourg**). Interests in the Fifth Issue Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances - see "*Summary of Provisions Relating to the Fifth Issue Bonds While Represented by the Fifth Issue 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 Fifth Issue Bonds will accrue with effect from and including 11th April, 2013 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 11th October, 2043 (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 11th October, 2045 (the **Legal Maturity Date**).

An investment in the Fifth Issue Bonds involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 10.

RBC CAPITAL MARKETS

THE ROYAL BANK OF SCOTLAND

The date of this Offering Circular is 11th April, 2013

This document comprises approved listing particulars with regard to the Issuer and the Fifth Issue Bonds, in accordance with the listing rules made under section 73A of 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 Fifth Issue 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 Fifth Issue Bonds. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

Save for the Issuer 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 Fifth Issue Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Fifth Issue Bonds and on distribution of this document, see "*Subscription and Sale*" below.

Investment in the Bonds is suitable only for investors who:

- (a) 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
- (b) 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.

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.

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

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

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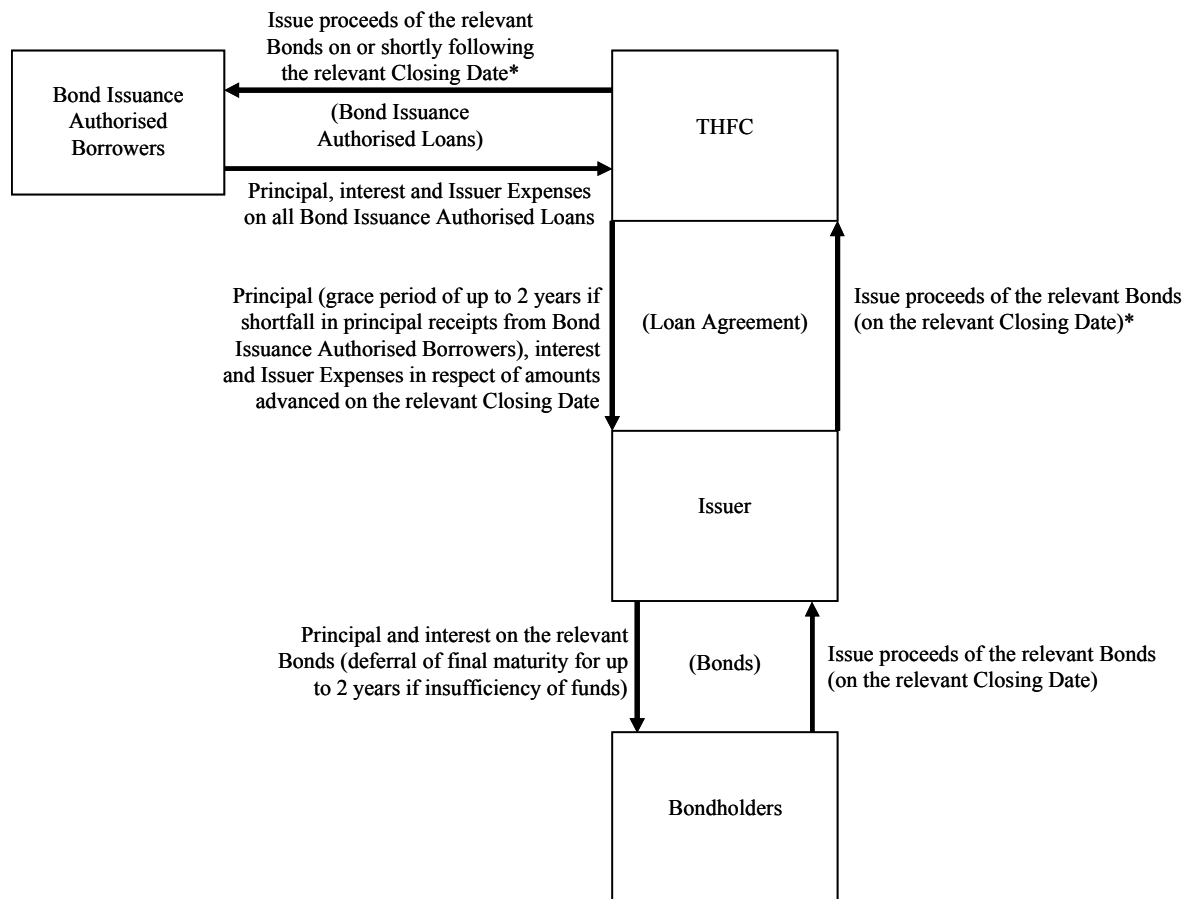
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TRANSACTION OVERVIEW

The following transaction overview does not purport to be complete, and 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 Fungible 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 proceeds of any Retained Bonds, once sold, will be advanced under the Loan Agreement at that time.

THE ISSUE

| | |
|-----------------------|---|
| Issuer: | T.H.F.C. (Funding No.3) Plc. |
| Issue: | £55,200,000 5.20 per cent. Secured Bonds due 2043/2045 (including £2,000,000 of Retained Bonds). |
| Form and Denomination | ^{A8.1.1} The Fifth Issue Bonds will be issued in bearer form in denomination(s) of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. No Bonds in definitive form will be issued with a denomination above £199,000. The Fifth Issue 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 Fifth Issue Bonds While Represented by the Fifth Issue 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. The Bonds will rank <i>pari passu</i> in point of security with any New Bonds (as defined in Condition 17) issued by the Issuer. |
| Interest: | 5.20 per cent. per annum payable in arrear by equal half-yearly instalments on 11th April and 11th October in each year, commencing on 11th October, 2013 and accruing with effect from and including 11th April, 2013. |
| Final Redemption: | Unless redeemed early as described below, the Bonds are scheduled to be redeemed on the Expected Maturity Date (11th October, 2043). 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 (11th October, 2045). |
| Early Redemption: | As further described in Condition 8.2, the Bonds may be redeemed before the Expected Maturity Date (in whole or in part) if and to the extent that the Loan Agreement is prepaid. Such prepayment may occur as a result of: (i) illegality or a tax gross up obligation under the Loan Agreement being triggered, in which event the Bonds shall be redeemed at par; or (ii) optional prepayment under the Loan Agreement, in which event the Bonds shall be redeemed at either par, if a default has occurred in relation to the on-lending of such proceeds to a Bond Issuance Authorised Borrower by THFC and the date of prepayment under the Loan Agreement is within 18 months of the date of the loan agreement pursuant to which such proceeds were on-lent to such Bond Issuance Authorised Borrower, as further described below, or, otherwise, the higher of par and the Redemption Price (as defined in Condition 8.2); or (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.

Retained Bonds: On the Original Closing Date, the Issuer purchased £30,500,000 in principal amount of the Original Bonds (the **Original Retained Bonds**) from the Managers. On the Second Issue Closing Date, the Issuer purchased £15,000,000 in principal amount of the Second Issue Bonds (the **Second Issue Retained Bonds**) from the Managers. On the Third Issue Closing Date, the Issuer purchased £10,000,000 in principal amount of the Third Issue Bonds (the **Third Issue Retained Bonds**) from the Managers. On the Fourth Issue Closing Date, the Issuer purchased £5,000,000 in principal amount of the Fourth Issue Bonds (the **Fourth Issue Retained Bonds**) from the Managers. The Issuer will immediately purchase £2,000,000 in principal amount of the Fifth Issue Bonds (the **Fifth Issue Retained Bonds** and, together with the Original Retained Bonds, the Second Issue Retained Bonds, the Third Issue Retained Bonds and the Fourth Issue Retained Bonds, the **Retained Bonds**) from the Managers on the Fifth Issue Closing Date.

The Issuer may sell or dispose of all or some of the Retained Bonds in the market by private treaty at any time. Upon the sale of all or part of the Retained Bonds, the Issuer will advance the gross proceeds of such sale to THFC pursuant to the Loan Agreement, for on-lending by THFC to Bond Issuance Authorised Borrowers, with THFC reimbursing the Issuer for the expenses of the sale and on-lending of the sale proceeds.

Until sold or disposed of, the Retained Bonds will be held by a custodian pursuant to a bond custody agreement dated the Original Closing Date, as supplemented by a first supplemental custody agreement dated 25th January, 2012, a second supplemental custody agreement dated 25th April, 2012, a third supplemental custody agreement dated 27th September, 2012 and a fourth supplemental custody agreement dated 15th April, 2013, between the Issuer and The Bank of New York Mellon, London Branch as bond custodian (the **Custody Agreement**).

As at the date of this Offering Circular, the Issuer has sold £30,000,000 in principal amount of the Retained 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 Fifth Issue Bonds (excluding the Fifth Issue Retained Bonds), being approximately £61,132,562, will be lent to THFC pursuant to the Loan Agreement on the Fifth Issue Closing Date. The net proceeds of the issue of such Fifth Issue Bonds (after taking account of the expenses of the issue) will amount to approximately £60,717,405. THFC will lend such proceeds (with the exception of a sum equivalent to four days' accrued interest, which will be retained by THFC) to the Fifth 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 Fifth Bond Issuance Authorised Borrowers reimbursing THFC for the expenses of the issue.

The gross proceeds of the sale of Fifth Issue Retained Bonds to a third party will be lent to THFC pursuant to the Loan Agreement, with THFC reimbursing the Issuer for the expenses of the sale. THFC will lend such proceeds (with the exception of a sum equivalent to the relevant number of days' accrued interest, which will be retained by THFC) to the Fifth Bond Issuance Authorised Borrowers, for the purposes and on the terms set out under "*Description of the Authorised Borrowers*", with the Fifth Bond Issuance Authorised Borrowers reimbursing THFC for the expenses of the sale.

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 an amendment and restatement agreement on or about 8th April, 2013 in relation to a loan agreement with THFC dated 5th October, 2011 (as amended and restated by a first amendment and restatement agreement entered into by the Issuer and THFC on 18th January, 2012, a second amendment and restatement agreement entered into by the Issuer and THFC on 18th April, 2012 and a third amendment and restatement agreement entered into by the Issuer and THFC on 20th September, 2012) pursuant to which the Issuer will lend the proceeds of the issue of the Fifth Issue Bonds (or, in the case of the Fifth Issue Retained Bonds, the proceeds of the sale of the Fifth Issue Retained Bonds to a third party) to THFC, as further described in "*Summary of the Loan Agreement*". Such moneys (with the exception of a sum equivalent to the four days' accrued interest referred to above (or, in the case of the Fifth Issue Retained Bonds, a sum equivalent to the relevant number of days' accrued interest), which will be retained by THFC) will then be lent to the Fifth Bond Issuance Authorised Borrowers as further described in "*Description of the Authorised Borrowers*".

RISK FACTORS

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

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Fifth Issue Bonds, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Fifth Issue 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 Fifth Issue Bonds.

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 (described under "*Description of the 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. In turn, the creditworthiness of these parties may be affected by the insolvency of any banks or other financial institutions at which any such party deposits cash.

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. In the event of an increase in the amount drawn under a Bond Issuance Authorised Loan, the reserve will be required to be increased by the appropriate amount within 12 months of the date of the relevant Bond Issuance Authorised Loan, or, if later, on or before the date that the additional amount is drawn.

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 Deeds of Accession, rank *pari passu* with the claims of other lenders to, and holders of stock issued by, THFC.

On an enforcement of security against the Issuer, the claims of the Trustee and the Bondholders will, pursuant to the Trust Deed, rank *pari passu* with the claims of holders of any New Bonds issued by the Issuer (and the trustee for such holders).

Limited Liquidity

There can be no assurance that the market in the Bonds will continue or, with regard to the Fifth Issue 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 Fifth Issue 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, the Custodian, 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, the Custodian 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 without regard to or constraint as a result of any such conflicts of interest arising. Accordingly, there can be no assurance that any such relationships or actions will not have consequences for Bondholders (for example, an impact on the trading price of the Bonds).

Taxation – No Gross Up

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

Changes of Law

The structure of the Bonds and the rating by S&P are based on English law in effect as at the date of this 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.

Rental Income, Housing Benefit and Social Housing Spending

A proportion of the rent received by each Authorised Borrower is currently derived from housing benefit payable by the local authorities. Bondholders are exposed to the creditworthiness of Authorised Borrowers and any changes to the welfare system that could lead to the termination or reduction of tenants' housing benefit payments, or to any delay in the payment of housing benefit (or the housing element of the new combined benefit, Universal Credit, which will gradually replace it from 2013), may increase the risks associated with this exposure.

The UK government's proposals to reform the existing housing benefit system will be implemented using powers in the Welfare Reform Act 2012 (the **Welfare Reform Act**), which was granted royal assent on 8th March, 2012. If payments of housing benefit (or the housing element of the new combined benefit, Universal Credit, which will gradually replace it) are reduced or terminated by the UK government, this may have an adverse impact on the payment of rent, as some tenants will then have to pay a higher proportion of their rent themselves. One such change has already been implemented by the UK government with effect from April, 2011 in that the deductions made to housing benefit to reflect the income of any adult, non-dependant household members have been increased. The non-dependant deduction rates had been frozen since 2001, but they will now increase each year so that by April, 2014, the deductions will be at the level they would have been had they been increased since 2001 to reflect growth in rents. Thereafter, the level of deductions will increase each year by reference to the Consumer Price Index (**CPI**). This change is likely to

reduce housing benefit entitlement for many households that include non-dependant adults, which may have a knock-on effect on levels of rent arrears for Authorised Borrowers.

As the various reforms to be implemented under the Welfare Reform Act come into force, it is possible that payments of housing benefit (or the housing element of Universal Credit which will gradually replace it) may be delayed as a result of, among other things, the need to reassess claimants' entitlement under the new rules and the move to payments of Universal Credit being made monthly in arrear rather than weekly in advance. The receipt of rental payments by an Authorised Borrower, as landlord, may be delayed by the failure of the claimant to regularly pay any rent which is due in addition to the housing benefit or housing element entitlement. In circumstances where any benefit granted to cover accommodation costs is not paid directly to the landlord, the receipt of rental payments may also be delayed or jeopardised if tenants fail to pass such payments on to the landlord (see "*Non-Payment Risks*" below). In such circumstances, non-payment, or any delay in payment, could affect the ability of an Authorised Borrower to meet its payment obligations on a timely basis under the Authorised Loan to which it is a party. Under the current system, housing benefit can be paid directly to the landlords of social housing tenants in certain circumstances, including where the tenant requests or consents to this. However, given the changes which the UK government have indicated that they will implement under the Welfare Reform Act, this position is likely to change from 2013, and this point is discussed further in "*Non-Payment Risks*" below.

New occupation size criteria apply to working age applicants' housing benefit claims relating to social housing as from 1st April, 2013. Initially the change is being implemented by an amendment to the existing Housing Benefit Regulations, but there are provisions with the same effect contained within the draft Universal Credit Regulations (and, as such, no change to the operation of the occupation size criteria would occur if the Universal Credit Regulations come into force as currently drafted).

The new arrangements allow each of certain defined categories¹ of people to be entitled to one bedroom. Where a household has one too many bedrooms, their housing benefit will be reduced by 14 per cent. Where there are two or more extra rooms the reduction will be 25 per cent. The Government's impact assessment published in mid-2012 indicated that around 660,000 claimants were expected to be affected by the new measure and some households are expected to go into arrears as a result of this reduction in housing benefit entitlement, which may have a knock-on effect on levels of rent arrears for Authorised Borrowers.

Certain welfare benefits will be capped from mid-April 2013 at a maximum level of up to £26,000 per year for couples and lone parents or £18,200 per year for single people without children. Once the new Universal Credit Regulations come into effect (assuming that they come into effect as currently drafted), the caps will be £26,004 and £18,204 respectively. The Government's updated impact assessment on the introduction of the benefit cap indicates that around 56,000 households will have their benefits cut by the new policy in 2013/14, and 58,000 in 2014/15. The Welfare Reform Act also provides for a reduction in an individual's benefit if that individual fails to comply with certain work-related requirements. These include if that individual loses his or her job through misconduct, if he or she voluntarily leaves employment without good reason, or if he or she refuses, or fails to apply for, a job which an employment officer has informed him or her is vacant or about to become vacant. It is acknowledged by the UK government that some households may go into rent arrears as a consequence of the introduction of Universal Credit, which could affect the ability of an Authorised Borrower to meet its payment obligations on a timely basis under the Authorised Loan to which it is a party.

Since April, 2011 registered providers have been permitted to charge up to 80 per cent. of market rent and to issue less secure tenancies where they have entered into a development programme with the Homes and Communities Agency (the **HCA**).

¹ The defined categories are (1) a couple, (2) an adult (over the age of 16), (3) two children of the same sex, (4) two children under the age of 10, (5) any other child, (6) a non-resident overnight carer.

As a result of the reforms proposed by the UK government, certain rating agencies have published reports which comment on, amongst other things, the risk of cuts in housing benefit as well as cuts in capital grants and payment of housing benefits to tenants. The reports highlight that changes to the sector and the benefits system are significant. These changes may increase the risks associated with an investment in the Bonds.

Rental Growth Risk

Levels of rental income are currently impacted upon each year by the Retail Price Index (**RPI**) at the time of the annual increase. They may also be affected by any limitations on rent increases imposed by the UK government. The rents charged by Authorised Borrowers for standard social rented (rather than affordable rented) housing are currently reviewed annually when the Department for Communities and Local Government sets its guideline limits for rent changes and cap levels under its rent convergence policy. Authorised Borrowers providing affordable rented housing as part of the UK government's 2011-2015 Affordable Homes Programme are able to charge higher rents at up to 80 per cent. of market rent and, though affordable rents are still increased annually in accordance with a formula linked to the RPI, they are not subject to the target rents specified in the rent convergence policy.

The Authorised Borrowers will apply future rent increases, or decreases in the case of a negative RPI, in accordance with any applicable UK government rent regime in place at that time, subject to any ability of the Authorised Borrowers to take advantage of any "waivers" (such as those which currently apply to affordable rented housing) which may be granted by the HCA (or by any other regulatory body which replaces it).

In April, 2011, the UK government also implemented plans to increase welfare benefits each year in accordance with the CPI rather than the RPI. The CPI is typically lower than the RPI and does not include housing costs. Further, in the Autumn Statement the UK government indicated that, in the financial years 2013/14, 2014/15 and 2015/16, the increase in certain working age benefits (including local housing allowance in 2014/15 and 2015/16) will be limited to 1 per cent. Although local housing allowance does not usually affect social landlords whose tenants claim traditional housing benefit, some section 106 agreements/nomination arrangements require that rents are limited to local housing allowance levels. The decision to increase benefits in accordance with lower indices and particularly CPI may therefore increase the risk of rent shortfalls occurring, particularly if Authorised Borrowers choose to grant tenancies at 80 per cent. of market rent.

Non-Payment Risks

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

The Housing Strategy published by the UK government in November 2011 acknowledges "the importance of stable rental income for social landlords to support the delivery of new homes" and restates the government's promise to "develop Universal Credit in a way that protects [social landlords'] financial position". However, one of the draft sets of Universal Credit Regulations makes it a general rule that claimants for Universal Credit will be paid their housing element direct by electronic transfer every month.

The UK government are running demonstration projects, which started in June 2012, to analyse the impact of making changes to the current rules on direct payments and have indicated and set out in the draft regulations that the option to make payments directly to landlords will only be available in limited cases where direct payment is necessary to protect the interests of the claimant, their partner, a child or severely disabled person for whom the claimant has substantial caring responsibilities. The ability for the tenant to consent to direct payment to the landlord is no longer available. The payment of the new benefit will also be in arrear, so there

is a risk of tenant cash-flow difficulties at the beginning of a Universal Credit claim (especially if the landlord's tenancy provides for rent payments to be made in advance).

If the majority of tenants no longer have the option to have benefit paid directly to their landlord, this may cause delays in the payment of rent or increase the risk of rent arrears accruing, which could affect the ability of an Authorised Borrower to meet its payment obligations under the Authorised Loan to which it is a party.

Regulatory Risk

The funding and regulation of housing associations has been subject to change over the last few years, most recently with the implementation of certain provisions of the Localism Act 2011 (the **2011 Act**) on 1st April, 2012. Bondholders are exposed to the creditworthiness of Authorised Borrowers and any change in the regulatory framework which could lead to Authorised Borrowers being less tightly regulated may increase the risks associated with this exposure.

Under the Housing and Regeneration Act 2008, the Tenant Services Authority (the **TSA**) became responsible for regulating registered providers of social housing in England, replacing the Housing Corporation for these purposes on 1st December, 2008. Existing registered social landlords (**RSLs**) became classified as private non-profit registered providers (**RPs**). The TSA also took on the regulation of local authority housing providers, and the new category of private profit-making registered providers. Under the same Act, the HCA was created as the national housing and regeneration agency for England with power to distribute government capital grants for new housing, again replacing a responsibility previously carried out by the Housing Corporation.

On 18th October, 2010, the UK government published a "Review of Social Housing Regulation". This announced the UK government's intention to abolish the TSA and to move economic regulation and "backstop" consumer regulation functions to the HCA, with the stated aim of generating efficiency savings in back office functions and exploiting synergies across the functions of investment and regulation. Relevant provisions were incorporated into the 2011 Act and in the various statutory instruments bringing those provisions into force.

To achieve this with effect from 1st April, 2012, a separate committee of the HCA (the **Regulation Committee**) was established pursuant to the 2011 Act to undertake the role of regulator, with members appointed by the Secretary of State. This is referred to by the HCA as the social housing regulator (**SHR**).

It is intended that under the new regime there should be a greater role for tenants' panels, councillors, MPs and the Ombudsman in identifying and dealing with *consumer* issues, but with a back-stop of intervention from the SHR where serious detriment to tenants is indicated. The SHR will continue to provide proactive *economic* regulation of registered providers in order to ensure that they are financially viable, well governed and delivering value for money, in part to support the confidence of private lenders to provide funds at competitive rates.

Shortly prior to its dissolution, the TSA published "The regulatory framework for social housing from April 2012" which sets out, *inter alia*, the regulatory standards that the SHR, as regulator, will require of registered providers and its approach to regulation. Revised Rent Standard Guidance was issued to accompany the Rent Standard. All this was supplemented by "Regulating the Standards" published by the HCA in May, 2012, which sets out more information about how the SHR will regulate in practice and how it will gain assurances in order to form judgements on RPs.

The statutory powers available to the SHR are substantially the same as those previously available to the TSA, although their use in the context of consumer issues will be restricted to instances where there is a risk of serious detriment to tenants. There will be no such restriction in the context of economic issues (ie governance, financial viability, rents and value for money). Further consultation on the regulation of for-profit registered providers and other non-regulated elements within RP groups and in relation to the

management of risk and protection of social housing assets is indicated and may lead to further changes in regulation.

Wales, Scotland and Northern Ireland are the subject of separate regulatory and funding regimes. The Welsh Ministers now regulate housing associations in Wales. They have powers under the Housing Associations Act 1985, the Housing Act 1996 and the Housing (Wales) Measure 2011 in respect of both the registration and regulation of Welsh RSLs and the funding of social housing. The Welsh framework is currently set out in the Regulatory Framework for Housing Associations Registered in Wales.

The Scottish Housing Regulator was established on 1st April, 2011 to exercise the functions set out in the Housing (Scotland) Act 2010 relating to registration, regulation and inspection of RSLs in Scotland. Many of the powers of the Scottish Housing Regulator reflect the same key concepts as those contained in the Housing and Regeneration Act 2008.

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

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

Social housing grant

English Authorised Borrowers may be in receipt of historic social housing grants from the HCA, in its role as the government agency that provides funding for affordable homes in England, or from its statutory predecessors, pursuant to the Housing Act 1996. They may also receive social housing assistance from the HCA pursuant to the Housing and Regeneration Act 2008.

Grant funding can be withheld, withdrawn or required to be repaid in certain circumstances. These circumstances include, without limitation, where the regulator recommends the withholding of grant, where Authorised Borrowers fail to comply with the conditions which attach to the provision of the grant, where development performance falls below agreed levels in terms of delivery of its approved development programme or where it loses its registered provider status or is held to have committed a prohibited or fraudulent act. Any such reduction in, withdrawal of or repayment of grant funding could have an adverse impact on the future development of the Authorised Borrowers.

Moratorium

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

The previous paragraph summarises the moratorium which may apply in the event of a default by an English Authorised Borrower. There are similar moratorium procedures in Wales and in Scotland (albeit in the latter case for a longer period of at least 56 days). In Northern Ireland there is no equivalent procedure but certain controls may be available through the process of obtaining the consent of the Department for Social Development in Northern Ireland which is required for any disposal of land (this extends to a disposal by way of a mortgage).

Market Related Risk

The Authorised Borrowers are subject to commercial pressures and many undertake diversified activities where income is subject to such commercial pressure. Examples include the development and letting of student housing and the provision of care and support services. There is significant variation between Authorised Borrowers as to the extent of such activities.

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

The latest figures from the Nationwide House Price Index show that there has been little change in the generally weaker buyer demand for the UK housing market with the value of a typical UK property unchanged on a seasonally adjusted basis month on month for March 2013. The overall trend does not indicate any significant improvement in housing market conditions. On an annual basis, average house prices have increased by 0.8 per cent. when compared to the figures for March 2012. The figures seem to indicate that the property market remains fragile.

Among other things, these market risks may impact upon the expenses incurred by an Authorised Borrower associated with existing residential properties, rental income produced by these properties, the value of its existing investments, its ability to develop land that it has acquired and its ability to acquire additional sites. This could, in turn, impact upon 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 or 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 issued 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 participating in such a defined benefit 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 issued by the Pensions Regulator against the Issuer or against 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. A contribution notice can be issued up to six years after such acts or failures to act.

Further, a contribution notice may be issued by the Pensions Regulator against the Issuer or THFC 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. This power applies retrospectively to acts or failures to act which occurred on or after 14th 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 pension scheme's deficit (calculated on an annuity buy-out basis) and at that time there is a connected or associated person or persons with sufficient resources (or connected or associated persons with sufficient aggregate resources) to meet at least 50 per cent. of the pension 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 available actuarial valuation, carried out as at 30th September, 2011).

If the Administrator's resources are subsequently valued at less than 50 per cent. of the pension scheme's deficit, a financial support direction could be issued against THFC or the Issuer at any time because the Administrator is a service company to THFC and to the Issuer.

The Pensions Regulator can only issue a contribution notice or financial support direction where it considers that it is reasonable to do so, having regard to a number of factors.

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

The Administrator complies with its funding obligations under the Pensions Act 2004 in relation to the defined benefit scheme. However, as the pension scheme is in deficit (as calculated at the last available actuarial valuation, carried out as at 30th September, 2011), the Administrator has agreed with the trustee of the pension scheme to increase its capitalisation and level of realised assets. This will be achieved by issuing additional redeemable shares to THFC and reducing the level of intercompany debt with other members of the group.

Liquidation Expenses

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.

Therefore, 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.

Modification, Waivers and Substitution

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

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

Furthermore, while each Bond Issuance Authorised Loan will comply with THFC's core terms as required in THFC's existing trust deeds (the current terms of which are described in "*Existing THFC Core Terms relating to Authorised Loans*"), the core terms may be modified from time to time without the consent of the Bondholders (although the consent of THFC's stockholders would be required for any modification which would be materially prejudicial to their interests).

Denominations involving Integral Multiples: Definitive Bonds

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

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

Redemption prior to maturity

In the event that the Bonds become repayable for any reason prior to maturity, if the Bonds are redeemed at par and that is less than the Redemption Price (as defined in Condition 8.2), it may not be possible for an investor to reinvest the redemption proceeds at an effective yield as high as the yield on the Bonds. Condition 8.2 provides for redemption at par in the case of an Illegality Prepayment or a Tax Prepayment (each as defined in the Loan Agreement) and in the case of an Optional Prepayment (as defined in the Loan Agreement), if an event of default has occurred under any Relevant Authorised Loan Agreement (as defined in the Loan Agreement) and the date of prepayment under the Loan Agreement is within 18 months of the date of such Relevant Authorised Loan Agreement.

Exchange rate risks and exchange controls

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

DOCUMENTS INCORPORATED BY REFERENCE

The auditors' report and audited financial statements of the Issuer for the period from the date of incorporation (being 7th September, 2011) to 31st December, 2011 and for the financial year ending on 31st December, 2012, which have previously been published and which have been filed with the Financial Conduct Authority, shall be incorporated in, and form part of, this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer, 4th Floor, 107 Cannon Street, London EC4N 5AF, during usual business hours on any weekday (Saturdays and public holidays excepted) and will be made available on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Any documents themselves incorporated by reference in the documents incorporated by reference in this Offering Circular shall not form part of this Offering Circular.

CONDITIONS OF THE FIFTH ISSUE BONDS

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

The £55,200,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Fifth Issue Bonds** and, together with the Original Bonds, the Second Issue Bonds, the Third Issue Bonds and the Fourth Issue Bonds (each as defined below), the **Bonds**, which expression shall in these Conditions, unless the context otherwise requires, include any Fungible Bonds issued pursuant to Condition 17), including the Fifth Issue Retained Bonds (as defined below), of T.H.F.C. (Funding No.3) Plc (the **Issuer**) are constituted and secured by a fourth supplemental trust deed dated 15th April, 2013 (the **Fourth Supplemental Trust Deed**) made between the Issuer and The Law Debenture Trust Corporation p.l.c. (the **Trustee**, which expression shall include its successor(s)) as trustee for the holders of the Bonds (the **Bondholders**) and the holders of the interest coupons appertaining to the Bonds (the **Couponholders** and the **Coupons** respectively, which expressions shall, unless the context otherwise requires, include the talons for further interest coupons (the **Talons**) and the holders of the Talons). The Fourth Supplemental Trust Deed is supplemental to the trust deed dated 11th October, 2011 (the **Principal Trust Deed**) made between the same parties and constituting the £100,000,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Original Bonds**) issued by the Issuer on 11th October, 2011 (the **Original Closing Date**), the first supplemental trust deed dated 25th January, 2012 (the **First Supplemental Trust Deed**) made between the same parties and constituting the £131,000,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Second Issue Bonds**) issued by the Issuer on 25th January, 2012 (the **Second Issue Closing Date**), the second supplemental trust deed dated 25th April, 2012 (the **Second Supplemental Trust Deed**) made between the same parties and constituting the £130,500,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Third Issue Bonds**) issued by the Issuer on 25th April, 2012 (the **Third Issue Closing Date**) and the third supplemental trust deed dated 27th September, 2012 (the **Third Supplemental Trust Deed** and, together with the Principal Trust Deed, the First Supplemental Trust Deed, the Second Supplemental Trust Deed and the Fourth Supplemental Trust Deed, the **Trust Deed**) made between the same parties and constituting the £127,100,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Fourth Issue Bonds**) issued by the Issuer on 27th September, 2012 (the **Fourth Issue Closing Date**).

The Fifth Issue Bonds will, on issue, pursuant to Condition 17, be consolidated and form a single series with the Original Bonds, the Second Issue Bonds, the Third Issue Bonds and the Fourth Issue Bonds.

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 11th October, 2011 as supplemented by the first supplemental paying agency agreement dated 25th January, 2012, the second supplemental paying agency agreement dated 25th April, 2012, the third supplemental paying agency agreement dated 27th September, 2012 and the fourth supplemental paying agency agreement dated 15th April, 2013 (together, the **Paying Agency Agreement**) made between the Issuer, the initial Paying Agent and the Trustee, the custody agreement dated 11th October, 2011 as supplemented by the first supplemental custody agreement dated 25th January, 2012, the second supplemental custody agreement dated 25th April, 2012, the third supplemental custody agreement dated 27th September, 2012 and the fourth supplemental custody agreement dated 15th April, 2013 (together, the **Custody Agreement**) made between the Issuer and The Bank of New York Mellon, London Branch (the **Custodian**), the loan agreement dated 5th October, 2011 (as amended and restated by an amendment and restatement agreement dated 18th January, 2012, a second amendment and restatement agreement dated 18th April, 2012, a third amendment and restatement agreement dated 20th September, 2012 and a fourth amendment and restatement agreement dated 8th April 2013, the **Loan Agreement**) made between the Issuer and The Housing Finance Corporation Limited (THFC) and the deeds of accession entered into on 5th October, 2011, 18th January, 2012, 18th April, 2012, 20th September, 2012 and 8th April, 2013 (together, the **Deeds of Accession**) made between the Issuer and THFC to the deed of priority dated 29th December, 2010 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 Fifth Issue 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 Custody Agreement, the Loan Agreement, the Deeds 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 RBC Europe Limited and The Royal Bank of Scotland plc;

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

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

Corporate Services Agreement means the corporate services agreement dated 30th September, 2011 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 11th October, 2043;

Fifth Issue Closing Date means 15th April, 2013;

Fifth Issue Retained Bonds means £2,000,000 in principal amount of the Fifth Issue Bonds purchased by the Issuer on the Fifth Issue Closing Date;

Fourth Issue Retained Bonds means £5,000,000 in principal amount of the Fourth Issue Bonds purchased by the Issuer on the Fourth Issue Closing Date;

Fungible Bonds has the meaning given in Condition 17;

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 Custodian under the Custody Agreement, (iv) to the independent accountants, agents and counsel of the Issuer for fees and expenses (including amounts payable in connection with the preparation of tax forms on behalf of the Issuer and any registered office fees), (v) to any other person in respect of any governmental fee, charge or tax, (vi) to the relevant Managers in respect of any amounts payable in respect of indemnities under the Subscription Agreement, (vii) to the Rating Agency (in respect of fees and expenses in connection with the ratings of the Bonds, including the annual fees payable to the Rating Agency for monitoring such rating), (viii) to the Authorised Advisers, the UK Listing Authority and the London Stock

Exchange in respect of the listing of the Bonds, (ix) to the Administrator under the Corporate Services Agreement, and (x) to any other person in respect of any other fees or expenses (including indemnities) permitted under the Trust Deed and the documents delivered pursuant to or in connection with the Trust Deed and the Bonds;

Legal Maturity Date means 11th October, 2045;

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

New Bonds has the meaning given in Condition 17;

Original Retained Bonds means £30,500,000 in principal amount of the Bonds purchased by the Issuer on the Original Closing Date;

Parent means T.H.F.C. (Funding No.3) Holdings Limited;

Paying Agent means The Bank of New York Mellon, London Branch, or any successor or replacement paying agent under the Paying Agency Agreement;

Payment Date means 11th April and 11th October of each year commencing on 11th October, 2013 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 11th April, 2013 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 Credit Market Services Europe Limited (or any successor to its ratings business);

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

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

Retained Bonds means the Original Retained Bonds, the Second Issue Retained Bonds, the Third Issue Retained Bonds, the Fourth Issue Retained Bonds and the Fifth Issue Retained Bonds;

Second Issue Retained Bonds means £15,000,000 in principal amount of the Second Issue Bonds purchased by the Issuer on the Second Issue Closing Date;

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

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

Subscription Agreement means each of the subscription agreement dated 7th October, 2011, the second issue subscription agreement dated 23rd January, 2012, the third issue subscription agreement dated 23rd April, 2012, the fourth issue subscription agreement dated 25th September, 2012 and the fifth issue subscription agreement dated 11th April, 2013 between the Issuer, THFC and the Managers;

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; and

Third Issue Retained Bonds means £10,000,000 in principal amount of the Third Issue Bonds purchased by the Issuer on the Third Issue Closing Date.

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.

2.4 Retained Bonds

- (a) The Original Retained Bonds, the Second Issue Retained Bonds, the Third Issue Retained Bonds and the Fourth Issue Retained Bonds have been, and the Fifth Issue Retained Bonds will be, (in each case, together with the related Coupons and Talons) purchased by and held by or for the account of the Issuer following issue and may be sold or otherwise disposed of in whole or in part by private treaty at any time, and shall cease to be Retained Bonds to the extent of and upon such sale or disposal.

- (b) Retained Bonds shall, pending sale or disposal by the Issuer, carry the same rights and be subject in all respects to the same Conditions as the other Bonds, except that the Retained Bonds will not be treated as outstanding for the purposes of determining quorum or voting at meetings of Bondholders or of considering the interests of the Bondholders save as otherwise provided in the Trust Deed. Bonds which have ceased to be Retained Bonds shall carry the same rights and be subject in all respects to the same Conditions as the other Bonds.

3. STATUS

The Bond and the Coupons are secured obligations of the Issuer and rank *pari passu* with any New Bonds (and the coupons relating thereto) and 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, the Paying Agency Agreement and the Custody 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.

Such charge and assignment shall, pursuant to the Trust Deed, rank *pari passu* with the security for any New Bonds issued by the Issuer.

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 (excluding the Retained 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 (excluding the Retained 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) and apportioned by the Trustee to the Bonds pursuant to the Trust Deed shall be applied according to the following priority (the **Enforcement Priority of Payments**):

- (a) to the payment of the fees, costs, charges, expenses and liabilities incurred by the Trustee or any receiver in connection with the enforcement of security and any other unpaid fees and expenses of the Trustee (including, but not limited to, all amounts payable to the Trustee under the Trust Deed);
- (b) to the payment, on a *pari passu* and *pro rata* basis, of all amounts owing to the Paying Agent under the Paying Agency Agreement and the Custodian under the Custody Agreement;
- (c) to the payment, on a *pari passu* and *pro rata* basis, of any other due but unpaid Issuer Expenses relating to the Bonds;
- (d) to the payment, on a *pari passu* and *pro rata* basis, of any due but unpaid interest on the Bonds;
- (e) to the payment, on a *pari passu* and *pro rata* basis, of the principal due and payable on the Bonds; and
- (f) any surplus to the Issuer and any other person entitled thereto.

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), the performance of its obligations under the Bonds, the Coupons, the Trust Deed, the Paying Agency Agreement, the Custody Agreement, the Loan Agreement, the Deeds of Accession, the Deed of Priority, the Corporate Services Agreement and other related transactions and the performance of its obligations under any New Bonds, the agreements and other deeds relating thereto 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, or as permitted by, the Trust Deed.

6. INTEREST

6.1 Interest Rate and Payment Dates

The Fifth Issue Bonds bear interest from and including 11th April, 2013 at the rate of 5.20 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 11th October, 2013.

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 Fifth Issue Closing Date and each Payment Date up to, and including, the Expected Maturity Date (and, if the Bonds are not redeemed in full on the Expected Maturity Date, each Payment Date up to, and including, the Legal Maturity Date), the Issuer shall apply the Available 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, on a *pari passu* and *pro rata* basis, of all amounts owing to the Paying Agent under the Paying Agency Agreement and the Custodian under the Custody Agreement;
- (d) to the payment, on a *pari passu* and *pro rata* basis, of any other due but unpaid Issuer Expenses relating to the Bonds;
- (e) (in the case of payment on a Payment Date) to the payment, on a *pari passu* and *pro rata* basis, of the interest due and payable on the Bonds in respect of the Payment Period ending on such Payment Date; and
- (f) to the payment, on a *pari passu* and *pro rata* basis, of any principal due and payable on the Bonds.

6.3 Interest Accrual

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

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 three 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 an event of default has occurred under any Relevant Authorised Loan Agreement (as defined in the Loan Agreement) and the date of prepayment under the Loan Agreement is within 18 months of the date of such Relevant Authorised Loan Agreement, be made at par (together with any interest accrued up to and including the 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), be made at 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 sum of (i) the Gross Redemption Yield on the Determination Date of 4½% Treasury Gilt 2042 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 and (ii) 0.20 per cent.;

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

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

Notice of any such redemption as is provided in this Condition 8.2 shall be given by the Issuer to the Trustee, the 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 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, other than the Retained Bonds and any Fungible Bonds issued by the Issuer pursuant to Condition 17 that are also to be retained by the Issuer upon issue.

8.5 Cancellation

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

The Issuer may cancel any Retained Bonds held by it or on its behalf at any time following a request by THFC, pursuant to the Loan Agreement, to cancel a corresponding amount of the undrawn portion of the Commitment (as defined in the Loan Agreement).

9. TAXATION

All payments in respect of the Bonds by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any Taxes, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will not be obliged to make any additional payments to

Bondholders or Couponholders in respect of such withholding or deduction. Any such withholding or deduction will not constitute an Event of Default under Condition 11.

10. PRESCRIPTION

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

11. EVENTS OF DEFAULT

If any Event of Default (as defined below) occurs and is continuing, then the Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth of the aggregate outstanding principal amount of the Bonds (excluding the Retained 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;
- (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;
- (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;
- (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;

- (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 (excluding the Retained 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 one or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds (excluding the Retained Bonds) for the time being outstanding, or at any adjourned such meeting one or more persons present holding or representing more than 50 per cent. in principal amount of the Bonds (excluding the Retained Bonds) for the time being outstanding. The Trust Deed does not contain any provisions requiring higher quorums in any circumstances. An Extraordinary Resolution passed at any meeting of the Bondholders will be binding on all Bondholders, whether or not they are present at the meeting, and on all Couponholders. A resolution (i) in writing signed by or on behalf of the holders of not less than 95 per cent. in principal amount of the Bonds (excluding the Retained Bonds) for the time being outstanding or (ii) given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than 95 per cent. in principal amount of the Bonds (excluding the Retained Bonds) for the time being outstanding, in each case shall be as valid and effectual as an Extraordinary Resolution passed at a meeting of the Bondholders duly convened and held.

15.2 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 made 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 (as defined in the Loan Agreement) 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:

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

Any 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 Fungible Bonds may be applied to the making of further advances to THFC under the Loan Agreement and the proceeds of any issue of New Bonds may be applied to the making of an advance under a loan agreement between the Issuer and THFC to be entered into at that time (together with the Loan Agreement, the **THFC Loan Agreements**), in each case on terms that the drawdown of such advances or further advances, as applicable, may be postponed by THFC for up to 18 months. The advances or further advances, as applicable, 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 Fungible Bonds that: (i) they shall be assigned the same rating by the Rating Agency as is then applicable to the Bonds; and (ii) the Issuer shall enter into such other arrangements as may be necessary to obtain the requisite rating by the Rating Agency of the Fungible Bonds. It shall be a condition precedent to the issue of any Further Bonds that the then current rating of the Bonds shall not be adversely affected by such issue.

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 any THFC 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 FIFTH ISSUE BONDS WHILE REPRESENTED BY THE FIFTH ISSUE GLOBAL BOND

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

1. Exchange

The Fifth Issue Global Bond and the global bonds representing the Original Bonds, the Second Issue Bonds, the Third Issue Bonds and the Fourth Issue Bonds (together, the **Global Bonds**) 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 holders of the Global Bonds (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 Bonds for definitive Bonds on or after the Exchange Date (as defined below).

On or after the Exchange Date, the holders of the Global Bonds may or, in the case of (c) above, shall surrender the Global Bonds to or to the order of the Paying Agent. In exchange for the Global Bonds 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 Bonds), 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 Bonds, the Issuer will procure that they are cancelled and, if the holders so request, returned to the holders 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 Bonds will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Bonds, surrender of the relevant 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 relevant 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 Bonds and the Global Bonds are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 14.

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

5. Prescription

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

7. Euroclear and Clearstream, Luxembourg

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

USE OF PROCEEDS

The gross proceeds of the issue of the Fifth Issue Bonds (excluding the Fifth Issue Retained Bonds), being approximately £61,132,562, will be lent to THFC pursuant to the Loan Agreement on the Fifth Issue Closing Date. The net proceeds of the issue of such Fifth Issue Bonds (after taking account of the expenses of the issue) will amount to approximately £60,717,405. THFC will lend such proceeds (with the exception of a sum equivalent to four days' accrued interest, which will be retained by THFC) to the Fifth Bond Issuance Authorised Borrowers for the purposes and on the terms set out under "*Description of the Authorised Borrowers*", with the Fifth Bond Issuance Authorised Borrowers reimbursing THFC for the expenses of the issue.

The gross proceeds of the sale of Fifth Issue Retained Bonds to a third party will be lent to THFC pursuant to the Loan Agreement, with THFC reimbursing the Issuer for the expenses of the sale. THFC will lend such proceeds (with the exception of a sum equivalent to the relevant number of days' accrued interest, which will be retained by THFC) to the Fifth Bond Issuance Authorised Borrowers, for the purposes and on the terms set out under "*Description of the Authorised Borrowers*", with the Fifth Bond Issuance Authorised Borrowers reimbursing THFC for the expenses of the sale.

DESCRIPTION OF THE ISSUER

INTRODUCTION

The Issuer was incorporated under the Companies Act 2006 for an unlimited duration and registered on 7th September, 2011 under English law with registration number 07765422. 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. The entire issued share capital of the Issuer is held by the Parent, T.H.F.C. (Funding No.3) Holdings Limited, a holding company whose only assets comprise these shares. The entire issued share capital of the Parent is held by T.H.F.C. (Services) Limited (the **Share Trustee**) under the terms of an instrument of trust dated 30th September, 2011 (the **Instrument of Trust**) under which the Share Trustee holds the share capital of the Parent on trust for the benefit of such charities which are bodies corporate, either (a) registered with the Charity Commission with objects which include the provision of housing or (b) registered with the TSA (or any successor body with similar regulatory functions), as the Share Trustee shall determine and failing such determination on trust for the Worldwide Fund for Nature.

CAPITALISATION

The share 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 sets out the unaudited capitalisation of the Issuer as extracted from the unaudited accounting records of the Issuer as at 28th February, 2013.

| | As at 28th February, 2013 (in £) |
|--|---|
| Share capital..... | 12,500.00 |
| The Original Bonds issued in 2011* | 84,500,000.00 |
| The Second Issue Bonds issued in January, 2012** | 116,000,000.00 |
| The Third Issue Bonds issued in April, 2012..... | 130,500,000.00 |
| The Fourth Issue Bonds issued in September, 2012..... | 127,100,000.00 |
| Total Capitalisation*** | <u>458,112,500.00</u> |

* The figure for the Original Bonds is equal to the principal amount of the Original Bonds issued (being £100,000,000) less the principal amount of the Original Retained Bonds that were held by the Issuer as at 28th February, 2013 (being £15,500,000).

** The figure for the Second Issue Bonds is equal to the principal amount of the Second Issue Bonds issued (being £131,000,000) less the principal amount of the Second Issue Retained Bonds that were held by the Issuer as at 28th February, 2013 (being £15,000,000).

*** The figure for Total Capitalisation in the above table does not include an amount of £55,200,000 in respect of the Fifth Issue Bonds to be issued on the Fifth Issue Closing Date.

As at 28th February, 2013, other than the Original Bonds, the Second Issue Bonds, the Third Issue Bonds, the Fourth Issue Bonds and the obligations described in this Offering Circular, the Issuer had no indebtedness, contingent liabilities, guarantees or indebtedness guaranteed by third parties.

On the 8th April, 2013 the Issuer agreed the sale of £15,500,000 in principal amount of the Original Retained Bonds and £10,000,000 in principal amount of the Second Issue Retained Bonds.

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

BUSINESS

The Issuer was established as a special purpose vehicle for the limited purpose of the issue of Bonds and Further Bonds and the making of loans (including the Loan) 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 | Chief Executive, The Housing Finance Corporation Limited Management of Special Purpose Companies Board Member, Homes and Communities Agency Regulation Committee |
| 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 |
| Ian Peacock | 4th Floor 107 Cannon Street London EC4N 5AF | Company Director |

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 directors of the Administrator and their principal activities are the same as the directors of THFC (as described in "*Description of THFC*" below).

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

The Issuer has appointed PricewaterhouseCoopers LLP of 7 More London Riverside, London SE1 2RT as its auditors. PricewaterhouseCoopers LLP are chartered accountants and registered auditors and are members of the Institute of Chartered Accountants in England and Wales. They have audited the annual accounts of the Issuer since its incorporation.

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 Homes and Communities Agency 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 Homes and Communities Agency nominee is its current Deputy Director of Regulatory Operations. 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 28th February, 2013, 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 (together with T.H.F.C. (Services) Limited (the **Administrator**), the **THFC Group**) had £3,073 million of loans outstanding to circa 147 registered providers of social housing, registered social landlords and registered housing associations, of which £2,203 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 |
|--------------------------------|---|---|
| Charles Robert Denys Arbuthnot | 4th Floor 107 Cannon Street London EC4N 5AF | Independent Consultant |
| Fenella Jane Edge | 4th Floor 107 Cannon Street London EC4N 5AF | Group Treasurer, The Housing Finance Corporation Limited Management of Special Purpose Companies |

| | | |
|------------------------|---|--|
| Keith Exford | 4th Floor 107 Cannon Street London EC4N 5AF | Chief Executive, Affinity Sutton Group |
| Roger Philip Mountford | 4th Floor 107 Cannon Street London EC4N 5AF | Company Director Non-Executive Chairman |
| David Orr | 4th Floor 107 Cannon Street London EC4N 5AF | Chief Executive, The National Housing Federation |
| John Parker | 4th Floor 107 Cannon Street London EC4N 5AF | Chairman, The investment committee of the Department of Work and Pensions Vice Chairman, Newbury Building Society |
| Ian Peacock | 4th Floor 107 Cannon Street London EC4N 5AF | Company Director |
| Deborah Shackleton | 4th Floor 107 Cannon Street London EC4N 5AF | Company Director |
| Jonathan Walters | 4th Floor 107 Cannon Street London EC4N 5AF | Deputy Director of Regulatory Operations, Homes and Communities Agency |
| John Piers Williamson | 4th Floor 107 Cannon Street London EC4N 5AF | Chief Executive, The Housing Finance Corporation Limited Management of Special Purpose Companies Board Member, Homes and Communities Agency Regulation Committee |

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 31st 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; David Stokes, appointed Credit and Risk Manager in

November, 2012; 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:

5% Debenture Stock 2027, ISIN GB0004410071;
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 31st March, 2012, the consolidated share capital, reserves and indebtedness of THFC as extracted from its audited consolidated accounts were as set out in the following table:

| Capital and Reserves | 31st March, 2012 |
|-----------------------------|-------------------------|
| | £000 |
| Called up share capital | —* |
| Profit and loss account | 11,583 |
| | 11,583 |

*As at 31st March, 2012, the authorised allotted, called up and fully paid share capital of THFC was £7 comprising seven shares of £1 nominal each.

| Indebtedness of the THFC Group | 31st March, 2012 |
|---------------------------------------|-------------------------|
| | £000 |

THFC Debenture Stocks

| | | |
|--------------|---------------------------------------|---------|
| £93,502,160 | Zero Coupon Debenture Stock 2012 | 38,043 |
| £50,954,200 | 5% Debenture Stock 2027 | 28,985 |
| £24,662,500 | Stepped Coupon Debenture Stock 2019 | 33,134 |
| £15,000,000 | 12.04% Annuity Debenture Stock 2021 | 11,135 |
| £172,450,000 | 11.5% Debenture Stock 2016 | 171,450 |
| £189,100,000 | 8.625% Debenture Stock 2023 | 189,100 |
| £8,000,000 | 8.8% Annuity Debenture Stock 2023 | 5,964 |
| £10,000,000 | 10.0938% Annuity Debenture Stock 2024 | 8,228 |
| £49,450,000 | 9.625% Debenture Stock 2025 | 49,450 |

THFC Bank Loans

| | | |
|--------------|--|-----------|
| £750,000 | Fixed Rate Facility 2021 | 338 |
| £22,360,000 | Fixed Rate Facility 2023 – Annuity | 16,638 |
| £30,000,000 | Fixed Rate Facility 2024 – Annuity | 22,792 |
| £10,500,000 | Fixed Rate Facility 2025 – Annuity | 7,672 |
| £8,700,000 | Fixed Rate Facility 2028 – Bullet | 8,700 |
| £11,000,000 | Fixed/Variable Rate Facility 2026 | 9,460 |
| £9,860,000 | Fixed/Variable Rate Facility 2028 | 6,740 |
| £15,000,000 | Variable Rate Facility 2029 | 11,773 |
| £15,000,000 | Fixed/Variable Rate | 13,500 |
| £100,000,000 | Fixed/Variable Rate Facility 2025 | 100,000 |
| £100,000,000 | Fixed/Variable Rate Facility 2040 | 100,000 |
| £172,500,000 | Fixed/Variable Rate Facility 2040 | 162,500 |
| £172,500,000 | Fixed/Variable Rate Facility 2040 | 172,500 |
| £5,000,000 | Variable Rate Revolving Credit Facility 2015 | – |
| £10,000,000 | Variable Rate Revolving Credit Facility 2016 | 6,000 |
| | | 1,174,102 |

THFC Loan from T.H.F.C. (Funding No.1) Plc

| | | |
|--------------|--------------------------------------|---------|
| £235,205,000 | Long term – 5.125% due 2035 (Bullet) | 235,205 |
|--------------|--------------------------------------|---------|

THFC Loan from T.H.F.C. (Funding No.2) Plc

| | | |
|--------------|-------------------------------------|---------|
| £370,850,000 | Long term – 6.35% due 2039 (Bullet) | 370,850 |
|--------------|-------------------------------------|---------|

| | | |
|--|---|-------------------------|
| THFC Loan from T.H.F.C. (Funding No.3) Plc | | |
| £231,000,000 | Long term – 5.20% due 2043 (Bullet) | 185,500 |
| T.H.F.C. (Social Housing Finance) Limited | | |
| Debenture Stocks | | |
| £86,300,000 | 8.75% Debenture Stock 2016/2021 | 86,300 |
| Bank Loans | | |
| £2,000,000 | Fixed Rate Loan 2023 | 1,323 |
| £16,500,000 | Fixed Rate Loan 2024 | 11,423 |
| £14,900,000 | Fixed Rate Loan 2025 | 10,364 |
| | | <u>109,410</u> |
| T.H.F.C. (Indexed) Limited Indexed Linked Debenture Stock | | |
| £92,840,000 | 5.65% Index Linked Debenture Stock 2020 | 83,409 |
| T.H.F.C. (Indexed 2) Limited Indexed Linked Debenture Stock | | |
| £52,500,000 | 5.50% Index Linked Debenture Stock 2024 | 60,092 |
| T.H.F.C. (First Variable) Limited | | |
| £17,150,000 | Variable Rate Loan 2023 | 11,514 |
| UK Rents (No. 1) PLC | | |
| £36,143,000 | Rental Securitisation 2025 | 31,848 |
| £723,000 | Subordinated loan | 723 |
| | | <u>32,571</u> |
| T.H.F.C. (Capital) PLC | | |
| £212,802,000 | 6.38% Secured Bond 2042 | 212,802 |
| £475,000,000 | Fixed & Variable Rate Loans | 371,000 |
| | | <u>583,802</u> |
| | | <u>2,846,455</u> |
| Premium/discount⁴ | | 35,984 |
| Total | | <u>2,882,439</u> |

Notes:

- 1 As at 31st March, 2012, the balance of retained earnings on the audited unconsolidated Statement of Financial Position of THFC was £7,575,000.
- 2 At 31st March, 2012, THFC had no outstanding contingent liabilities and guarantees nor any indebtedness guaranteed by a third party.
- 3 All of THFC's borrowings are secured by means of a pari passu floating charge on all of THFC's assets.
- 4 Following the adoption of IFRS by THFC in the year ended 31st 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.

As at close of business on 28th February, 2013, the consolidated indebtedness of THFC as extracted from its accounting records was as set out in the following table:

| Indebtedness of the THFC Group | | 28th February, 2013 |
|---|--|--------------------------------|
| | | £000 |
| THFC Debenture Stocks | | |
| £50,954,200 | 5% Debenture Stock 2027 | 29,579 |
| £24,662,500 | Stepped Coupon Debenture Stock 2019 | 32,290 |
| £15,000,000 | 12.04% Annuity Debenture Stock 2021 | 10,456 |
| £171,450,000 | 11.5% Debenture Stock 2016 | 171,450 |
| £189,100,000 | 8.625% Debenture Stock 2023 | 189,100 |
| £8,000,000 | 8.8% Annuity Debenture Stock 2023 | 5,623 |
| £10,000,000 | 10.0938% Annuity Debenture Stock 2024 | 7,877 |
| £49,450,000 | 9.625% Debenture Stock 2025 | 49,450 |
| THFC Bank Loans | | |
| £750,000 | Fixed/Variable Rate Facility 2021 | 319 |
| £24,860,000 | Fixed Rate Facility 2023 | 15,633 |
| £33,000,000 | Fixed Rate Facility 2024 | 21,506 |
| £10,500,000 | Fixed Rate Facility 2025 | 7,483 |
| £8,700,000 | Fixed Rate Facility 2028 | 8,700 |
| £11,000,000 | Fixed/Variable Rate Facility 2026 | 9,130 |
| £9,860,000 | Fixed/Variable Rate Facility 2028 | 6,740 |
| £15,000,000 | Variable Rate Facility 2029 | 11,119 |
| £15,000,000 | Fixed/Variable Rate - 25 Year | 13,500 |
| £100,000,000 | Fixed/Variable Rate Facility – 2025 | 100,000 |
| £100,000,000 | Fixed/Variable Rate Facility – 2040 | 100,000 |
| £172,500,000 | Fixed/Variable Rate Facility – 2040 | 172,500 |
| £172,500,000 | Fixed/Variable Rate Facility – 2040 | 172,500 |
| £5,000,000 | Variable Rate Revolving Credit Facility 2015 | - |
| £10,000,000 | Variable Rate Revolving Credit Facility 2016 | 5,000 |
| | | 1,139,955 |
| THFC Loan from T.H.F.C. (Funding No.1) Plc | | |
| £235,205,000 | Long term - 5.125% due 2035 (Bullet) | 235,205 |
| THFC Loan from T.H.F.C. (Funding No.2) Plc | | |
| £370,850,000 | Long term – 6.35% due 2039 (Bullet) | 370,850 |
| THFC Loan from T.H.F.C. (Funding No.3) Plc | | |
| £488,600,000 | Long term – 5.20% due 2043 (Bullet) | 458,100 |

T.H.F.C. (Social Housing Finance) Limited

Debenture Stocks

| | | |
|--|---|------------------------------|
| £86,300,000 | 8.75% Debenture Stock 2016/2021 | 86,300 |
| Bank Loans | | |
| £2,000,000 | Fixed Rate Loan 2023 | 1,243 |
| £16,500,000 | Fixed Rate Loan 2024 | 10,782 |
| £14,900,000 | Fixed Rate Loan 2025 | 10,066 |
| | | <hr/> 108,391 |
| T.H.F.C. (Indexed) Limited Indexed Linked Debenture Stock | | |
| £92,840,000 | 5.65% Index Linked Debenture Stock 2020 | <hr/> 80,639 |
| T.H.F.C. (Indexed 2) Limited Indexed Linked Debenture Stock | | |
| £52,500,000 | 5.50% Index Linked Debenture Stock 2024 | <hr/> 58,847 |
| T.H.F.C. (First Variable) Limited | | |
| £17,150,000 | Variable Rate Loan 2023 | <hr/> 10,595 |
| UK Rents (No. 1) PLC | | |
| £36,143,000 | Rental Securitisation 2025 | 30,779 |
| £723,000 | Subordinated loan | 723 |
| | | <hr/> 31,502 |
| T.H.F.C. (Capital) PLC | | |
| £212,802,000 | 6.38% Secured Bond 2042 | 212,802 |
| £475,000,000 | Fixed & Variable Rate Loans | 368,500 |
| | | <hr/> 581,302 |
| | | <hr/> 3,075,386 |
| Premium/discount | | 37,103 |
| Total | | <hr/> 3,112,489 <hr/> |

There has been no material change in the capitalisation and indebtedness and the contingent liabilities and guarantees and the indebtedness guaranteed by third parties since (in the case of capitalisation) 31st March, 2012 and (in the case of indebtedness) 28th February, 2013.

References to the "accounting records" of THFC mean the internal accounting systems used by THFC to maintain its accounting records, which are reconciled on a monthly basis and from which data are extracted on a basis consistent with the management accounts. Data extracted directly from the accounting records for inclusion in this Offering Circular (other than as extracted from the audited consolidated accounts) have not been audited.

DESCRIPTION OF THE AUTHORISED BORROWERS

Authorised Borrowers

Each Authorised Borrower (as defined in the Loan Agreement) 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, a company limited by guarantee or a charitable trust and all are registered providers of social housing, registered social landlords or registered housing associations whose activities are regulated by the Homes and Communities Agency (in England), the Welsh Assembly Government (in Wales), the Scottish Housing Regulator (in Scotland) or the Department for Social Development (in Northern Ireland). 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 Original Initial Advance, the Second Issue Initial Advance, the Third Issue Initial Advance, the Fourth Issue Initial Advance, the Fifth Issue Initial Advance, any Original Retained Advance, any Second Issue Retained Advance, any Third Issue Retained Advance, any Fourth Issue Retained Advance and any Fifth Issue Retained Advance (each 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 5th October, 2011 or (in the case of an onward loan of the whole or any part of an Original Retained Advance) on or after 5th October, 2011 (the **First Bond Issuance Authorised Loans**) or under separate loan agreements with THFC entered into on or about 18th January, 2012 or (in the case of an onward loan of the whole or any part of a Second Issue Retained Advance) on or after 18th January, 2012 (the **Second Bond Issuance Authorised Loans**) or under separate loan agreements with THFC entered into, or amended and restated, on or about 18th April, 2012 (with the exception of the loan agreement between THFC and Network Stadium Housing Association Limited, which is dated 5th October, 2011) or (in the case of an onward loan of the whole or any part of a Third Issue Retained Advance) on or after 18th April, 2012 (the **Third Bond Issuance Authorised Loans**) or under separate loan agreements with THFC entered into on or about 20th September, 2012 or (in the case of an onward loan of the whole or any part of a Fourth Issue Retained Advance) on or after 20th September, 2012 (the **Fourth Bond Issuance Authorised Loans**) or under separate loan agreements with THFC entered into on or about 8th April, 2013 or (in the case of an onward loan of the whole or any part of a Fifth Issue Retained Advance) on or after 8th April, 2013 (the **Fifth Bond Issuance Authorised Loans** and, together with the First Bond Issuance Authorised Loans, the Second Bond Issuance Authorised Loans, the Third Bond Issuance Authorised Loans and the Fourth Bond Issue Authorised Loans, the **Bond Issuance Authorised Loans**). The terms of each of the Bond Issuance Authorised Loans may provide for further funds to be drawn, or be amended to provide for further funds to be drawn, by a Bond Issuance Authorised Borrower to reflect the onward lending by THFC of the proceeds of sale of Retained Bonds or the proceeds of issue of Fungible Bonds. The Bond Issuance Authorised Borrowers which enter into the Fifth Bond Issuance Authorised Loans are referred to in this Offering Circular as the **Fifth Bond Issuance Authorised Borrowers**.

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 core terms as required in THFC's existing trust deeds as amended from time to time (the **Standard Lending Criteria**, the current terms of 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 5th October, 2043 with no grace period. Payments of interest and principal under each Bond Issuance Authorised Loan currently outstanding are made to the main bank account of THFC held with Barclays Bank plc as set out in paragraph 9 under "*General Information*". It is anticipated that payments of interest and principal under each Bond Issuance Authorised Loan will continue to be made to such bank

account. 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 have granted or 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 from the relevant regulator in its jurisdiction. 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 (other than principal) due and payable on the Loan Agreement (when added to the accrued interest being retained by THFC out of the proceeds of the Fifth Issue Bonds lent to it by the Issuer).

The Existing Authorised Borrowers

The **Existing Authorised Borrowers** are borrowers from THFC under loan agreements other than the Fifth Bond Issuance Authorised Loans complying with the relevant Standard Lending Criteria, the current terms of 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:

The Housing Finance Corporation Limited

| Authorised Borrowers | Authorised Loans Existing as at 31st March, 2012¹ | Other Movements² | New³ |
|---|---|------------------------------------|------------------------|
| | £000 | £000 | £000 |
| A2Dominion Homes Limited | 79,574 | (196) | |
| A2Dominion South Limited | 2,500 | | |
| Accent Nene Housing Society Limited | 1,762 | (29) | |
| Accent Peerless Limited | - | 10,000 | |
| Adactus Housing Association Limited | 7,165 | (101) | |
| Agudas Israel Housing Association Limited | 190 | (5) | |
| Aldwyck Housing Association Limited | 2,471 | (123) | |
| AmicusHorizon Limited | 28,500 | | |
| Apex Housing Association Limited | 10,000 | 25,000 | |
| Arches Housing Limited | - | | 5,100 |
| Arcon Housing Association Limited | - | 4,000 | |
| Arena Housing Group Limited | 5,000 | | |
| Asra Greater London Housing Association Limited | 10,000 | | |
| Axiom Housing Association Limited | 21,764 | (13) | |
| Beth Johnson Housing Association Limited | 4,000 | | |
| Black Country Group Limited | 7,000 | | |
| Bournville Village Trust | 10,000 | 10,000 | |
| Bromford Carinthia Housing Association | 4,500 | | |
| Cambridge Housing Society Limited | 4,200 | | |

| Authorised Borrowers | Authorised Loans Existing as at 31st March, 2012 ¹ | Other Movements ² | New ³ |
|--|--|---------------------------------|------------------|
| | £000 | £000 | £000 |
| Cardiff Community Housing Association | 7,500 | | |
| Castle Rock Edinvar Housing Association | 5,500 | | |
| Catalyst Communities Housing Association Limited | 3,965 | (133) | |
| Charter Housing Association Limited | 20,000 | 5,000 | |
| Cheviot Housing Association Limited | 14,879 | (7,905) | |
| Clanmil Housing Association Limited | 15,000 | | 15,000 |
| Clwyd Alyn Housing Association Limited | 7,000 | | |
| Coastal Housing Group Limited | 15,000 | 20,000 | |
| Connect Housing Association Limited | 2,750 | | |
| Connswater Homes Limited | 4,000 | | |
| Contour Homes Limited | 2,500 | | |
| Cornerstone Housing Limited | - | 5,000 | |
| Cotman Housing Association Limited | 1,500 | | |
| Cymdeithas Tai Cadwyn Limited | 2,000 | 3,000 | |
| Cymdeithas Tai Clwyd Limited | 1,500 | | |
| Cymdeithas Tai Eryri Limited | 4,500 | 3,000 | 2,500 |
| De Montfort Housing Society Limited | 9,800 | | |
| Derwent Housing Association Limited | 10,000 | | |
| Devon & Cornwall Housing Limited | 22,225 | (136) | |
| Ducane Housing Association Limited | 5,000 | | |
| Dumfries and Galloway Housing Partnership | 40,000 | | |
| Dunedin Canmore Housing Association Limited | 16,500 | | |
| East Homes Limited | 1,375 | (11) | |
| East Midlands Housing Association Limited | 33,000 | (1,000) | |
| Eildon Housing Association Limited | - | 10,000 | |
| Equity Housing Group Limited | 8,112 | 14,943 | |
| Estuary Housing | 7,468 | 4,895 | 5,000 |
| Family Housing Association (Birmingham) Limited | 6,000 | 2,500 | |
| Family Mosaic Housing | 43,327 | (85) | |
| First Wessex | 6,963 | (88) | |
| Fold Housing Association Limited | 18,000 | | |
| Friendship Care and Housing Association Limited | 2,000 | | |
| Gateway Housing Association Limited | 1,250 | | |
| Genesis Housing Association Limited | 56,500 | | |
| Glen Oaks Housing Association Limited | 14,300 | | |
| Great Places Housing Association | 25,130 | (149) | |
| Habinteg Housing Association Limited | 5,614 | (176) | |
| Hafod Housing Association Limited | 10,000 | | |
| Harrogate Families Housing Association Limited | - | 2,000 | |
| Heantun Housing Association Limited | 12,000 | | 2,000 |
| Helm Housing Association Limited | 10,000 | 5,000 | |
| Hexagon Housing Association Limited | 1,500 | | |
| Hightown Praetorian and Churches Housing Association Limited | 31,100 | | |
| Home Group Limited | 2,225 | (136) | |
| Home Scotland Limited | 20,000 | | |

| Authorised Borrowers | Authorised Loans Existing as at 31st March, 2012 ¹ | Other Movements ² | New ³ |
|---|--|---------------------------------|------------------|
| | £000 | £000 | £000 |
| Innisfree Housing Association Limited | 3,000 | | |
| Islington & Shoreditch Housing Association Limited | 3,010 | (20) | |
| Johnnie Johnson Housing Trust Limited | 18,500 | 7,500 | |
| Knightstone Housing Association Limited | 23,486 | (181) | |
| Leeds Federated Housing Association Limited | 14,300 | | |
| Leeds & Yorkshire Housing Association Limited | 4,500 | (250) | |
| Leicester Housing Association Limited | 20,941 | (78) | |
| Liverpool Housing Trust Limited | 7,000 | | |
| London & Quadrant Housing Trust | 31,229 | (110) | |
| Longhurst Homes Limited | 9,400 | | |
| Manningham Housing Association Limited | 34,523 | (446) | 2,600 |
| Melin Homes Limited | 12,000 | 10,000 | |
| Mercian Housing Association Limited | 11,448 | (189) | |
| Metropolitan Housing Trust Limited | 60,820 | (23,972) | |
| Mid-Wales Housing Association Limited | - | | 3,000 |
| Midland Heart Limited | 59,477 | (6,513) | |
| Minster General Housing Association Limited | 4,770 | (225) | |
| Moat Homes Limited | 3,500 | | |
| Moseley & District Churches Housing Association Limited | 3,050 | | |
| Mosscares Housing Limited | 34,816 | (161) | |
| Network Stadium Housing Association Limited | 69,615 | 44,712 | |
| New Gorbals Housing Association Limited | 14,000 | | |
| Newlon Housing Trust | 25,000 | (19) | |
| Newport Housing Trust | 1,500 | | |
| Newydd Housing Association (1974) Limited | 5,000 | | 3,000 |
| North Glasgow Housing Association Limited | 8,000 | | |
| North London Muslim Housing Association Limited | 1,000 | | |
| North Wales Housing Association Limited | 2,500 | | 10,000 |
| Nottingham Community Housing Association Limited | 13,400 | | |
| Notting Hill Housing Trust | 15,000 | | |
| Oaklee Homes Group Limited | 5,000 | 20,000 | |
| Octavia Housing | 2,000 | | |
| One Housing Group | 44,312 | (198) | |
| Origin Housing Limited | 5,600 | | |
| Oxford Citizens Housing Association Limited | 1,500 | 6,100 | |
| Paradigm Homes Charitable Housing Association Limited | 60,000 | | 5,000 |
| Pembrokeshire Housing Association Limited | 1,000 | | |
| Penwith Housing Association Limited | 4,792 | (235) | |
| Places for People Homes Limited | 22,050 | (59) | |
| Places for People Homes Individual Support Limited | 4,000 | | |
| Portal Housing Association Limited | 21,000 | | |
| Regenda Limited | 3,000 | | |
| Sadeh Lok Housing Group Limited | 650 | | |
| Salvation Army Housing Association Limited | 3,000 | | |
| Sanctuary Housing Association Limited | 11,699 | (665) | |
| Sanctuary Scotland Housing Association Limited | 10,000 | | |

| Authorised Borrowers | Authorised Loans Existing as at 31st March, 2012¹ | Other Movements² | New³ |
|--|---|--|------------------------|
| | £000 | £000 | £000 |
| Sentinel Housing Association | 10,000 | | |
| Soho Housing Association Limited | - | 10,000 | |
| South Yorkshire Housing Association Limited | 4,257 | (156) | |
| Southern Housing Group Limited | 147,554 | (412) | |
| Staffordshire Housing Association Limited | 8,800 | | |
| St Vincent 's Housing Association Limited | 2,920 | (65) | |
| Sutton Housing Society Limited | 250 | | |
| Swaythling Housing Society Limited | 22,500 | | |
| Taff Housing Association Limited | 5,500 | | |
| Tenants First Housing Co-operative Limited | 5,000 | | |
| Thames Valley Charitable Housing Association Limited | 29,647 | (112) | |
| The Riverside Group Limited | 18,963 | 24,660 | |
| Thenue Housing Association | 5,000 | | |
| Three Rivers Housing Association Limited | 5,700 | 9,850 | |
| Trident Housing Association Limited | 5,000 | | |
| Trinity Housing Limited | 20,000 | | |
| Tuntum Housing Association Limited | 7,000 | | |
| United Welsh Housing Association Limited | 34,500 | | |
| Venture Housing Association Limited | 3,000 | | |
| Wales and West Housing Association Limited | 16,500 | 20,000 | |
| Wandle Housing Association Limited | 21,418 | | |
| Waterloo Housing Association Limited | 6,000 | | |
| Westcountry Housing Association Limited | 47,000 | | |
| West Kent Housing Association Limited | 25,000 | | |
| West Mercia Homes Limited | 12,500 | | |
| Wiltshire Rural Housing Association Limited | 938 | (38) | |
| Wirral Methodist Housing Association Limited | 5,200 | | |
| Womens Pioneer Housing Limited | 5,000 | 5,000 | |
| Worthing Homes Limited | 10,000 | | |
| Yorkshire Housing Limited | 40,500 | | |
| Total | 1,965,644 | 237,770 | 53,200 |

1 Authorised loans are derived without material change from the audited accounts of THFC dated 31st March, 2012.

2 Other movements on loans during the period from 31st March, 2012 to 28th February, 2013 (inclusive).

3 New Authorised Loans are derived without material change from the Fifth Bond Issuance Authorised Loans.

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

Regulation of housing associations

England

The funding and regulation of housing associations has undergone significant change in recent years. Housing associations in England were until December 2008 grant funded and regulated by the Housing Corporation. The Housing and Regeneration Act 2008 (the **2008 Act**) changed this. Further change took effect on 1st April, 2012, implemented by the 2011 Act which amended key provisions to the 2008 Act.

The 2008 Act regime

The 2008 Act established the HCA and the TSA. In England, the HCA became (and remains) responsible for providing social housing assistance to fund social housing (amongst other functions, including some inherited from the Communities and Local Government Department and all those previously carried out by English Partnerships). The TSA was the regulator of housing associations in England.

The 2008 Act regulatory regime commenced on 1st April, 2010. The TSA published, in respect thereof, a decision statement and a regulatory framework on 16th March, 2010. This framework came into force on 1st April, 2010 and remained in force until 1st April 2012.

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

The TSA's approach to regulation, as set out in its published framework, was described as co-regulatory. The TSA defined this as robust self-regulation by the boards of registered providers, incorporating effective tenant involvement, and subject to a backbone of regulation by the TSA. Providers had to report annually on their performance against the TSA's standards to their tenants and the TSA adopted a risk-based approach to regulation. There was a move away from prescriptive regulatory requirements, and the TSA's standards were primarily focussed on outcomes. Almost all the former Housing Corporation regulatory documentation was cancelled.

The 2008 Act introduced some new terminology. In England, registered social landlords became known as private non-profit registered providers. Private registered providers (as opposed to local authority registered providers, as to which see further below) are subdivided into the categories profit-making and non-profit. Profit-making registered providers are subject to a slightly lighter regulatory regime. On 1st April, 2010 existing registered social landlords automatically became non-profit registered providers (subject to the full regulatory regime). As indicated, there are also local authority registered providers. Like profit-making registered providers, local authority registered providers are subject to a slightly different regime. The provisions described in this paragraph are unchanged by the 2011 Act.

The 2008 Act provided for the TSA to set standards for registered providers on matters such as rent levels and the criteria for allocating accommodation, as well as on matters relating to the management of their financial and other affairs. The TSA published six standards. These covered: tenant involvement and empowerment; the home (quality of accommodation and repairs and maintenance); the tenancy (allocations, rents and tenure); neighbourhood and community; value for money; and governance and financial viability. The tenancy standard was revised with effect from 13th April, 2011, to permit registered providers to operate the UK government's affordable rent regime. The TSA had power to publish codes of practice which related to and amplified these standards (although it never did so). Having set these standards, the TSA monitored compliance, and had power to take regulatory action when they are not met. Registered providers required consent from the TSA to dispose of social housing dwellings.

One of the TSA's six standards related to Governance and Financial Viability for all private (i.e. not local authority) registered providers. This was not supplemented by any codes of practice.

Providers were expected to comply with the TSA's standards, but also to engage with their tenants to agree and provide services which are tailored to tenants' priorities in certain areas.

The TSA's enforcement powers included powers to require information, to make appointments to a private registered provider's board, to conduct inquiries and to enforce a moratorium period in various insolvency situations. The 2008 Act also introduced some new powers (not previously available to the Housing Corporation) to issue enforcement notices and penalties against registered providers, to require payment of compensation to tenants and to outsource management functions.

The 2011 Act regime

On 18th October, 2010, the Department for Communities and Local Government issued: "Review of social housing regulation." The key features of this review were that:

- The TSA should be abolished and economic regulation and backstop consumer regulation functions should be transferred to the HCA, vested in a statutory committee legally separated from the HCA's investment functions.
- Consumer regulation should be re-focussed on setting standards. The regulator should only intervene in matters of consumer protection where there is a risk of serious detriment to tenants, and most tenants' problems should be addressed at a local level with an enhanced role for MPs, councillors, the ombudsman and tenant panels.
- Inspection should only be used where there are grounds to suspect a serious failure. The routine collection and publication of performance information will cease.
- Proactive economic regulation should continue, designed to ensure that housing associations are financially viable and well governed and that taxpayers' funds are not misused, and to support the confidence of private lenders to provide funds at competitive rates.

The 2011 Act includes legislative provisions to enable these changes. These latest changes to regulation of social housing providers came into effect on 1st April, 2012.

The Regulation Committee has been established to undertake the role of regulator. This is referred to by the HCA as the social housing regulator. Its objectives have been slightly redefined from those of the TSA, and split between an economic regulation objective and a consumer regulation objective.

Revised regulatory standards have been set by the Regulation Committee, having been consulted upon by the TSA. There are three economic standards (governance and financial viability, value for money, and rent), and four consumer standards (tenant involvement and empowerment, home, tenancy, and neighbourhood and community). Revised Rent Standard Guidance was issued to accompany the Rent Standard. All this was supplemented by "Regulating the Standards", published by the HCA in May, 2012, which sets out more information about how the SHR will regulate in practice and how it will gain assurances in order to form judgements on RPs.

The 2011 Act regime allows a greater role for tenants' panels, councillors, MPs and the Ombudsmen in identifying and dealing with consumer issues, and ensuring compliance with the consumer standards. This is supported by a back-stop of intervention from the regulator, but only where serious detriment to tenants is indicated.

The SHR continues to provide proactive regulation of the economic standards, and in fact an enhanced focus has been placed on value for money. This aspect of regulation is regarded as important in order to ensure that registered providers are financially viable, well-governed and delivering value for money, in part to support the confidence of private lenders to provide funds at competitive rates. The Secretary of State retains the power to make directions to the regulator in respect of rent-setting.

The SHR is subject to a statutory duty to minimise interference and it has stated that it will continue to focus on regulatory boundaries consistent with its overall objectives.

The statutory powers available to the new regulator are largely unchanged from those of the TSA under the 2008 Act, although their use in the context of consumer issues will be restricted to instances where there is a risk of serious detriment to tenants. There will be no such restriction in the context of economic issues (ie governance and financial viability, rent and value for money).

Further consultation on the regulation of for-profit registered providers and other non-regulated elements within registered provider groups is indicated and may lead to further changes in regulation.

Wales, Scotland and Northern Ireland

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

Wales

The Welsh Ministers regulate housing associations in Wales. They have powers under the Housing Associations Act 1985, the Housing Act 1996 and the Housing (Wales) Measure 2011 in respect of both the registration and regulation of Welsh RSLs and the funding of social housing. The Welsh framework is currently set out in the Regulatory Framework for Housing Associations registered in Wales, which came into force on 2nd December, 2011.

The new framework incorporates "delivery outcomes" specified by the Welsh Ministers which must be met by Welsh RSLs (1) in relation to the provision of housing and (2) in relation to governance and financial management. Failure to meet a delivery outcome is grounds for the exercise of enforcement powers. The Welsh Ministers are committed to a regulatory approach based on: proportionality, transparency and openness, consistency and prioritising improvement and housing.

Welsh Ministers also have the power to set standards of performance in relation to Welsh RSL rents. They currently publish RSL rent benchmarks including annual statements in relation to increases to those benchmark rates. There was extensive consultation during 2011 in adopting a revised rent policy. The implementation of the new policy has been postponed and no specific date for implementation has been identified.

Scotland

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

and standards. The Scottish Housing Regulator published the final indicators that it will use to monitor and assess Scottish RSLs on 1st October, 2012. It will name any Scottish RSL it considers to have failed to achieve the outcomes and standards or which it considers to be at risk of doing so. It has the power to set performance improvement targets for individual RSLs or categories of RSL.

Northern Ireland

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

A recent written statement by the Social Development Minister to the Assembly indicated that these powers may be transferred back to the Department for Social Development. This announcement also stated that there would be a significant enhancement of the Department's Regulations & Inspection Unit and its function. The Department will be supported in the delivery of strategy and policy by a regional housing body staffed by housing professionals to cover, in effect, the non-landlord functions currently undertaken by the Northern Ireland Housing Executive. The announcement also referred to the establishment of an Independent Social Housing Rent Panel to agree annual rent levels based on a rental policy. It is expected that these structures will be delivered by March 2015.

Recent initiatives

In August 2012, Sir Adrian Montague and the Department for Communities and Local Government published a review of the barriers to institutional investment in private rented homes, making recommendations to the Government in respect of actions designed to encourage that investment.

In response to the Montague Report the HCA launched the £200 million Build to Rent Fund to stimulate new private rented housing supply by providing finance to cover development costs. Bids were invited on 20th December, 2012. Bidding is now closed.

In addition, the UK government announced in September 2012 proposals to guarantee up to £10 billion of debt to help housing providers expand the provision of purpose built private rented and affordable housing. The rules for the Housing Guarantee Schemes and an invitation to tender for delivery were launched in early 2013. The government confirmed that it would make £225 million of funding available for new affordable housing where required alongside the Affordable Housing Guarantee. The HCA has announced the bidding process for this fund.

The structure of the Guarantee Schemes envisages a UK government guarantee being provided to certain issuance which is then advanced to housing providers to provide the long term finance for completed housing schemes. It is anticipated that Registered Providers will (amongst others) access this funding.

SUMMARY OF THE LOAN AGREEMENT

On 5th October, 2011, the Issuer and THFC entered into a loan agreement (the **Original Loan Agreement**) pursuant to which the Issuer committed to make a loan to THFC in an aggregate principal amount of up to £100,000,000 (the **Original Commitment**). On 18th January, 2012, the Issuer and THFC entered into an amendment and restatement agreement in respect of the Original Loan Agreement (the **First Loan Amendment and Restatement Agreement**) pursuant to which the Issuer committed to make a loan to THFC in an aggregate principal amount of up to £131,000,000 (the **Second Issue Commitment**). On 18th April, 2012, the Issuer and THFC entered into a second amendment and restatement agreement in respect of the Original Loan Agreement (the **Second Loan Amendment and Restatement Agreement**) pursuant to which the Issuer committed to make a loan to THFC in an aggregate principal amount of up to £130,500,000 (the **Third Issue Commitment**). On 20th September, 2012, the Issuer and THFC entered into a third amendment and restatement agreement in respect of the Original Loan Agreement (the **Third Loan Amendment and Restatement Agreement**) pursuant to which the Issuer committed to make a loan to THFC in an aggregate principal amount of up to £127,100,000 (the **Fourth Issue Commitment**). On 8th April, 2013, the Issuer and THFC entered into a fourth amendment and restatement agreement in respect of the Original Loan Agreement (the **Fourth Loan Amendment and Restatement Agreement**) pursuant to which the Issuer committed to make a loan to THFC in an aggregate principal amount of up to a further £55,200,000 (the **Fifth Issue Commitment** and, together with the Original Commitment, the Second Issue Commitment, the Third Issue Commitment and the Fourth Issue Commitment, the **Commitment**). The Original Loan Agreement, as amended and restated by the First Loan Amendment and Restatement Agreement, the Second Loan Amendment and Restatement Agreement, the Third Loan Amendment and Restatement Agreement and the Fourth Loan Amendment and Restatement Agreement to incorporate the Second Issue Commitment, the Third Issue Commitment, the Fourth Issue Commitment and the Fifth Issue Commitment, respectively, is referred to in this Offering Circular as the **Loan Agreement**. 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

On the Original Closing Date, the Issuer made an advance of £69,500,000 in principal amount (the **Original Initial Advance**) to THFC and THFC made loans to Bond Issuance Authorised Borrowers on or shortly following the Original Closing Date with an aggregate initial principal amount equal to the Original Initial Advance. On the Second Issue Closing Date, the Issuer made an advance of £116,000,000 in principal amount (the **Second Issue Initial Advance**) to THFC and THFC made loans to the Second Bond Issuance Authorised Borrowers on or shortly following the Second Issue Closing Date with an aggregate initial principal amount equal to the Second Issue Initial Advance. On the Third Issue Closing Date, the Issuer made an advance of £120,500,000 in principal amount (the **Third Issue Initial Advance**) to THFC and THFC made loans to the Third Bond Issuance Authorised Borrowers on or shortly following the Third Issue Closing Date with an aggregate initial principal amount equal to the Third Issue Initial Advance. On the Fourth Issue Closing Date, the Issuer made an advance of £122,100,000 in principal amount (the **Fourth Issue Initial Advance**) to THFC and THFC made loans to the Fourth Bond Issuance Authorised Borrowers on or shortly following the Fourth Issue Closing Date with an aggregate initial principal amount equal to the Fourth Issue Initial Advance. On the Fifth Issue Closing Date, subject to, *inter alia*, the issue of the Fifth Issue Bonds and the receipt by the Issuer of the proceeds thereof, the Issuer will make an advance of £53,200,000 in principal amount (the **Fifth Issue Initial Advance**) to THFC and THFC will make loans to the Fifth Bond Issuance Authorised Borrowers on or shortly following the Fifth Issue Closing Date with an aggregate initial principal amount equal to the Fifth Issue Initial Advance. Each such advance was, or will be, made in an amount equal to the gross proceeds of the Bonds (excluding any Retained Bonds) issued, or to

be issued, on the corresponding Closing Date (each, an **Issue Actual Advance Amount**). If such issue of Bonds was, or is, made at a discount or premium to the principal amount of such Bonds, such advance was, or will be, correspondingly made at a discount or premium, as applicable.

On any date on which the Issuer sells Retained Bonds, in whole or in part, subject to, *inter alia*, the receipt by the Issuer of the net sale proceeds thereof, the Issuer will make a further advance (a **Retained Advance**) with a principal amount equal to the principal amount of the Retained Bonds so sold, where such Retained Advance will be made in an amount equal to the gross sale proceeds of the Retained Bonds so sold (the **Retained Bond Actual Advance Amount**). If such sale of Retained Bonds is made at a discount or premium to the principal amount of such Retained Bonds, such advance shall correspondingly be made at a discount or premium, as applicable. THFC will make loans to the Bond Issuance Authorised Borrowers on or shortly following the date of such sale of the Retained Bonds with an aggregate principal amount equal to the principal amount of the Retained Bonds sold. As at the date of this Offering Circular the Issuer has made Retained Advances in an aggregate principal amount of £30,000,000 and has agreed to make further Retained Advances in an aggregate principal amount of £25,500,000. The aggregate principal amount of the Original Initial Advance, the Second Issue Initial Advance, the Third Issue Initial Advance, the Fourth Issue Initial Advance, the Fifth Issue Initial Advance and any Retained Advances made under the Loan Agreement, or the principal amount outstanding of such amounts from time to time, shall be the **Loan**.

For the avoidance of doubt, any difference between the principal amount of an advance and the relevant Issue Actual Advance Amount or Retained Bond Actual Advance Amount, as applicable, shall be ignored in determining the amount of the Loan and, *inter alia*, the calculation of interest, principal and any other amounts payable in respect thereon.

Where the Issuer is required to sell any Retained Bonds in order to fund an advance, the Issuer's obligations to fund such advance will be subject to the ability of the Issuer to sell such Retained Bonds to a third party.

For so long as any Retained Bonds are held by or on behalf of the Issuer, THFC may request that an amount of the undrawn portion of the Commitment be cancelled (provided that such amount does not exceed the principal amount of Retained Bonds held by or on behalf of the Issuer at that time). As soon as practicable following any such request, the Issuer shall cancel Retained Bonds in a corresponding amount. Such cancellation of the undrawn portion of the Commitment shall take effect upon the cancellation of such Retained Bonds.

Further loans may be made to THFC in the event that the Issuer issues Further Bonds as more particularly described in Condition 17. Any such arrangements would be made by way of further advances under the Loan Agreement and documented in an amendment to the Loan Agreement (in the case of Fungible Bonds), or by way of new loans documented in new loan agreements (in the case of New Bonds). 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 has entered into a deed of accession to a Deed of Priority with THFC's existing lenders and the trustees of THFC's existing stocks and will, on the date of the Fourth Loan Amendment and Restatement Agreement, enter into a further deed of accession to that Deed of Priority. 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 Original Initial Advance and the Second Issue Initial Advance bear interest from and including 11th October, 2011, the Third Issue Initial Advance bears interest from and including 11th April, 2012, the Fourth Issue Initial Advance bears interest from and including 11th April, 2012 and the Fifth Issue Initial Advance will bear interest from and including 11th April, 2013, at the rate of 5.20 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 Fifth Issue Loan (for the period from and including 11th April, 2013, to but excluding 11th October, 2013 and amounting to £1,383,200 (if no Fifth Issue Retained Advances funded by the Fifth Issue Retained Bonds have been made)) shall be made on 8th October, 2013.

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 four 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 one or more Bond Issuance Authorised 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 one or more Bond Issuance Authorised 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 (in each case) with any accrued interest then unpaid;
- (b) in the case of an Optional Prepayment, if an event of default has occurred under a Relevant Authorised Loan Agreement (as defined in the Loan Agreement) and the date of prepayment under such Relevant Authorised Loan Agreement is on or before the date falling five business days prior to the date falling 18 months after the date of such Relevant Authorised 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 Acts 1965 to 2003) 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 (as defined in the Loan Agreement) 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 the THFC Core Terms Trust Deed, in particular the schedule thereto which sets out the standard criteria for THFC lending to Authorised Borrowers, as such criteria are from time to time further amended or supplemented; 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 currently include (without limitation) a requirement to ensure that THFC's agreements with Authorised Borrowers contain provisions requiring 150 per cent. 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 Fifth Issue Closing Date and on the date of each Fifth Issue Retained Advance, 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 Fourth Loan Amendment and Restatement Agreement and the related security documents and all the costs, fees and expenses the Issuer incurs in issuing the Fifth Issue Bonds, selling the Fifth Issue Retained Bonds or, in either case, 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 (a) 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 (b) 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 (the **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 (a) to a borrower which is (i) in England and Wales, a social landlord which is registered in accordance with Sections 1 to 3 of the Housing Act 1996, (ii) in Scotland, a person which is registered with the Scottish Ministers in accordance with the Housing (Scotland) Act 2001, or (iii) in Northern Ireland, a housing association registered with the Northern Ireland Department for Social Development under Articles 14 to 16 of the Housing (Northern Ireland) Order 1992 (each being an **RSL**) or (b) 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 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 4th July, 1995, is a document on display) as amended by the fifth special supplemental trust deed dated 15th March, 2010 (which is also a document on display). The Core Terms may be further supplemented or amended from time to time. Any amendment which would be materially prejudicial to the interests of THFC's stockholders may not be made without their consent.

CORE TERMS

The following is a summary of the Core Terms currently applicable:

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 per cent. 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 per cent. 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 per cent. 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 per cent. 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 per cent.

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 per cent. 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 per cent. 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 per cent. income cover.

In the event that the relevant certificate shows that income cover is below 95 per cent. 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 per cent. and 100 per cent. 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 per cent. 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 per cent. 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, 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. The Core Terms may be further supplemented or amended from time to time. Any amendment which would be materially prejudicial to the interests of THFC's stockholders may not be made without their consent.

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 United Kingdom law and published practice of HM Revenue & Customs (**HMRC**) relating to certain aspects of United Kingdom taxation. It is not advice, and is given for information purposes only. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may be subject to change in the future. All prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

A. Interest on the Bonds

Payment of interest on the Bonds

Payments of interest on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **ITA**). The London Stock Exchange is a recognised stock exchange. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the 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 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 per cent.). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Bondholder, HMRC can issue a notice to the Issuer to pay interest to the Bondholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

HMRC has powers, in certain circumstances, to obtain information about payments derived from securities (whether income or capital); certain payments of interest (including the amount payable on the redemption of a deeply discounted security); and securities transactions.

The persons from whom HMRC can obtain information include: a person who receives (or is entitled to receive) a payment derived from securities; a person who makes such a payment (received from, or paid on behalf of another person); a person by or through whom interest is paid or credited; a person who effects or is a party to securities transactions (which includes an issue of securities) on behalf of others; registrars or administrators in respect of securities transactions; and each registered or inscribed holder of securities.

The information HMRC can obtain includes: details of the beneficial owner of securities; details of the person for whom the securities are held, or the person to whom the payment is to be made (and, if more than one, their respective interests); information and documents relating to securities transactions; and, in relation to interest paid or credited on money received or retained in the United Kingdom, the identity of the security under which interest is paid. HMRC is generally not able to obtain information (under its power relating solely to interest) about a payment of interest to (or a receipt for) a person that is not an individual. This limitation does not apply to HMRC's power to obtain information about payments derived from securities.

HMRC has indicated that it will not use its information-gathering power on interest to obtain information about amounts payable on the redemption of deeply discounted securities which are paid before 6th April, 2014.

In certain circumstances the information which HMRC has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

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

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

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 ITA, 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 & Custom's 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

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

SUBSCRIPTION AND SALE

RBC Europe Limited and The Royal Bank of Scotland plc (the **Managers**) have, pursuant to a fifth issue subscription agreement (the **Fifth Issue Subscription Agreement**) dated on or about 11th April, 2013, agreed to subscribe or procure subscribers for the Fifth Issue Bonds (other than the Fifth Issue Retained Bonds) at the issue price of 114.854 per cent. of the principal amount of the Fifth Issue Bonds (other than the Fifth Issue Retained Bonds) (plus four days' accrued interest in respect of the period from and including 11th April, 2013 to but excluding the Fifth Issue Closing Date at the rate of 5.20 per cent. per annum), less a management commission. The Issuer will also reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Fifth Issue Bonds. The Fifth Issue Subscription Agreement may be terminated in certain circumstances prior to the issue of the Fifth Issue Bonds.

United States

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

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

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 Fifth Issue Subscription Agreement:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Fifth Issue 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 Fifth Issue 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 Fifth Issue Bonds or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Fifth Issue Bonds in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Fifth Issue Bonds or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of the Fifth Issue Bonds by it will be made on the same terms.

GENERAL INFORMATION

Authorisation

1. The issue of the Fifth Issue Bonds was duly authorised by a resolution of the Board of Directors of the Issuer dated 28th March, 2013.

Listing

2. The estimated cost of the admission of the Fifth Issue 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 15th April, 2013 subject only to the issue of the Fifth Issue Global Bond. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.

Publication

3. This Offering Circular will be published on the website of the Regulatory News Service operated by the London Stock Exchange at <http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html>.

Clearing Systems

4. The Fifth Issue Bonds have been accepted for clearance through Euroclear (1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium) and Clearstream, Luxembourg (42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg). The Fifth Issue Bonds will be consolidated and form a single class with the Original Bonds, the Second Issue Bonds, the Third Issue Bonds and the Fourth Issue Bonds immediately upon issue and thus will have the same ISIN and Common Code as the Original Bonds, the Second Issue Bonds, the Third Issue Bonds and the Fourth Issue Bonds from the date of their issue. The ISIN for the Bonds is XS0690140032 and the Common Code is 069014003.

No Significant Change

5. There has been no significant change in the financial or trading position of the Issuer since 31st December, 2012, the date of its most recent audited accounts, and there has been no material adverse change in the financial position or prospects of the Issuer since 31st December, 2012, the date of its most recent audited accounts.
6. There has been no significant change in the financial or trading position of THFC since 31st March, 2012 and there has been no material adverse change in the financial position or prospects of THFC since 31st March, 2012.

Litigation

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

which may have, or have had in the recent past, a significant effect on THFC's financial position or profitability.

Accounts

9. The current auditors of the Issuer and THFC are PricewaterhouseCoopers LLP. The Issuer's accounts have been audited, without qualification, in accordance with International Standards on Auditing (UK & Ireland) by PricewaterhouseCoopers LLP for the financial period ending on 31st December, 2011 and the financial year ending on 31st December, 2012. These are the only financial statements prepared for the Issuer since 7th September, 2011, the date of its incorporation. THFC's accounts have been audited, without qualification, in accordance with International Standards on Auditing (UK & Ireland) by PricewaterhouseCoopers LLP for the financial year ending on 31st March, 2011 and the financial year ending on 31st March, 2012.

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

10. 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

11. 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, 4th 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 auditor's report and audited financial statements of the Issuer for the financial year ending on 31st December, 2011 and the financial year ending on 31st December, 2012;
 - (c) the Rules of THFC;
 - (d) the published consolidated accounts of the THFC Group for the financial years ending on 31st March, 2011 and 31st March, 2012;
 - (e) the Trust Deed, the Paying Agency Agreement, the Custody Agreement, the Subscription Agreement, the Corporate Services Agreement, the Loan Agreement, the Deed of Priority and the Deeds of Accession;
 - (f) the forms of Relevant Authorised Loan Agreements and the associated security documents;

- (g) the trust deed dated 4th July, 1995 referred to under "*Existing THFC Core Terms relating to Authorised Loans*"; and
- (h) the fifth special supplemental trust deed dated 15th March, 2010 referred to under "*Existing THFC Core Terms relating to Authorised Loans*".

Reporting

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

Third Party Information

- 13. In respect of the information relating to:
 - (a) the Department for Work and Pensions' report dated 28th June, 2012 entitled "Impact assessment on the introduction of social sector housing under-occupation" on page 13 of this Offering Circular in the section headed "*Risk Factors – Rental Income, Housing Benefit and Social Housing Spending*" (which was obtained from <http://www.dwp.gov.uk/docs/social-sector-housing-under-occupation-wr2011-ia.pdf>);
 - (b) the Department for Work and Pensions' report dated 16th July, 2012 entitled "Impact assessment on the introduction of the benefit cap" on page 13 of this Offering Circular in the section headed "*Risk Factors – Rental Income, Housing Benefit and Social Housing Spending*" (which was obtained from <http://www.dwp.gov.uk/docs/benefit-cap-wr2011-ia.pdf>);
 - (c) the UK government's Autumn Statement 2012, CM 8480 on page 14 of this Offering Circular in the section headed "*Risk Factors – Rental Growth Risk*" (which was obtained from http://cdn.hm-treasury.gov.uk/autumn_statement_2012_complete.pdf);
 - (d) the UK government's report entitled "Laying the foundations: a housing strategy for England" published in November 2011 on page 14 of this Offering Circular in the section headed "*Risk Factors – Non-Payment Risks*" (which was obtained from <https://www.gov.uk/government/publications/laying-the-foundations-a-housing-strategy-for-england--2>);
 - (e) the Nationwide House Price Index on page 17 of this Offering Circular in the section headed "*Risk Factors – Market Related Risk*" (which was obtained from <http://www.nationwide.co.uk/hpi/>);
 - (f) the Department for Communities and Local Government's "Review of social housing regulation" issued in October 2010 on page 55 of this Offering Circular in the section headed "*Description of the Authorised Borrowers – Regulation of housing associations – England – the 2011 Act regime*" (which was obtained from <https://www.gov.uk/government/publications/review-of-social-housing-regulation--2>);
 - (g) the announcement of the Northern Irish Social Development Minister on page 57 of this Offering Circular in the section headed "*Description of the Authorised Borrowers – Regulation of housing associations – Wales, Scotland and Northern Ireland – Northern Ireland*" (which was obtained from <http://www.northernireland.gov.uk/news-dsd-090113-written-statement-to>); and

- (h) the following recent initiatives in the social housing sector described on page 57 of this Offering Circular in the section headed "*Description of the Authorised Borrowers – Regulation of housing associations – Recent Initiatives*" regarding:
- (i) the review of the barriers to institutional investment in private rented homes discussed in Sir Adrian Montague and the Department for Communities and Local Government's report published in August, 2012 (which was obtained from <https://www.gov.uk/government/publications/private-rented-homes-review-of-the-barriers-to-institutional-investment>);
 - (ii) the UK government's announcement in September, 2012 regarding proposals to guarantee debt of housing providers (which was obtained from http://www.hm-treasury.gov.uk/press_77_12.htm); and
 - (iii) the UK government's confirmation regarding the amount of funding available alongside the Affordable Housing Guarantee (which was obtained from: <https://www.gov.uk/government/news/next-steps-for-10-billion-housing-guarantees>),

the Issuer confirms that such information has been sourced from a third party, it has been accurately reproduced and that, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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PAYING AGENT

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CUSTODIAN

The Bank of New York Mellon, London Branch

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