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

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

**£131,000,000 5.20 per cent. Secured Bonds due 2043/2045 (including £15,000,000 of Retained Bonds)**

**Issue price: 104.004 per cent. of the principal amount of the Second Issue Bonds (as defined below) (plus 106 days' accrued interest in respect of the period from and including 11th October, 2011 to but excluding the Second Issue Closing Date (as defined below) at a rate of 5.20 per cent. per annum)**

The £131,000,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Second Issue Bonds**), including £15,000,000 of Retained Bonds (as defined herein), are issued by T.H.F.C. (Funding No.3) Plc (the **Issuer**).

The Second Issue Bonds have the same terms and conditions as, and will be consolidated, form a single series and rank *pari passu* with, the £100,000,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Original Bonds** and, together with the Second Issue Bonds, the **Bonds**) issued by the Issuer on 11th October, 2011 (the **Original Closing Date**).

Application has been made to the Financial Services Authority in its capacity as competent authority (the **UK Listing Authority**) under Part VI of the Financial Services and Markets Act 2000 for the Second Issue Bonds to be admitted to the official list of the UK Listing Authority (the **Official List**) and for the Second 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 Second Issue Bonds will on issue be rated A+ by Standard & Poor's Rating Services, a division of The McGraw Hill Companies Inc. (**S&P**). The rating assigned to the Bonds by S&P is primarily dependent on S&P's ratings of The Housing Finance Corporation Limited (**THFC**). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Second Issue Bonds will be represented by a global bond (the **Second Issue Global Bond**), without interest coupons, which will be deposited on or about 25th January, 2012 (the **Second Issue Closing Date** and, together with the Original 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 Second Issue Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances - see "*Summary of Provisions Relating to the Second Issue Bonds While Represented by the Second 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 Second Issue Bonds will accrue with effect from and including 11th October, 2011 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 Second Issue Bonds involves certain risks. Prospective investors should have regard to the factors described under the heading "Risk Factors" on page 6.**

**RBC CAPITAL MARKETS**

**THE ROYAL BANK OF SCOTLAND**

The date of this Offering Circular is 23rd January, 2012

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

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

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

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Second 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 Second Issue Bonds. This document does not constitute an offer, and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such an offer or solicitation is not authorised or is unlawful.

Save for the Issuer 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 Second Issue Bonds may not be offered, sold or delivered within the United States or to U.S. persons. For a further description of certain restrictions on the offering and sale of the Second Issue Bonds and on distribution of this 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 SECOND ISSUE BONDS, THE ROYAL BANK OF SCOTLAND PLC (THE STABILISING MANAGER) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) MAY OVER-ALLOT THE SECOND ISSUE BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR ANY PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE SECOND ISSUE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE SECOND ISSUE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECOND ISSUE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

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

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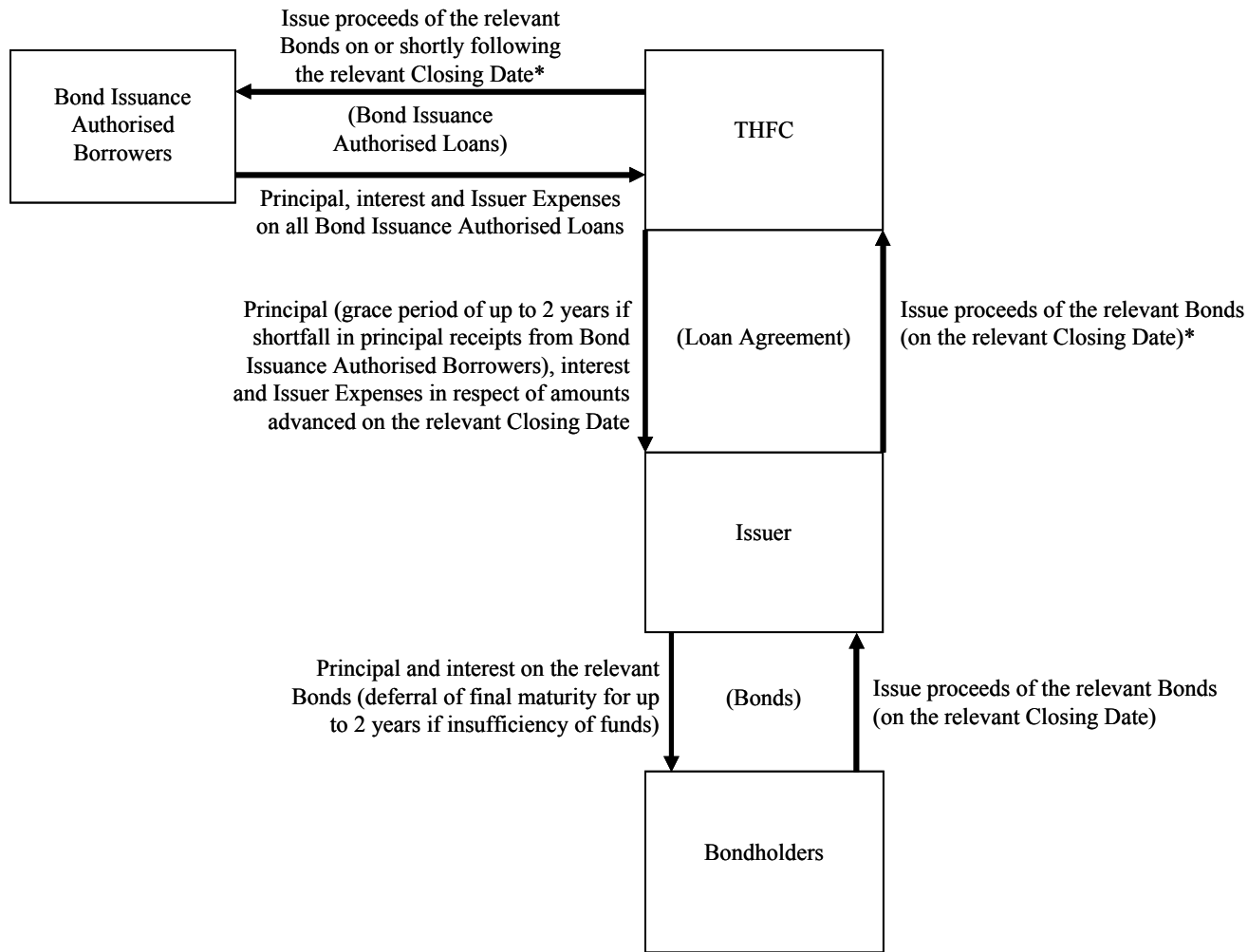
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## **TRANSACTION OVERVIEW**

*The following transaction overview does not purport to be complete, and 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:	£131,000,000 5.20 per cent. Secured Bonds due 2043/2045 (including £15,000,000 of Retained Bonds).
Form and Denomination	The Second Issue Bonds will be issued in bearer form in denomination(s) of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000. No Bonds in definitive form will be issued with a denomination above £199,000. The Second Issue Bonds will 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 Second Issue Bonds While Represented by the Second 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 April, 2012 and accruing with effect from and including 11th October, 2011.
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: <ul style="list-style-type: none"><li>(i) illegality or a tax gross up obligation under the Loan Agreement being triggered, in which event the Bonds shall be redeemed at par; or</li><li>(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</li></ul>



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

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

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

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. The Issuer will immediately purchase £15,000,000 in principal amount of the Second Issue Bonds (the **Second Issue Retained Bonds** and, together with the Original Retained Bonds, the **Retained Bonds**) from the Managers on the Second Issue Closing Date and the Second Issue 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, between the Issuer and The Bank of New York Mellon, London Branch as bond custodian (the **Custody Agreement**).

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.

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 Second Issue Bonds or, in the case of the Second Issue Retained Bonds, the gross proceeds of the sale of the Second 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 issue or sale, as applicable. THFC will lend such gross proceeds (with the exception of a sum equivalent to the 106 days' accrued interest referred to above (or, in the case of the Second Issue Retained Bonds, a sum equivalent to the relevant number of days' accrued interest), which will be retained by THFC) to the Second Bond Issuance Authorised Borrowers, as further described in "*Description of the Authorised Borrowers*", with the Second Bond Issuance Authorised Borrowers reimbursing THFC for the expenses of issue or sale, as applicable.

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 18th January, 2012 in relation to a loan agreement with THFC dated 5th October, 2011 pursuant to which the Issuer will lend the proceeds of the issue of the Second Issue Bonds (or, in the case of the Second Issue Retained Bonds, the proceeds of the sale of the Second Issue Retained Bonds to a third party) to THFC, as further described in "*Summary of the Loan Agreement*". Such moneys (with the exception of a sum equivalent to the 106 days' accrued interest referred to above (or, in the case of the Second 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 Second Bond Issuance Authorised Borrowers as further described in "*Description of the Authorised Borrowers*".

## **RISK FACTORS**

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

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

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

### **Taxation – No Gross Up**

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

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

### **Legality of Purchase**

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

### **Changes of Law**

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

### **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 credit payments which the UK government is proposing to replace it with), may increase the risks associated with this exposure.

The UK government's proposals to reform the existing housing benefit system are set out in the Welfare Reform Bill and are currently in the final stages of debate in the House of Lords, with the Bill likely to come into force in early 2012. If payments of housing benefit (or the new housing credit which is set to 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.

Once the Welfare Reform Bill becomes law, it is possible that payments of housing benefit (or the new housing credit) may be delayed as a result of, among other things, the need to reassess claimants' entitlement under the new rules. 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 credit 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. 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 are proposing to implement under the Welfare Reform Bill, this position is likely to change from 2013, and this point is discussed further below.

The Welfare Reform Bill has passed through the Committee Stage in the House of Lords. The Report Stage in the House of Lords commenced on 12th December, 2011 and, once this stage is complete, there will be a third reading and time for amendments to be considered before Royal Assent is granted.

The Welfare Reform Bill provides for size-related restrictions to be applied to benefit entitlement for working-age social housing tenants who are living in properties which have more rooms than the minimum number which their households are deemed to require. The Department for Work and Pensions originally estimated that these size-related restrictions were likely to affect 670,000 social housing tenants in England. However, amendments to these proposals were accepted by the House of Lords during the second day of the Report stage on 14th December, 2011. If included in the final Act, these amendments will mean that size-related restrictions on benefit entitlement will not be applied to under-occupying tenants if "suitable alternative accommodation" cannot be found for them, or to tenants who are deemed to have only one 'spare' room.

The Bill also provides for the introduction of Universal Credit, a new combined benefit, which is currently expected to be capped at a maximum level of £26,000 per year for couples and lone parents or £18,200 per year for single people without children. Universal Credit will include an amount in respect of housing costs, which will be known as housing credit and will ultimately replace housing benefit. The Bill 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.

The Housing Strategy recently published by the UK government 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, the Welfare Reform Bill in its current form is silent as to the continuation of direct payments to landlords and any provisions allowing for direct payments will be set out in regulations, which have not been published yet. Recent debate on the issue suggests that, under the new Act, the option to make payments directly to landlords may only be available in cases where the tenant is deemed to be vulnerable and therefore unable to manage their finances themselves, where the tenant is retired or where significant rent arrears have accumulated.

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.

In April, 2011, the Office for Tenants and Social Landlords, operating as the Tenant Services Authority, (the **TSA**) published a revision to its tenancy standard permitting registered providers to charge up to 80 per cent. of market rents and to issue less secure tenancies where the registered provider has entered into a delivery programme for the supply of new social housing with the Homes and Communities Agency (the **HCA**). Further regulatory reform is planned, as set out in "*Regulation of housing associations*" in the section headed "*Description of the Authorised Borrowers*".

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 the planned abolition of the TSA. These reports highlight that changes to the sector and proposed changes to 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 RPI, they are not subject to 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 TSA (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. The decision to increase benefits in accordance with this lower index may therefore increase the risk of rent shortfalls occurring, particularly if Authorised Borrowers choose to grant tenancies at 80 per cent. of market rent. However, in August, 2010 the Office for National Statistics indicated that it was developing an owner occupiers' housing component and exploring the scope for its inclusion in the CPI. If this is introduced the difference between CPI and RPI may therefore reduce.

## **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. 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.

## **Regulatory Risk**

The funding and regulation of housing associations continues to be subject to change. 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 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. 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.

The TSA's publication "The regulatory framework for social housing in England from April 2010" has set out the key regulatory requirements of the TSA. This document contains six regulatory standards, and has been in force since 1st April, 2010. The standards cover 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. This framework replaced almost all of the guidance published by the TSA's predecessor, the Housing Corporation. Private non-profit making registered providers are expected to comply with all six standards.

The tenancy standard was revised, with effect from 13th April, 2011, to permit registered providers to operate the UK government's affordable rent regime.

It is planned that the standards will be further amended as the Localism Act 2011 is brought into force and the further changes described below and in "*Regulation of housing associations*" in the section headed "*Description of the Authorised Borrowers*" are implemented. Revised standards are currently being consulted upon by the TSA, and will not be finalised until March, 2012. Implementation of the revised regime is planned for 1st April, 2012.

This latest round of changes is planned because, 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.

A separate committee of the HCA is to be established by statute to undertake this role, with members appointed by the Secretary of State. It is intended that there should be a greater role for tenants' panels, councillors, MPs and the Ombudsmen in identifying and dealing with consumer issues, but with a back-stop of intervention from the regulator where serious detriment to tenants is indicated. The HCA 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.



The statutory powers available to the HCA, as regulator, will be substantially the same as those 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). The statutory mechanisms to achieve these changes are set out in the Localism Act 2011, which has received Royal Assent, but is not yet fully in force.

These changes to the regulatory regime, including the proposed changes to the standards, could create uncertainty as to the expectations on registered providers.

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

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

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

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

### **Social housing grant**

English Authorised Borrowers may receive social housing assistance from the HCA, the government agency that provides funding for affordable homes in England. Grant funding can be withheld, withdrawn or required to be repaid in certain circumstances. These circumstances include, without limitation, where the TSA directs the withholding of grant (or, following the replacement of the TSA with a committee of the HCA, as explained above, where that committee 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).

### **Housing Market Risk**

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 a typical UK property decreasing by a seasonally adjusted 0.2 per cent. month on month for December, 2011. The smoother 3 month on 3 month rate of change indicated a 0.4 per cent. increase and on an annual basis, house price inflation was 1.0 per cent. for the year to December, 2011. The figures seem to indicate that the property market remains fragile and there has been no significant improvement in housing market conditions.

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, 2008).

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.

### **Liquidation Expenses**

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

As a result of the changes described above, upon the enforcement of the floating charge security granted by the Issuer 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.

## CONDITIONS OF THE SECOND ISSUE BONDS

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

The £131,000,000 5.20 per cent. Secured Bonds due 2043/2045 (the **Second Issue Bonds** and, together with the Original Bonds (as defined below), the **Bonds**, which expression shall in these Conditions, unless the context otherwise requires, include any Fungible Bonds issued pursuant to Condition 17), including the Second Issue Retained Bonds (as defined below), of T.H.F.C. (Funding No.3) Plc (the **Issuer**) are constituted and secured by a first supplemental trust deed dated 25th January, 2012 (the **First 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 First Supplemental Trust Deed is supplemental to the trust deed dated 11th October, 2011 (the **Principal Trust Deed** and, together with the First Supplemental Trust Deed, the **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**) including the Original Retained Bonds (as defined below), issued by the Issuer on 11th October, 2011 (the **Original Closing Date**).

The Second Issue Bonds will, on issue, pursuant to Condition 17, be consolidated and form a single series with the Original 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 a first supplemental paying agency agreement dated 25th January, 2012 (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 a first supplemental custody agreement dated 25th January, 2012 (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, 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 and 18th January, 2012 (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 Second 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;

**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) 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 April, 2012 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 October, 2011 and ending on but excluding the first Payment Date and each successive period beginning on and including a Payment Date and ending on but excluding the succeeding Payment Date;

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

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

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

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

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

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

**Retained Bonds** means the Original Retained Bonds and the Second Issue Retained Bonds;

**Second Issue Closing Date** means 25th January, 2012;

**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 and the second issue subscription agreement dated 23rd January, 2012 between the Issuer, THFC and the Managers; and

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

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

### **2.1 Form and Denomination**

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

### **2.2 Title**

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

### **2.3 Holder Absolute Owner**

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

### **2.4 Retained Bonds**

- (a) The Original Retained Bonds have been, and the Second 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 Second Issue Bonds bear interest from and including 11th October, 2011 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 April, 2012.

### 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 Second Issue Closing Date and each Payment Date up to, and including, the Expected Maturity Date (and, if the Bonds are not redeemed in full on the Expected Maturity Date, each Payment Date up to, and including, the Legal Maturity Date), the Issuer shall apply the Available 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 SECOND ISSUE BONDS WHILE REPRESENTED BY THE SECOND ISSUE GLOBAL BOND**

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

### **1. Exchange**

The Second Issue Global Bond and the global bond representing the Original 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 Second Issue Bonds (excluding the Second Issue Retained Bonds), being approximately £122,391,613, will be lent to THFC pursuant to the Loan Agreement on the Second Issue Closing Date. The net proceeds of the issue of such Second Issue Bonds (after taking account of the expenses of the issue) will amount to approximately £121,691,355. THFC will lend the proceeds received by it pursuant to the Loan Agreement (with the exception of a sum equivalent to 106 days' accrued interest, which will be retained by THFC) to the Second 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 Second Bond Issuance Authorised Borrowers reimbursing THFC for the expenses of the issue.

## DESCRIPTION OF THE ISSUER

### INTRODUCTION

The Issuer was incorporated under the Companies Act 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 31st December, 2011.

	<u>As at 31st December, 2011</u> (in £)
Share capital.....	12,500.00
The Original Bonds issued in 2011* .....	69,500,000.00
Total Capitalisation** .....	<u>69,512,500.00</u>

\* The figure for the Original Bonds issued in 2011 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 31st December, 2011 (being £30,500,000).

\*\* The figure for Total Capitalisation in the above table does not include an amount of £131,000,000.00 in respect of the Second Issue Bonds to be issued on the Second Issue Closing Date.

As at 31st December, 2011, other than the Original Bonds and the obligations described in this Offering Circular, the Issuer had no indebtedness, contingent liabilities, guarantees or indebtedness guaranteed by third parties.

Since 31st December, 2011, there has been no change in the capitalisation and indebtedness and the contingent liabilities and guarantees and the indebtedness guaranteed by third parties.

### BUSINESS

The Issuer was established 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	Company Director  Chief Executive, The Housing Finance Corporation Limited  Management of Special Purpose Companies
Colin John Burke	4th Floor 107 Cannon Street London EC4N 5AF	Finance Manager and Company Secretary, The Housing Finance Corporation Limited  Management of Special Purpose Companies

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

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

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

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

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

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

The Corporate Services Agreement may be terminated by:

- (a) either party upon material breach by the other party of any covenant in the Corporate Services Agreement which is not remedied within three months from notice of the material breach; or

- (b) either party upon a default leading to acceleration of the maturity of the Bonds or an event of default under the Loan Agreement.

#### **AUDITORS AND FINANCIAL STATEMENTS**

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.

Since the date of its incorporation, the Issuer has commenced operations but no financial statements of the Issuer have been prepared as of the date of this Offering Circular.



## DESCRIPTION OF THFC

### Introduction

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

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

As at 30th November, 2011, 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 £2,705 million of loans outstanding to circa 130 registered providers of social housing, registered social landlords and registered housing associations, of which £1,835 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
Gillian Rowley	4th Floor 107 Cannon Street London EC4N 5AF	Head of Private Finance, Tenant Services Authority
Deborah Shackleton	4th Floor 107 Cannon Street London EC4N 5AF	Chief Executive, The Riverside Group Limited
John Piers Williamson	4th Floor 107 Cannon Street London EC4N 5AF	Company Director  Chief Executive, The Housing Finance Corporation Limited  Management of Special Purpose Companies

### **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; and Colin Burke, a Chartered Accountant, who was appointed Finance Manager and Company Secretary in October, 2002.

## **Listed Securities**

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

Zero Coupon Debenture Stock 2012, ISIN GB0004410295;  
5% Debenture Stock 2027, ISIN GB0004410071;  
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, 2011, the consolidated share capital, reserves and indebtedness of THFC as extracted from its audited consolidated accounts were as set out in the following table:

<b>Capital and Reserves</b>	<b>31st March, 2011</b>
	£000
Called up share capital	—*
Profit and loss account	<u>10,576</u>
	<u>10,576</u>

\*As at 31st March, 2011, the authorised allotted, called up and fully paid share capital of THFC was £5 comprising five shares of £1 nominal each.

<b>Indebtedness of the THFC Group</b>	<b>31st March, 2011</b>
	£000
<b>THFC Debenture Stocks</b>	
£93,502,160      Zero Coupon Debenture Stock 2012	75,783
£50,954,200      5% Debenture Stock 2027	28,450
£24,662,500      Stepped Coupon Debenture Stock 2019	33,881
£15,000,000      12.04% Annuity Debenture Stock 2021	11,738
£172,450,000      11.5% Debenture Stock 2016	172,450
£189,100,000      8.625% Debenture Stock 2023	189,100
£8,000,000      8.8% Annuity Debenture Stock 2023	6,275
£10,000,000      10.0938% Annuity Debenture Stock 2024	8,546
£49,450,000      9.625% Debenture Stock 2025	49,450
 <b>THFC Bank Loans</b>	
£750,000      Fixed Rate Facility 2021	375
£5,000,000      Variable Rate Revolving Credit Facility 2011	5,000
£22,360,000      Fixed Rate Facility 2023 – Annuity	17,589
£30,000,000      Fixed Rate Facility 2024 – Annuity	24,006
£10,500,000      Fixed Rate Facility 2025 – Annuity	8,035
£8,700,000      Fixed Rate Facility 2028 – Bullet	8,700
£11,000,000      Fixed/Variable Rate Facility 2026	9,790
£9,860,000      Fixed/Variable Rate Facility 2028	6,740
£15,000,000      Variable Rate Facility 2029	12,427
£15,000,000      Fixed/Variable Rate	14,250
£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	44,000
£172,500,000      Fixed/Variable Rate Facility 2040	72,750
£5,000,000      Variable Rate Revolving Credit Facility 2015	—
	<hr style="border: 0.5px solid black;"/> 999,335

<b>THFC Loan from T.H.F.C. (Funding No.1) Plc</b>		
£235,205,000	Long term – 5.125% due 2035 (Bullet)	235,205
<b>THFC Loan from T.H.F.C. (Funding No.2) Plc</b>		
£339,850,000	Long term – 6.35% due 2039 (Bullet)	339,850
<b>T.H.F.C. (Social Housing Finance) Limited</b>		
<b>Debenture Stocks</b>		
£86,300,000	8.75% Debenture Stock 2016/2021	86,300
<b>Bank Loans</b>		
£4,500,000	Fixed Rate Loan 2023	1,400
£16,500,000	Fixed Rate Loan 2024	12,029
£14,900,000	Fixed Rate Loan 2025	10,938
		110,667
<b>T.H.F.C. (Indexed) Limited Indexed Linked Debenture Stock</b>		
£89,633,922	5.65% Index Linked Debenture Stock 2020	87,506
<b>T.H.F.C. (Indexed 2) Limited Indexed Linked Debenture Stock</b>		
£52,500,000	5.50% Index Linked Debenture Stock 2024	59,979
<b>T.H.F.C. (First Variable) Limited</b>		
£17,150,000	Variable Rate Loan 2023	12,431
<b>UK Rents (No. 1) PLC</b>		
£36,143,000	Rental Securitisation 2025	32,789
£723,000	Subordinated loan	723
		33,512
<b>T.H.F.C. (Capital) PLC</b>		
£212,802,000	6.38% Secured Bond 2042	212,802
£475,000,000	Fixed & Variable Rate Loans	354,250
		567,052
		2,445,537
<b>Premium/discount<sup>4</sup></b>		28,396
<b>Total</b>		2,473,933

Notes:

- As at 31st March, 2011, the balance of retained earnings on the audited unconsolidated Statement of Financial Position of THFC was £6,760,000.
- At 31st March, 2011, 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 30th November, 2011, the consolidated indebtedness of THFC as extracted from its accounting records was as set out in the following table:

<b>Indebtedness of the THFC Group</b>		<b>30th November, 2011</b>
		£000
<b>THFC Debenture Stocks</b>		
£42,256,860	Zero Coupon Debenture Stock 2012	36,096
£50,954,200	5% Debenture Stock 2027	28,711
£24,662,500	Stepped Coupon Debenture Stock 2019	33,518
£15,000,000	12.04% Annuity Debenture Stock 2021	11,445
£172,450,000	11.5% Debenture Stock 2016	172,450
£189,100,000	8.625% Debenture Stock 2023	189,100
£8,000,000	8.8% Annuity Debenture Stock 2023	6,122
£10,000,000	10.0938% Annuity Debenture Stock 2024	8,391
£49,450,000	9.625% Debenture Stock 2025	49,450
<b>THFC Bank Loans</b>		
£750,000	Fixed/Variable Rate Facility 2021	356
£22,360,000	Fixed Rate Facility 2023	16,638
£30,000,000	Fixed Rate Facility 2024	23,407
£10,500,000	Fixed Rate Facility 2025	7,856
£8,700,000	Fixed Rate Facility 2028	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 - 25 Year	14,250
£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	144,500
£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	8,250
		1,159,713
<b>THFC Loan from T.H.F.C. (Funding No.1) Plc</b>		
£235,205,000	Long term - 5.125% due 2035 (Bullet)	235,205
<b>THFC Loan from T.H.F.C. (Funding No.2) Plc</b>		
£370,850,000	Long term – 6.35% due 2039 (Bullet)	370,850
<b>THFC Loan from T.H.F.C. (Funding No.3) Plc</b>		
£100,000,000	Long term – 5.20% due 2043 (Bullet)	69,500
<b>T.H.F.C. (Social Housing Finance) Limited</b>		
<b>Debenture Stocks</b>		
£86,300,000	8.75% Debenture Stock 2016/2021	86,300
<b>Bank Loans</b>		

£4,500,000	Fixed Rate Loan 2023	1,323
£16,500,000	Fixed Rate Loan 2024	11,730
£14,900,000	Fixed Rate Loan 2025	10,654
		<hr/> 110,007
<b>T.H.F.C. (Indexed) Limited Indexed Linked Debenture Stock</b>		
£88,663,922	5.65% Index Linked Debenture Stock 2020	85,142
<b>T.H.F.C. (Indexed 2) Limited Indexed Linked Debenture Stock</b>		
£52,500,000	5.50% Index Linked Debenture Stock 2024	60,089
<b>T.H.F.C. (First Variable) Limited</b>		
£18,200,000	Variable Rate Loan 2023	11,514
<b>UK Rents (No. 1) PLC</b>		
£36,143,000	Rental Securitisation 2025	31,848
£723,000	Subordinated loan	723
		<hr/> 32,571
<b>T.H.F.C. (Capital) PLC</b>		
£212,802,000	6.38% Secured Bond 2042	212,802
£475,000,000	Fixed & Variable Rate Loans	359,000
		<hr/> 571,802
		<hr/> <b>2,706,393</b>
<b>Premium/discount</b>		<b>31,849</b>
<b>Total</b>		<hr/> <b>2,738,242</b> <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, 2011 and (in the case of indebtedness) 30th November, 2011.



## 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 Tenant Services Authority (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, any Original Retained Advance and any Second 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 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** and, together with the First Bond Issuance 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 Second Bond Issuance Authorised Loans are referred to in this Offering Circular as the **Second 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 8 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 Second 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 Second 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

<b>Authorised Borrowers</b>	<b>Authorised Loans Existing as at 31st March, 2011<sup>1</sup></b>	<b>Other Movements<sup>2</sup></b>	<b>New<sup>3</sup></b>
	£000	£000	£000
A2Dominion London Homes Limited	79,758	(91)	
A2Dominion South Limited	2,500		
Accent Nene Housing Society Limited	1,788	(13)	
Adactus Housing Association Limited	7,260	(95)	
Agudas Israel Housing Association Limited	195	(2)	
Aldwyck Housing Association Limited	2,579	(53)	
AmicusHorizon Group Limited	28,500		
Apex Housing Association Limited	10,000		
Arena Housing Group Limited	5,000		
Asra Greater London Housing Association Limited	10,000		
Axiom Housing Association Limited	21,776	(5)	
Beth Johnson Housing Association Limited	4,000		
Black Country Group Limited	7,000		
Bournville Housing Trust Limited	-	10,000	
Bromford Carinthia Housing Association	4,500		
Cambridge Housing Society Limited	4,200		
Cardiff Community Housing Association	-	7,500	
Castle Rock Edinvar Housing Association	-	5,500	
Catalyst Communities Housing Association Limited	4,085	(58)	
Charter Housing Association Limited	-	15,000	5,000
Cheviot Housing Association Limited	14,041	408	
Clanmil Housing Association Limited	15,000		
Clwyd Alyn Housing Association Limited	2,000	5,000	
Coastal Housing Group Limited	15,000		
Connect Housing Association Limited	2,750		
Connswater Homes Limited	3,000		1,000
Contour Homes Limited	2,500		
Cotman Housing Association Limited	1,500		
Cymdeithas Tai Cadwyn Limited	-		2,000
Cymdeithas Tai Clwyd Limited	1,500		

<b>Authorised Borrowers</b>	<b>Authorised Loans Existing as at 31st March, 2011<sup>1</sup></b>	<b>Other Movements<sup>2</sup></b>	<b>New<sup>3</sup></b>
	£000	£000	£000
Cymdeithas Tai Eryri Limited	4,500		
De Montfort Housing Society Limited	9,800		
Derwent Housing Association Limited	9,000	450	
Devon & Cornwall Housing Limited	2,346	19,941	
Ducane Housing Association Limited	5,000		
Dunedin Canmore Housing Association Limited	-	16,500	
Dumfries and Galloway Housing Partnership	-		40,000
East Homes Limited	1,385	(5)	
East Midlands Housing Association Limited	32,000	3,250	
Equity Housing Group Limited	8,163	(25)	
Estuary Housing	7,564	(47)	
Family Housing Association (Birmingham) Limited	6,000		
Family Mosaic Housing	43,403	(37)	
First Wessex	7,042	(39)	
Fold Housing Association Limited	-	8,000	10,000
Friendship Care and Housing Association Limited	2,000		
Gateway Housing Association Limited	1,250		
Genesis Housing Association Limited	38,500		
Glen Oaks Housing Association Limited	14,300		
Great Places Housing Association	5,271	19,930	
Habinteg Housing Association Limited	5,773	(78)	
Hafod Housing Association Limited	-	10,000	
Heantun Housing Association Limited	12,000		
Helm Housing Association Limited	10,000		
Hexagon Housing Association Limited	1,500		
Hightown Praetorian and Churches Housing Association Limited	31,100		
Home Group Limited	2,346	(59)	
Home Scotland Limited	20,000		
Innisfree Housing Association Limited	3,000		
Islington & Shoreditch Housing Association Limited	3,028	(9)	
Johnnie Johnson Housing Trust Limited	18,500		
Knightstone Housing Association Limited	23,647	(78)	
Leeds Federated Housing Association Limited	14,300		
Leeds & Yorkshire Housing Association Limited	4,750		
Leicester Housing Association Limited	21,014	(36)	
Liverpool Housing Trust Limited	7,000		
London & Quadrant Housing Trust	31,328	(48)	
Longhurst Homes Limited	9,400		
Manningham Housing Association Limited	26,969	7,554	
Melin Homes Limited	12,000		
Mercian Housing Association Limited	11,909	(144)	
Metropolitan Housing Trust Limited	44,096	13,026	
Midland Heart Limited	44,110	14,943	

<b>Authorised Borrowers</b>	<b>Authorised Loans Existing as at 31st March, 2011<sup>1</sup></b>	<b>Other Movements<sup>2</sup></b>	<b>New<sup>3</sup></b>
	£000	£000	£000
Minster General Housing Association Limited	4,993	(216)	
Moat Homes Limited	3,500		
Moseley & District Churches Housing Association Limited	3,050		
Mosscaire Housing Limited	32,968	1,849	
Network Stadium Housing Association Limited	51,708	17,809	
New Gorbals Housing Association Limited	-	4,000	10,000
Newlon Housing Trust	5,017	19,992	
Newport Housing Trust	-	1,500	
Newydd Housing Association (1974) Limited	5,000		
North Glasgow Housing Association Limited	8,000		
North London Muslim Housing Association Limited	1,000		
North Wales Housing Association Limited	2,500		
Nottingham Community Housing Association Limited	13,400		
Notting Hill Housing Trust	15,000		
Octavia Housing	2,000		
Oaklee Homes Group Limited	-	5,000	
One Housing Group	44,498	(91)	
Origin Housing Limited	5,600		
Oxford Citizens Housing Association Limited	1,500		
Paradigm Homes Charitable Housing Association Limited	60,000		
Pembrokeshire Housing Association Limited	1,000		
Penwith Housing Association Limited	5,014	(109)	
Places for People Homes Limited	22,103	(26)	
Places for People Homes Individual Support Limited	4,000		
Portal Housing Association Limited	21,000		
Sadeh Lok Housing Group Limited	650		
Salvation Army Housing Association Limited	-		3,000
Sanctuary Housing Association Limited	12,327	(310)	
Sanctuary Scotland Housing Association Limited	10,000		
Sentinel Housing Association	10,000		
South Yorkshire Housing Association Limited	4,404	(73)	
Southern Housing Group Limited	147,932	(363)	
Spirita Limited	2,490		
Staffordshire Housing Association Limited	3,800	5,000	
St Vincent 's Housing Association Limited	2,985		
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	29,747	(49)	
The Riverside Group Limited	19,275	(153)	
Thenue Housing Association	-	5,000	
Three Rivers Housing Association Limited	5,850		

<b>Authorised Borrowers</b>	<b>Authorised Loans Existing as at 31st March, 2011<sup>1</sup></b>	<b>Other Movements<sup>2</sup></b>	<b>New<sup>3</sup></b>
	£000	£000	£000
Trident Housing Association Limited	5,000		
Trinity Housing Limited	8,000	12,000	
Tuntum Housing Association Limited	7,000		
United Welsh Housing Association Limited	19,500		15,000
Venture Housing Association Limited	-	3,000	
Wales and West Housing Association Limited	9,000	7,500	
Wandle Housing Association Limited	21,418		
Waterloo Housing Association Limited	6,000		
Westcountry Housing Association Limited	37,000	10,000	
West Kent Housing Association Limited	-		25,000
West Mercia Homes Limited	12,500		
West Pennine Housing Association Limited	3,000		
Wiltshire Rural Housing Association Limited	975	(19)	
Wirral Methodist Housing Association Limited	3,200	2,000	
Womens Pioneer Housing Limited	1,000		5,000
Worthing Homes Limited	-	10,000	
Yorkshire Housing Limited	40,500		
<b>Total</b>	<b>1,570,380</b>	<b>264,321</b>	<b>116,000</b>

1 Authorised loans are derived without material change from the audited accounts of THFC dated 31st March, 2011

2 Other movements on loans during the period from 31st March, 2011 to 30th November, 2011 (inclusive)

3 New Authorised Loans are derived without material change from the Authorised Loan agreements dated 18th January, 2012

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, and further change is planned. 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 is currently proposed by the UK government, to be implemented by the Localism Act 2011 (the **2011 Act**).

### *The current regime under Part 2 of the 2008 Act*

The 2008 Act established the HCA and the TSA. In England, the HCA is now 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 is currently the regulator of housing associations in England.

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

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

The TSA's approach to regulation, as set out in its published framework, is 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 have to report annually on their performance against the TSA's standards to their tenants and the TSA has adopted a risk-based approach to regulation. There has been a move away from prescriptive regulatory requirements, and the TSA's standards are primarily focussed on outcomes. Almost all the former Housing Corporation regulatory documentation has been cancelled.

The 2008 Act introduced some new terminology. In England, registered social landlords have become 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.

Central to the regulation of housing associations is that the 2008 Act provides for the TSA to set standards for registered providers on matters such as rent levels and the criteria for allocating accommodation, as well as on matters relating to the management of their financial and other affairs. The TSA published six standards, which became effective on 1st April, 2010. These cover: 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 further revised with effect from 13th April, 2011, to permit registered providers to operate the UK government's affordable rent regime. The TSA can also publish codes of practice which relate to and may amplify these standards (although it has not done so to date). Having set these standards, the TSA can monitor compliance, and take regulatory action when they are not met. Registered providers still require consent from the TSA to dispose of social housing dwellings.

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

Providers are 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 include powers to require information, 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.

#### *Government proposals for housing association regulation*

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. It has received Royal Assent, but is not yet fully in force. It is intended that the proposed changes to regulation of social housing providers should be effective on 1st April, 2012.

A separate committee of the HCA is to be established to undertake the role of regulator. Its objectives have been slightly redefined, and split between an economic regulation objective and a consumer regulation objective.

It is planned that the current regulatory standards will be amended, and revised standards are currently being consulted upon by the TSA. They will not be finalised until March, 2012, but current indications are that there should be 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).

It is intended that there should be 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 will be supported by a back-stop of intervention from the regulator, but only where serious detriment to tenants is indicated.

The regulator will continue to provide proactive regulation of the economic standards, and in fact a slightly 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 statutory powers available to the new regulator will be largely unchanged from those of 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, rent and value for money).

### *Wales, Scotland and Northern Ireland*

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

### ***Wales***

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

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

### ***Scotland***

The Scottish Housing Regulator was established on 1st April, 2008 to exercise the functions set out in Part 3 of the Housing (Scotland) Act 2001 relating to registration, regulation and inspection of RSLs in Scotland. These powers, along with certain funding functions, had previously been exercised by Communities Scotland, which has now been abolished. The Housing (Scotland) Act 2010 received Royal Assent on 9th December, 2010 and its first provisions came into force on 3rd January, 2011 and further provisions came into force in March, April and June, 2011. This formally restates and expands the powers of the Scottish Housing Regulator. These powers include maintaining a register of Scottish RSLs and setting standards of performance, financial management and governance. The Scottish Ministers have power to set out what Scottish RSLs should achieve in a Scottish Social Housing Charter. Initial consultation on the form of Charter took place between August and November, 2010, following which a discussion paper was published in February, 2011 requesting views from RSLs and their tenants by 16th May, 2011. The formal consultation on the draft Charter commenced on 1st August 2011, and closed in November, 2011. The first Charter is expected to be submitted to the Scottish Parliament for approval in February, 2012 and is likely to come into effect on 1st April, 2012 and continue for five years until 31st March, 2017. Scottish RSLs must be not-for-profit organisations. The Housing and Regeneration Directorate is the directorate exercising the strategic housing functions of the Scottish Government under Part 5 of the Housing (Scotland) Act 2001, including functions relating to the funding of Scottish RSLs.



## *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 social housing regulator in England and, to a more limited extent, to the funding functions of the HCA (as its funding abilities are not as extensive as the HCA's). Pursuant to the Housing (Amendment) (Northern Ireland) Order 2006, the strategic and funding powers of the Department for Social Development were delegated to the Northern Ireland Housing Executive.

## 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 a further £131,000,000 (the **Second Issue Commitment** and, together with the Original Commitment, the **Commitment**). The Original Loan Agreement, as amended and restated by the First Loan Amendment and Restatement Agreement to incorporate the Second Issue Commitment, 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, subject to, *inter alia*, the issue of the Second Issue Bonds and the receipt by the Issuer of the proceeds thereof, the Issuer will make an advance of £116,000,000 in principal amount (the **Second Issue Initial Advance**) to THFC and THFC will make 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 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. The aggregate principal amount of the Original Initial Advance, the Second 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 Retained Bond Actual Advance Amount 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 First 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 Loan will bear interest from and including 11th October, 2011 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 Second Issue Loan (for the period from and including 11th October, 2011, to but excluding 11th April, 2012 and amounting to £3,016,000 (if no Second Issue Retained Advances have been made) shall be made on 4th April, 2012.

## **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 Second Issue Closing Date and on the date of each Second 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 First Loan Amendment and Restatement Agreement and the related security documents and all the costs, fees and expenses the Issuer incurs in issuing the Second Issue Bonds, selling the Second 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 law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. It is not advice, and is given for information purposes only. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may be subject to change in the future. All prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

### A. Interest on the Bonds

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

Payments of interest on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007 (the **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 HM Revenue & Customs (**HMRC**) has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Bonds on account of United Kingdom income tax at the basic rate (currently 20 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).

Bondholders may wish to note that, in certain circumstances, HMRC has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a Bondholder. Information so obtained may, in certain circumstances, be exchanged by HMRC with the tax authorities of the jurisdiction in which the Bondholder is resident for tax purposes.

#### *EU Savings Directive*

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, 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 & Customs'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 ("SDRT")**

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



## SUBSCRIPTION AND SALE

RBC Europe Limited and The Royal Bank of Scotland plc (the **Managers**) have, pursuant to a second issue subscription agreement (the **Second Issue Subscription Agreement**) dated on or about 23rd January, 2012, agreed to subscribe or procure subscribers for the Second Issue Bonds (other than the Second Issue Retained Bonds) at the issue price of 104.004 per cent. of the principal amount of the Second Issue Bonds (other than the Second Issue Retained Bonds) (plus 106 days' accrued interest in respect of the period from and including 11th October, 2011 to but excluding the Second 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 Second Issue Bonds. The Second Issue Subscription Agreement may be terminated in certain circumstances prior to the issue of the Second Issue Bonds.

### *United States*

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

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

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 Second Issue Subscription Agreement:

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

### *General*

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

## GENERAL INFORMATION

### Authorisation

1. The issue of the Second Issue Bonds was duly authorised by a resolution of the Board of Directors of the Issuer dated 9th January, 2012.

### Listing

2. The estimated cost of the admission of the Second 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 25th January, 2012 subject only to the issue of the Second Issue Global Bond. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.

### Clearing Systems

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

### No Significant Change

4. There has been no significant change in the financial or trading position of the Issuer since 7th September, 2011, the date of its incorporation, and there has been no material adverse change in the financial position or prospects of the Issuer since 7th September, 2011, the date of its incorporation.
5. There has been no significant change in the financial or trading position of THFC since 31st March, 2011 and there has been no material adverse change in the financial position or prospects of THFC since 31st March, 2011.

### Litigation

6. The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) 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.
7. THFC is not and has not been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which THFC is aware) 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

8. The current auditors of the Issuer and THFC are PricewaterhouseCoopers LLP. Since the date of its incorporation, the Issuer has commenced operations but no financial statements of the Issuer have been prepared as of the date of this Offering Circular. 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, 2009, the financial year ending on 31st March, 2010 and the financial year ending on 31st March, 2011.

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

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

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

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

### **Documents**

10. For so long as the Bonds remain outstanding, copies of the following documents will be available for inspection at the registered office of the Issuer, 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 Rules of THFC;
  - (c) the published consolidated accounts of the THFC Group for the financial years ending on 31<sup>st</sup> March, 2009, 2010 and 2011;
  - (d) 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;
  - (e) the forms of Relevant Authorised Loan Agreements and the associated security documents;
  - (f) the trust deed dated 4th July, 1995 referred to under *"Existing THFC Core Terms relating to Authorised Loans"*; and
  - (g) the fifth special supplemental trust deed dated 15th March, 2010 referred to under *"Existing THFC Core Terms relating to Authorised Loans"*.

### **Reporting**

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

### **Third Party Information**

12. In respect of the information relating to the Nationwide House Price Index on page 13 of this Offering Circular in the section headed *"Risk Factors – Housing Market Risk"*, 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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