



MOAT HOMES FINANCE PLC

(incorporated in England and Wales with limited liability under the Companies Act 2006, registered number 7743490)

£150,000,000 5 per cent. Secured Bonds due 2041

(to be consolidated and form a single series with the
£150,000,000 5 per cent. Secured Bonds due 2041)

Issue Price: 140.256 per cent.

(plus 46 days' accrued interest in respect of the period from and including 23 September 2019 to but excluding the New Bond Issue Date (as defined below) at a rate of 5 per cent. per annum)

The £150,000,000 5 per cent. Secured Bonds due 2041 (the **New Bonds**) are issued by Moat Homes Finance Plc (the **Issuer**). The New Bonds have the same terms and conditions as, and will be consolidated and form a single series and rank *pari passu* with, the £150,000,000 5 per cent. Secured Bonds due 2041 (the **Original Bonds** and, together with the New Bonds, the **Bonds**) issued by the Issuer on 23 September 2011.

This Prospectus has been approved by the Financial Conduct Authority (the **FCA**), as competent authority under Regulation (EU) 2017/1129 (the **Prospectus Regulation**). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such approval should not be considered as an endorsement of the quality of the Issuer, the Borrower (as defined below) or the securities that are subject to this Prospectus. Investors should make their own assessment as to the suitability of investing in the New Bonds.

Application has been made to the FCA for the New Bonds to be admitted to the Official List of the FCA (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for the New Bonds to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive 2014/65/EU (as amended, **MiFID II**).

An investment in the New Bonds involves certain risks. For a discussion of these risks see "Risk Factors".

Subject as set out below, the net proceeds from the issue of the New Bonds (other than a sum equivalent to 46 days' accrued interest (the **Retained Accrued Interest**) which will be retained by the Issuer), or in the case of £50,000,000 in principal amount of the New Bonds (the **New Retained Bonds**) which will be immediately purchased by the Issuer on the New Bond Issue Date the net proceeds of the sale of the New Bonds to a third party (after deduction of expenses payable by the Issuer), will be advanced by the Issuer to Moat Homes Limited (the **Borrower**) pursuant to a bond loan agreement between the Borrower and the Issuer dated 23 September 2011 (the **Original Loan Agreement**) as supplemented by a supplemental bond loan agreement to be dated the New Bond Issue Date (the **Supplemental Loan Agreement** and, together with the Original Loan Agreement, the **Loan Agreement**) to be applied in accordance with the Borrower's charitable objects.

The New Commitment (as defined in the Supplemental Loan Agreement) may be drawn in one or more drawings, each in a principal amount up to an amount which corresponds to (a) the sum of (i) the Minimum Value of the Existing Properties (as defined below) and (ii) the Minimum Value of any additional Properties (as defined below) which have been charged in favour of the Security Trustee (as defined below), and allocated for the benefit of the Issuer, (the **Additional Properties**), less (b) the principal amount of all previous drawings in respect of the Commitment (as defined below). For so long as insufficient security has been granted by the Borrower in favour of the Security Trustee and allocated for the benefit of the Issuer to permit the drawing of the New Commitment in full or the Borrower has not otherwise drawn any part of the New Commitment, the amount of the New Commitment that remains undrawn (other than the Retained Accrued Interest (as defined below)) shall (subject, in the case of any portion of the New Commitment which is to be funded by a sale of New Retained Bonds, to receipt by the Issuer of the net sale proceeds thereof) be retained in a charged account (the **Initial Cash Security Account**) of the Issuer in accordance with the terms of the Account Agreement (and may be invested in Permitted Investments (as defined below)) (the **Retained Proceeds**). For the avoidance of doubt, in the event that the Borrower has not drawn any part of the New Commitment on the New Bond Issue Date, the Retained Proceeds at that date shall be the entire amount of the New Commitment (less any amount which is to be funded by a sale of New Retained Bonds). Any Retained Proceeds (including any net sale proceeds from a sale by the Issuer of New Retained Bonds (less any Retained Bond Premium Amount (as defined below) once received by the Issuer) and any net issue proceeds from a further issue of Bonds pursuant to Condition 19 (*Further Issues*)) shall be advanced to the Borrower at a later date pursuant to the Loan Agreement, to the extent that Properties of a corresponding value have been charged in favour of the Security Trustee and allocated for the benefit of the Issuer and, if applicable, subject to the sale by the Issuer of Retained Bonds and/or the issue by the Issuer of further Bonds.

Interest on the New Bonds is payable semi-annually in arrear in equal instalments on 23 March and 23 September (each an **Interest Payment Date**) in each year at the rate of 5 per cent. per annum, commencing on 23 March 2020, as described in Condition 7 (*Interest*). Payments of principal of, and interest on, the New Bonds will be made without withholding or deduction on account of United Kingdom taxes unless required by law. In the event that any such withholding or deduction is so required, the Issuer may opt to gross up payments due to the Bondholders in respect thereof as described in Condition 10 (*Taxation*).

The Bonds may be redeemed at any time upon the prepayment by the Borrower of the loan (the **Loan**) in accordance with the terms of the Loan Agreement at the higher of their principal amount and an amount calculated by reference to the sum of (i) the yield on the relevant outstanding United Kingdom government benchmark gilt having the nearest maturity to that of the Bonds and (ii) 0.20 per cent., together with accrued interest (or, in respect of the a prepayment of the Loan following a default thereunder, at their principal amount, together with accrued interest). The Bonds will also be redeemed in full at their principal amount, plus accrued interest, in the event of a mandatory prepayment of the Loan following the Borrower ceasing to be a Registered Provider of Social Housing (other than if the Borrower regains its status as a Registered Provider of Social Housing within 180 days), the Loan becoming repayable as a result of a Borrower Default (as defined in the Loan Agreement) or any withholding or deduction on account of United Kingdom taxes being required and the Issuer not opting to pay (or having so opted to pay has notified the Bond Trustee (as defined below) of its intention to cease to pay) additional amounts in respect of such withholding or deduction.

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 23 September 2041 (the **Maturity Date**).

The Borrower has been assigned a credit rating of "A2", and it is expected that the New Bonds will also be rated "A2", by Moody's Investors Service, Inc (**Moody's**). These ratings may not reflect the potential impact of all risks related to the structure, market and other factors that may affect the value of the New Bonds. 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. As of the date of this Prospectus, Moody's is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended) (the **CRA Regulation**). As such Moody's is not included in the list of credit rating agencies published by the European Securities and Markets Authority (**ESMA**) on its website (at <https://www.esma.europa.eu/supervision/credit-rating-agencies/risk>) in accordance with the CRA Regulation. However, the application for registration under the CRA Regulation of Moody's Investors Service Limited, which is established in the European Union, disclosed the intention to endorse the global sale credit ratings assigned by its non-EU entities, including Moody's.

The New Bonds will be issued in denominations of £100,000 and integral multiples of £1,000 in excess thereof.

The New Bonds will initially be represented by a temporary global bond (the **Temporary Global Bond**), without interest coupons, which will be deposited on or about 8 November 2019 (the **New Bond Issue Date**) with a common safekeeper for Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking S.A. (**Clearstream, Luxembourg**). Interests in the Temporary Global Bond will be exchangeable for interests in a permanent global bond (the **Permanent Global Bond** and, together with the Temporary Global Bond and the permanent global bond representing the Original Bonds, the **Global Bonds**), without interest coupons, on or after 18 December 2019 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances. See "*Form of the New Bonds and Summary of Provisions relating to the New Bonds while in Global Form*".

The date of this Prospectus is 6 November 2019

This Prospectus comprises a prospectus for the purposes of the Prospectus Regulation.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

The Borrower accepts responsibility for the information contained in this Prospectus relating to it and the security created and to be created by it including, without limitation:

- (a) the information under the heading "*Factors which may affect the Borrower's ability to fulfil its obligations under the Loan Agreement*" in the section headed "*Risk Factors*";
- (b) the information relating to the security created and to be created by it pursuant to the Legal Mortgages (as defined below) under the heading "*Underlying Security*" in the section headed "*Overview*", under the heading "*Risks Relating to the Security of the Bonds*" in the section headed "*Risk Factors*" and in the section headed "*Description of the Legal Mortgages and the Security Trust Deed*";
- (c) the information in the sections headed "*Description of the Borrower*" and "*Description of the Regulation and Funding Environment applicable to the Borrower*";
- (d) its financial statements referred to in the section headed "*Documents Incorporated by Reference*"; and
- (e) the information relating to it contained under the headings "*Material or Significant Change*" and "*Litigation*" in the section headed "*General Information*",

and, to the best of its knowledge, such information is in accordance with the facts and such information makes no omission likely to affect its import.

Savills Advisory Services Limited (the *Valuer*) accepts responsibility for the information contained in the section entitled "*Valuation Report*" and, to the best of its knowledge, such information is in accordance with the facts and the section "*Valuation Report*" makes no omission likely to affect its import. With the exception of the information contained in the section "*Valuation Report*", the Valuer does not accept any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Bonds. The Valuation Report refers to the position at the date it was originally issued, and the Valuer has not taken nor is obliged to take any action to review or to update the Valuation Report.

The figures referred to in the Valuation Report in the sections entitled "*Market Commentary*" and "*Valuation Approach*" were obtained from HM Land Registry and Social Housing. The Issuer confirms that such figures have been accurately reproduced and that, as far as the Issuer is aware and is able to ascertain from information published by HM Land Registry and Social Housing, no facts have been omitted which would render the reproduced figures inaccurate or misleading.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*" below). This Prospectus should be read and construed on the basis that such documents are incorporated in, and form part of, this Prospectus.

Prudential Trustee Company Limited (the *Bond Trustee*) has not independently verified (a) the information contained herein or (b) any matter which is the subject of any statement, representation, warranty or covenant of the Issuer or the Borrower contained in the Bonds or any of the Transaction Documents (as defined below). Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Bond Trustee as to (i) the accuracy or completeness of the information contained in, or incorporated by reference in, this Prospectus or any other information provided by the Issuer or the Borrower in connection with the offering of the New Bonds or (ii) the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence of the Bonds or any Transaction Document. The Bond Trustee does not accept any liability in relation to the information contained in, or incorporated by reference in, this Prospectus or any other information provided by the Issuer in connection with the issue of the New Bonds.

No person is or has been authorised by the Issuer, the Borrower or the Bond Trustee to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the offering of the New Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Borrower or the Bond Trustee.

To the fullest extent permitted by law, the Bond Trustee does not accept any responsibility for the contents of this Prospectus or for any other statement made or purported to be made by it or on its behalf in connection with the Issuer, the Borrower or the issue and offering of the New Bonds. The Bond Trustee accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

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

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

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 New Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any New Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation

in such jurisdiction. The distribution of this Prospectus and the offer or sale of New Bonds may be restricted by law in certain jurisdictions. The Issuer, the Borrower and the Bond Trustee do not represent that this Prospectus may be lawfully distributed, or that the New Bonds may be lawfully offered or sold, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Borrower or the Bond Trustee which is intended to permit a public offering of any New Bonds or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no New Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any New Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of New Bonds.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the financial information in this Prospectus has been derived from the financial statements of the Issuer and the Borrower.

The Issuer's and the Borrower's financial year ends on 31 March, and references in this Prospectus to any specific year are to the 12 month period ended on 31 March of such year. The financial statements of the Issuer have been prepared and audited in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and (United Kingdom) Generally Accepted Accounting Principles. The financial statements of the Borrower have been prepared and audited in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, the Statement of Recommended Practice, "*Accounting by registered social housing providers*" 2014 and the Borrower Accounting Direction for Private Registered Providers of Social Housing 2019.

Certain Defined Terms and Conventions

Capitalised terms which are used but not otherwise defined in any particular section of this Prospectus will have the meanings attributed to them in the section headed "*Conditions of the New Bonds*" or any other section of this Prospectus. In addition, all references in this Prospectus to *Sterling* and £ refer to pounds sterling and all references to a billion refer to a thousand million.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments.

SUITABILITY OF INVESTMENT

The New Bonds may not be a suitable investment for all investors. Each potential investor in the New Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- (a) has sufficient knowledge and experience to make a meaningful evaluation of the New Bonds, the merits and risks of investing in the New Bonds and the information contained in this Prospectus;

- (b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the New Bonds and the impact the New Bonds will have on its overall investment portfolio;
- (c) has sufficient financial resources and liquidity to bear all the risks of an investment in the New Bonds; including where the currency for principal and interest payments is different from the potential investor's currency;
- (d) understands thoroughly the terms of the New Bonds and is familiar with the behaviour of financial markets; and
- (e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The New Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or both) of: (a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (b) a customer within the meaning of Directive (EU) 2016/97 (the *Insurance Distribution Directive*), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the *PRIIPs Regulation*) for offering or selling the New Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the New Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

MIFID II PRODUCT GOVERNANCE / PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (a) the target market of the New Bonds is eligible counterparties and professional clients only, each as defined in MiFID II; and (b) all channels for the distribution of the New Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a *distributor*) should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

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OVERVIEW

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus.

This overview must be read as an introduction to this Prospectus and any decision to invest in the New Bonds should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in "*Conditions of the New Bonds*", "*Form of the New Bonds and Summary of Provisions relating to the New Bonds while in Global Form*" and "*Description of the Loan Agreement*" shall have the same meanings in this overview.

Issuer: Moat Homes Finance Plc

Legal Entity Identifier (**LEI**): 213800OEBSZ4X3VVE789

Description of the New Bonds: £150,000,000 5 per cent. Secured Bonds due 2041 (the **New Bonds**), to be issued by the Issuer on 8 November 2019 (the **New Bond Issue Date**) (to be consolidated and form a single series with the £150,000,000 5 per cent. Secured Bonds due 2041).

£50,000,000 in principal amount of the New Bonds will be immediately purchased by or on behalf of the Issuer on the New Bond Issue Date (the **New Retained Bonds**).

Use of Proceeds: The net proceeds of the issue of the New Bonds (other than the Retained Accrued Interest (as defined below) which will be retained by the Issuer in the Transaction Account) (or, in the case of the New Retained Bonds, the net proceeds of the sale of the New Bonds to a third party (after deduction of expenses payable by the Issuer)) will be on-lent by the Issuer to the Borrower.

Subject as described in "*Initial Cash Security Account*" below, the Issuer will lend such proceeds to the Borrower pursuant to the Loan Agreement to be applied in accordance with the charitable objects of the Borrower.

The Issuer may from time to time invest the funds held in the Initial Cash Security Account and the Disposal Proceeds Account in Permitted Investments (each as defined below) until such time as such funds are on-lent, or returned, to the Borrower pursuant to the Loan Agreement.

Issue Price: 140.256 per cent. (plus 46 days' accrued interest in respect of the period from and including 23 September 2019 to but excluding the New Bond Issue Date at a rate of 5 per cent. per annum (such accrued interest, the **Retained Accrued Interest**)).

Form of Bonds: The New Bonds will be issued in bearer form as described in "*Form of the New Bonds and Summary of Provisions relating to the New Bonds while in Global Form*".

Interest: The New Bonds will bear interest at a fixed rate of 5 per cent. per annum payable semi-annually in arrear in equal instalments on 23

March and 23 September of each year, from (and including) 23 September 2019 to (but excluding) 23 September 2041 (the **Maturity Date**), subject to adjustment in accordance with Condition 8.5 (*Payment Day*) (each, an **Interest Payment Date**).

Final Redemption:

Unless previously redeemed or purchased and cancelled in accordance with Condition 9 (*Redemption and Purchase*), the Bonds will be redeemed at their principal amount on the Maturity Date.

Early Redemption:

Subject as described in "*Mandatory Early Redemption*" below, the Bonds may be redeemed at any time prior to the Maturity Date upon the optional prepayment by the Borrower of the loan (the **Loan**) in accordance with the terms of the Loan Agreement at the higher of their principal amount and an amount calculated by reference to the sum of:

- (a) the yield on the relevant outstanding UK Government benchmark conventional gilt having the nearest maturity date to that of the Bonds; and
- (b) 0.20 per cent., together with accrued interest.

Early Redemption for Tax Reasons:

The Issuer shall redeem the Bonds in whole, but not in part, at their principal amount, together with any interest accrued, if, as a result of any actual or proposed change in tax law, the Issuer determines that it would be required to make a withholding or deduction on account of tax in respect of payments to be made by it in respect of the Bonds and the Issuer does not opt to pay additional amounts pursuant to Condition 10.2 (*No obligation to pay additional amounts*) or, having so opted, notifies the Bond Trustee of its intention to cease paying such additional amounts.

Mandatory Early Redemption:

The Bonds shall be redeemed in full at their principal amount, plus accrued interest, upon the mandatory prepayment of the Loan following the Borrower ceasing to be a Registered Provider of Social Housing (other than if the Borrower regains its status as a Registered Provider of Social Housing within 180 days).

In addition, if the Loan becomes repayable as a result of a Borrower Default the Bonds shall be redeemed in full at their principal amount, plus accrued interest.

A **Borrower Default** includes non-payment, breach of other obligations, cross-acceleration, winding-up, cessation of business, insolvency, unlawfulness and breach of certain asset cover ratios, in each case as set out in Clause 13 (*Borrower Default*) of the Loan Agreement and described further in "*Description of the Loan Agreement*".

Purchase:

The New Retained Bonds will be immediately purchased by the Issuer on the New Bond Issue Date.

The Borrower and any other member of the Moat Group (other than the Issuer) may at any time purchase Bonds at any time in the open market or otherwise at any price.

Any Bonds so purchased may be surrendered to the Issuer for cancellation in consideration for an amount equal to the principal amount of the Bonds being surrendered being deemed to be prepaid under the Loan Agreement or, to the extent that no Loan is then outstanding, an amount of the Undrawn Commitment equal to the Outstanding Balance of the Bonds surrendered being deemed to be cancelled.

Events of Default:

Following an Event of Default, the Bond Trustee may, and if so requested by the holders of at least one-fourth in principal amount of the Bonds then outstanding shall (subject to it being secured and/or indemnified to its satisfaction and, upon certain events, the Bond Trustee having certified to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), give notice to the Issuer and the Bonds shall become immediately due and repayable.

The Events of Default include, inter alia, non-payment of any principal and interest due in respect of the Bonds, failure of the Issuer to perform or observe any of its other obligations under the Conditions and the Bond Trust Deed, insolvency, unlawfulness and acceleration, or non-payment, in respect of other indebtedness in an aggregate amount equal to or in excess of £10,000,000 (or its equivalent).

Upon the Bonds becoming repayable prior to the Maturity Date (other than as a result of a prepayment or termination of the Loan Agreement), the Borrower is required to prepay the Loan in full together with accrued interest and commitment fee to and including the date of redemption. The Borrower is also required to pay to the Issuer, within three Business Days of demand, the Issuer's reasonable costs, expenses and liabilities throughout the life of the Bonds.

Issuer Security:

The Issuer's obligations in respect of the Bonds are secured pursuant to the Bond Trust Deed in favour of the Bond Trustee for the benefit of itself and the Bondholders and the other Secured Parties by the following (the **Issuer Security**):

- (a) an assignment by way of security of the Issuer's rights, title and interest arising under the Loan Agreement, the Legal Mortgages, the Security Trust Deed, the Agency Agreement, the Account Agreement and the Custody Agreement, in each case to the extent they relate to the Bonds;
- (b) a charge by way of first fixed charge over all moneys and/or securities from time to time standing to the credit of the Transaction Account, the Disposal Proceeds Account, the

Initial Cash Security Account and the Custody Account and all debts represented thereby; and

- (c) a charge by way of first fixed charge over all sums held from time to time by the Paying Agents for the payment of principal or interest in respect of the Bonds.

Initial Cash Security Account: For so long as insufficient security has been granted by the Borrower in favour of the Security Trustee and allocated for the benefit of the Issuer to permit the drawing of the New Commitment in full or the Borrower has not otherwise drawn any part of the New Commitment, the amount of the New Commitment that remains undrawn (other than the Retained Accrued Interest) shall (subject, in the case of any portion of the New Commitment which is to be funded by a sale of New Retained Bonds, to receipt by the Issuer of the net sale proceeds thereof) be retained in a charged account (the **Initial Cash Security Account**) of the Issuer (and may be invested in Permitted Investments) in accordance with the terms of the Account Agreement and the Custody Agreement (the **Retained Proceeds**).

For the avoidance of doubt, in the event that the Borrower has not drawn any part of the New Commitment on the New Bond Issue Date, the Retained Proceeds at that date shall be the entire amount of the New Commitment (less any amount which is to be funded by a sale of New Retained Bonds). Any Retained Proceeds (including any net sale proceeds from a sale by the Issuer of New Retained Bonds (less any Retained Bond Premium Amount once received by the Issuer) and any net issue proceeds from a further issue of Bonds pursuant to Condition 19 (*Further Issues*)) shall be advanced to the Borrower at a later date pursuant to the Loan Agreement to the extent that Properties of a corresponding value have been charged in favour of the Security Trustee and allocated for the benefit of the Issuer and, if applicable, subject to the sale by the Issuer of New Retained Bonds and/or the issue by the Issuer of further Bonds.

Funds standing to the credit of the Initial Cash Security Account may: (a) be held on deposit, in which case they shall accrue interest at a rate to be agreed from time to time between the Issuer and the Account Bank pursuant to the Account Agreement or (b) be invested in Permitted Investments in accordance with the Custody Agreement. See "*Permitted Investments*" below.

Pursuant to the Loan Agreement, the Borrower shall pay to the Issuer a commitment fee in respect of the Undrawn Commitment on each Loan Payment Date in an amount equal to:

- (a) the aggregate of the interest payable by the Issuer under the Bonds on the following Interest Payment Date, less

- (b)
 - (i) the interest received from the Borrower under the Loan Agreement on such Loan Payment Date;
 - (ii) the interest otherwise received by the Issuer in respect of the Retained Proceeds during that period (including, but not limited to, any income received in respect of any Permitted Investments in which any Retained Proceeds are, for the time being, invested); and
 - (iii) in respect of the Interest Payment Date immediately following the New Bond Issue Date, an amount equal to the product of (x) the Retained Accrued Interest and any interest received by the Issuer in respect of the Retained Accrued Interest from the Account Bank pursuant to an Account Agreement and (y) the Retained Percentage.

See "*Description of the Loan Agreement*" below.

Disposal Proceeds Account: Pursuant to the Loan Agreement, the Borrower is required to procure that the specified asset cover ratio is maintained (see "*Description of the Loan Agreement*" below). In the event that the value of any Charged Property is insufficient to maintain the asset cover ratio, the Borrower may deposit moneys into the Disposal Proceeds Account. Such moneys will be charged in favour of the Bond Trustee pursuant to the terms of the Bond Trust Deed.

Funds standing to the credit of the Disposal Proceeds Account may: (a) be held on deposit, in which case they shall accrue interest at a rate to be agreed from time to time between the Issuer and the Account Bank pursuant to the Account Agreement or (b) be invested in Permitted Investments in accordance with the Custody Agreement. See "*Permitted Investments*" below.

Moneys standing to the credit of the Disposal Proceeds Account may be withdrawn (a) to be applied in the acquisition of Property to be charged in favour of the Security Trustee and allocated for the benefit of the Issuer or (b) to the extent that the asset cover ratio would not be breached immediately after such withdrawal.

Permitted Investments: Permitted Investments shall consist of:

- (a) triple-A rated off-shore money market funds;
- (b) direct obligations of the United Kingdom or of any agency or instrumentality of the United Kingdom which are guaranteed by the United Kingdom;
- (c) demand and time deposits in, certificates of deposit of and bankers' acceptances issued by any depositary institution or trust company with a maturity of no more than 360 days

subject to, *inter alia*, such debt obligation having a long term debt credit rating of not less than "AA" from S&P Global Ratings Europe Limited (**S&P**) and "Aa2" from Moody's or a short term debt or issuer (as applicable) credit rating of not less than "A-1" from S&P and "P-1" from Moody's (or, in each case, any other equivalent rating given by a credit rating agency registered under the CRA Regulation (an **Equivalent Rating**));

- (d) securities bearing interest or sold at a discount to the face amount thereof issued by any corporation having a long term credit rating of not less than "AA" from S&P and "Aa2" from Moody's (or an Equivalent Rating); and
- (e) commercial paper or other short-term obligations which, *inter alia*, have a short term credit rating of not less than "A-1" from S&P and "P-1" from Moody's (or an Equivalent Rating),

provided that, in the case of (b) to (e) above, such investment shall be an investment which is an obligation of the United Kingdom or a company incorporated in the United Kingdom, and in all cases, such investment shall be an investment (i) the maturity of which is no later than 23 September 2041 and (ii) which is denominated in Sterling.

In the event that any Permitted Investments are sold to fund a drawing by the Borrower pursuant to the Loan Agreement and such sale results in a loss realised by the Issuer, such drawing to be made by the Issuer to the Borrower pursuant to the Loan Agreement shall be advanced at a discount in an amount equal to the Actual Advance Amount (as defined in the Loan Agreement).

In the event that any Permitted Investments are sold to fund an advance to the Borrower pursuant to the Loan Agreement and such sale results in a gain realised by the Issuer (such gain, the **Permitted Investment Profit**), the Issuer shall advance monies to the Borrower at the principal amount requested and shall make a gift aid payment to a charitable member of the Moat Group which is connected with the Borrower for the purposes of section 939G of the Corporation Tax Act 2010 (a **Charitable Group Member**) in an amount equal to the Permitted Investment Profit.

Immediately prior to the end of each accounting period, to the extent that the Issuer would otherwise be required to recognise a profit for tax purposes in respect of its Permitted Investments and/or Retained Bonds as a result of the movement in the fair value recognised in its accounts of such Permitted Investments and/or Retained Bonds for that accounting period, the Issuer shall sell Permitted Investments in an aggregate amount equal to the Accounting Profit (as defined in the Loan Agreement) and shall, in the same accounting period, make a gift aid payment to any

Charitable Group Member in an amount equal to the Accounting Profit.

See "*Description of the Loan Agreement – Facility*".

Account Agreement and Custody Agreement

The Issuer has appointed The Bank of New York Mellon, London Branch as its Account Bank pursuant to the Account Agreement and its Custodian pursuant to the Custody Agreement.

Pursuant to the Account Agreement, the Account Bank maintains three accounts for the Issuer in respect of the Bonds: the Transaction Account, the Initial Cash Security Account and the Disposal Proceeds Account. Pursuant to the Account Agreement and the Bond Trust Deed, the Issuer has entered into certain covenants in respect of the moneys which may be credited to and debited from each Account.

Pursuant to the Custody Agreement, the Custodian shall, subject to receipt of such documents as it may require, open the Custody Account (consisting of the Disposal Proceeds Custody Sub-Account, the Initial Cash Security Custody Sub-Account, the Disposal Proceeds Cash Sub-Account and the Initial Cash Security Cash Sub-Account). The Issuer has authorised the Custodian to make payments and delivery out of the Custody Account only for the purpose of any acquisition or sale of Permitted Investments or as set out therein.

See "*Description of the Account Agreement and the Custody Agreement*" below.

Underlying Security:

The Borrower has created the following security, pursuant to the Legal Mortgages and the Security Trust Deed, in favour of the Security Trustee for the benefit of itself and the Issuer in respect of its obligations under the Loan Agreement:

- (a) first fixed legal mortgages over all of the Borrower's right, title and interest from time to time in the Mortgaged Property (as defined in the Legal Mortgages); and
- (b) first fixed charges over, *inter alia*, all plant and machinery of the Borrower which form part of the Mortgaged Property and the benefit of the Insurances (as defined in the Legal Mortgages) and all present and future licences, consents and authorisations in respect thereof,

and has covenanted that it will, following an Enforcement Event (as defined in the Legal Mortgages) which has occurred and is continuing unremedied or unwaived and has not been remedied within any applicable grace period, assign to the Security Trustee for the benefit of itself and the Issuer in respect of its obligations under the Loan Agreement, all of its rights, title and interest in and to certain agreements and covenants held by the Borrower as more particularly described in the Legal Mortgages, together, the

Underlying Security, provided that it shall be entitled to exercise all its rights and claims under or in connection therewith until a Borrower Default has occurred and is outstanding.

The Issuer has secured its rights, title and interest in respect of the Underlying Security in favour of the Bond Trustee pursuant to the Bond Trust Deed.

See "*Description of the Legal Mortgages and the Security Trust Deed*" below.

**Addition, substitution and
release of Charged
Properties:**

Pursuant to the Security Trust Deed, on or prior to creating a Legal Mortgage in respect of any Property for the benefit of the Issuer, the Borrower must, in respect of such security, provide the conditions precedent documents specified therein. In addition, pursuant to the Loan Agreement, the Borrower must provide a completed Additional Property Certificate confirming that, *inter alia*, the proposed Additional Properties are residential properties of a type and nature that are usually owned by Registered Providers of Social Housing, Valuation Reports in respect of each Additional Property and a Certificate of Title in respect of each tranche of Additional Properties charged.

At the request and expense of the Borrower, the Security Trustee shall (subject to receiving an amended Designated Properties Schedule from the Borrower and the Issuer in accordance with the Security Trust Deed) release from the relevant Security Documents (and reallocate, if applicable) such of the Properties forming part of the Issuer's Designated Security and substitute such of the Properties as may be selected by the Borrower, provided that the Borrower satisfies the conditions precedent specified in Clause 10.2 (*Substitution of Charged Properties*) of the Original Loan Agreement in relation to the Substitute Properties. Such conditions precedent include, *inter alia*, a completed Substitute Property Certificate certifying, *inter alia*, that the relevant Substitute Property is a residential property of a type and nature that is usually owned by Registered Providers of Social Housing and that, immediately following such release (and reallocation, if applicable), the Asset Cover Test will not be breached as a result of the substitution of the relevant Charged Properties, Valuation Reports in respect of each Substitute Property and a Certificate of Title in respect of the Substitute Properties.

At the request and expense of the Borrower, the Security Trustee shall release (subject to receiving an amended Designated Properties Schedule from the Borrower and the Issuer in accordance with the Security Trust Deed) from the relevant Security Documents (and reallocate, if applicable) such Charged Properties as may be selected by the Borrower provided that the Borrower delivers to the Issuer and the Security Trustee a completed Property Release Certificate, certifying that, immediately following such release (and reallocation, if applicable), the Asset Cover Test

will not be breached as a result of the release (and reallocation, if applicable) of such part of the security.

Notwithstanding the above, where any disposal is a Statutory Disposal the Borrower shall have the right to withdraw such Property from the Issuer's Designated Security. In such circumstances the Borrower is obliged to deliver, as soon as reasonably practicable after it has received notice of such Statutory Disposal, a completed Statutory Disposal Certificate to the Issuer and the Security Trustee confirming that the relevant withdrawal relates to a Statutory Disposal and, if the Statutory Disposal would result in a breach of the Asset Cover Test, confirming that it shall procure that additional Properties are charged pursuant to the Security Trust Deed and/or moneys are deposited into the Disposal Proceeds Account, in accordance with the Loan Agreement, such that any breach of the Asset Cover Test will be cured.

**Enforcement of the
Underlying Security and the
Issuer Security:**

Following a Borrower Default, the Issuer may declare the Underlying Security immediately repayable and/or declare the Loan immediately repayable. Pursuant to Clause 8.1 of the Security Trust Deed, the Security Trustee shall only be required to take action to enforce or protect the security in respect of the Loan Agreement if so instructed by the Issuer (and then only if it has been indemnified and/or secured to its satisfaction).

The Issuer has assigned its rights under, inter alia, the Legal Mortgages and the Security Trust Deed, and, pursuant to Condition 6.3, has covenanted not to take any action or direct the Security Trustee to take any action pursuant thereto except with the prior consent of the Bond Trustee. The Bond Trustee may, but is not obliged to, seek the consent of the Bondholders in accordance with the Bond Trust Deed prior to giving any such consent.

In enforcing the Issuer Security (including the Issuer's rights, title and interests in the Legal Mortgages and the Security Trust Deed insofar as they relate to the Bonds) the Bond Trustee may act in its discretion. It is, however, required to take action, pursuant to Condition 12.2, where so directed by the requisite majority of the Bondholders provided, however, that it is secured and/or indemnified to its satisfaction.

See "*Description of the Legal Mortgages and the Security Trust Deed*" below.

Priorities of Payments:

Prior to the enforcement of the Issuer Security, the Issuer shall apply the moneys standing to the credit of the Transaction Account on each Interest Payment Date and such other dates on which a payment is due in respect of the Bonds in the following order of priority (the **Pre-enforcement Priority of Payment**):

- (a) first, in payment of any taxes due and owing by the Issuer to any taxing authority (insofar as they relate to the Bonds);

- (b) second, in payment of any unpaid fees, costs, charges, expenses and liabilities incurred by the Bond Trustee (including remuneration payable to it and any Appointee) in carrying out its functions under the Bond Trust Deed;
- (c) third, in payment of any unpaid fees and expenses of the Issuer owing to the Paying Agents under the Agency Agreement, the Account Bank under the Account Agreement and the Custodian under the Custody Agreement on a *pro rata* and *pari passu* basis;
- (d) fourth, in payment of any other unpaid fees, expenses and liabilities of the Issuer (in so far as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (e) fifth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (f) sixth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (g) seventh, in payment to the Borrower of any amount due and payable under the terms of the Loan Agreement; and
- (h) eighth, in payment of any Permitted Investment Profit, Accounting Profit, Retained Bond Profit or Retained Bond Premium Amount, as the case may be, to any charitable member of the Moat Group.

Following the enforcement of the Issuer Security, all moneys standing to the credit of the Transaction Account, the Disposal Proceeds Account and the Initial Cash Security Account and the net proceeds of enforcement of the Issuer Security shall be applied in the following order of priority (the **Post-enforcement Priority of Payment**):

- (a) first, in payment of any unpaid fees, costs, charges, expenses and liabilities incurred by the Bond Trustee, any Appointee or any receiver in preparing and executing the trusts under the Bond Trust Deed (including the costs of realising any Issuer Security and the Bond Trustee's and such receiver's remuneration);
- (b) second, in payment of all amounts owing to the Paying Agents under the Agency Agreement, the Account Bank under the Account Agreement and the Custodian under the Custody Agreement on a *pro rata* and *pari passu* basis;
- (c) third, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;

- (d) fourth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (e) fifth, in payment of any other unpaid fees and expenses of the Issuer (insofar as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (f) sixth, in payment to the Borrower of any amount due and payable under the terms of the Loan Agreement; and
- (g) seventh, in payment of any Permitted Investment Profit, Accounting Profit, Retained Bond Profit, Retained Bond Premium Amount, as the case may be, to any charitable member of the Moat Group.

Status of the New Bonds:

The New Bonds and Coupons will constitute direct, secured, unsubordinated obligations of the Issuer and will rank *pari passu* among themselves and with the Original Bonds.

Covenants:

Pursuant to Condition 6 (*Covenants*), the Issuer has covenanted not to engage in any activity or do anything other than carry out the business of a company which has as its purpose raising finance and on-lending such finance for the benefit of the Borrower or perform any act incidental to or necessary in connection with the aforesaid, without the consent of the Bond Trustee.

The Issuer has also covenanted to deliver to the Bond Trustee and, upon request by a Bondholder to the Issuer, to make available to any of the Bondholders, a copy of the Compliance Certificate received from the Borrower pursuant to the terms of the Loan Agreement and a copy of the consolidated annual reports of the Borrower following publication of the same. In addition to the rights of Bondholders to convene a meeting pursuant to Condition 17 (*Meetings of Bondholders, Modification and Waiver*), at the request of the requisite majority of the Bondholders, the Issuer shall hold a meeting of the Bondholders to discuss the financial position of the Issuer and the Moat Group, provided that the Issuer shall not be required to hold any such meeting more than once in any calendar year.

In addition, the Issuer has covenanted that, for so long as any of the Bonds remain outstanding, it shall not consent to any waiver, amendment or modification of, or take any action or direct the Security Trustee to take any action pursuant to, the Loan Agreement, the Legal Mortgages or the Security Trust Deed except with the prior consent of the Bond Trustee. The Bond Trustee may seek the consent of the Bondholders in accordance with the Bond Trust Deed prior to giving any such consent.

Taxation:

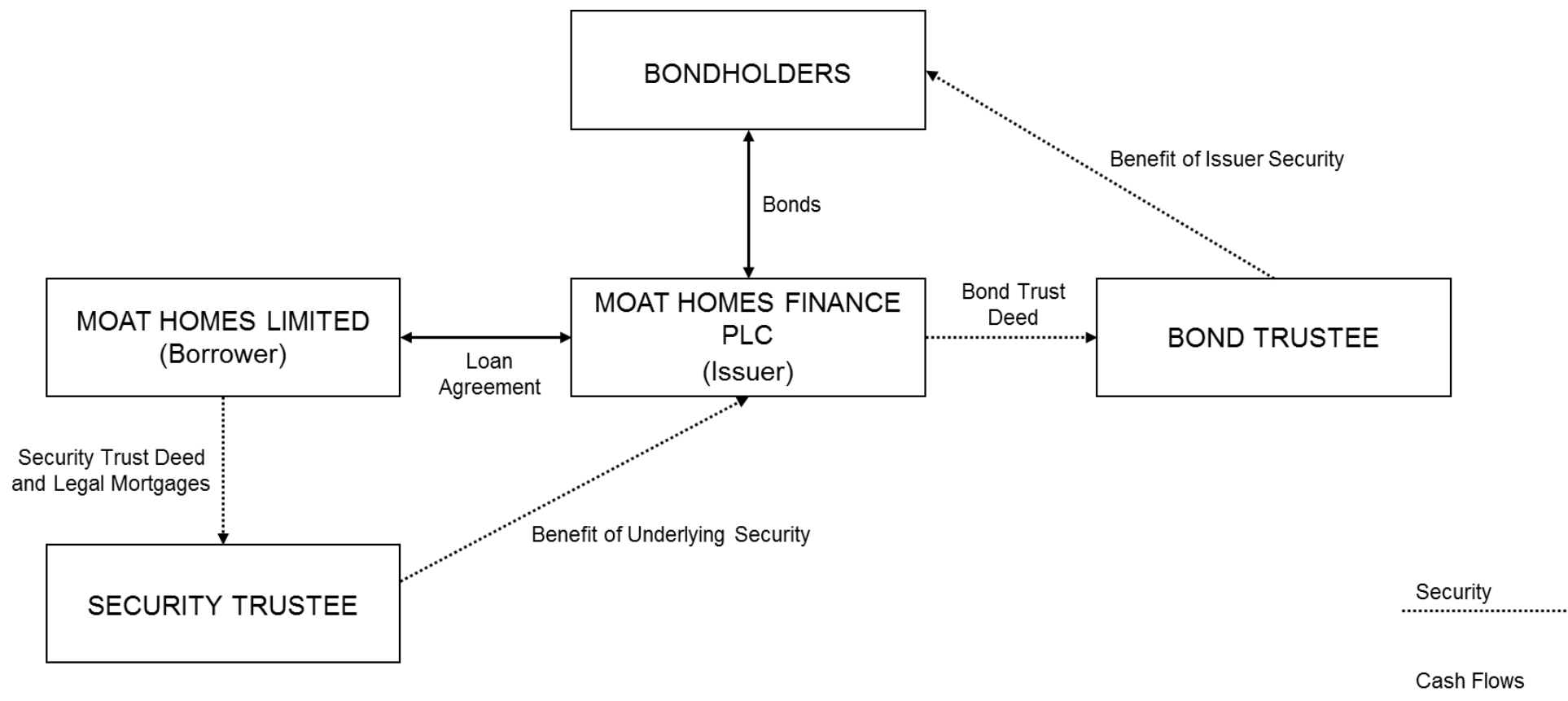
All payments in respect of the Bonds will be made without withholding or deduction for or on account of any taxes unless such withholding or deduction is required by law. In the event that any

such withholding or deduction is required, the Issuer may at its option, but will not be obliged to, pay to Bondholders such additional amounts as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction will equal the amounts of principal and interest which would have been received in respect of the Bonds in the absence of such withholding or deduction. In the event that the Issuer does not opt to pay, or opts to pay and thereafter notifies the Bond Trustee and the Bondholders of its intention to cease paying, such additional amounts the Bonds shall be redeemed at their principal amount, together with any accrued interest, in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*).

Meetings of Bondholders:	The Conditions of the Bonds and the Bond 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.
Risk Factors:	<p>There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Bonds. These are set out under "<i>Risk Factors</i>" below and include factors which may affect the Issuer's and/or the Borrower's ability to fulfil their obligations under the Bonds and the Loan Agreement, respectively, factors which are material for the purpose of assessing the market risks associated with the Bonds, risks relating to the security for the Bonds and risks relating the market generally.</p> <p>See "<i>Risk Factors</i>" below.</p>
Rating:	The Borrower is rated "A2" by Moody's and it is expected that the New Bonds will be rated "A2" by Moody's. As of the date of this Prospectus, Moody's is not established in the European Union and has not applied for registration under the CRA Regulation. However, the application for registration under the CRA Regulation of Moody's Investors Service Limited, which is established in the European Union, disclosed the intention to endorse the global sale credit ratings assigned by its non-EU entities, including Moody's.
Listing and admission to trading:	Application has been made to the FCA for the New Bonds to be admitted to the Official List and to the London Stock Exchange for the New Bonds to be admitted to trading on the London Stock Exchange's regulated market.
Principal Paying Agent:	The Bank of New York Mellon, London Branch
Account Bank:	The Bank of New York Mellon, London Branch
Custodian:	The Bank of New York Mellon, London Branch
Bond Trustee:	Prudential Trustee Company Limited

Security Trustee:	Prudential Trustee Company Limited
Borrower:	Moat Homes Limited
MiFID II Product Governance:	Solely for the purposes of each manufacturer's product approval processes, the manufacturers have concluded that: (a) the target market for the Bonds is eligible counterparties and professional clients only; and (b) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate.
Governing Law:	The New Bonds and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law.

STRUCTURE DIAGRAM OF TRANSACTION



RISK FACTORS

The Issuer believes that the following factors (which include factors which may affect the ability of the Borrower to fulfil its obligations under the Loan Agreement) may affect its ability to fulfil its obligations under the Bonds. In addition, factors which are material for the purpose of assessing the market risks associated with the New Bonds issued are also described below.

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

Factors which may affect the Issuer's ability to fulfil its obligations under the 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 and on-lending of the proceeds thereof to the Borrower. As at the date of this Prospectus, the Issuer's only source of income is moneys received from the Borrower under the Loan Agreement and, as such, the Issuer is entirely dependent upon receipt of funds received from the Borrower in order to fulfil its obligations under the Bonds, including the payment of principal and interest on the Bonds.

Credit Risk: The Issuer, and therefore payments by the Issuer to the Bondholders in respect of the Bonds, will be subject to the credit risk of the Borrower. The Issuer will be subject to the risk of delays in the receipt, or risk of defaults in the making, of payments due from the Borrower in respect of the Loan Agreement. Delays in the receipt of payments due from the Borrower under the Loan Agreement could adversely affect the ability of the Issuer to fulfil its payment obligations under the Bonds.

Effect of Losses on Loan on Interest Payments and Repayments on the Bonds: There can be no assurance that the levels or timeliness of payments of collections received in respect of the Loan will be adequate to ensure fulfilment of the Issuer's obligations in respect of the Bonds on each Interest Payment Date or on the Maturity Date. In addition, a default under the Loan Agreement could ultimately result in the enforcement of the Underlying Security. The proceeds of any such enforcement may be insufficient to cover the full amount due from the Borrower resulting in a shortfall in funds available to the Issuer to repay the Bonds.

Factors which may affect the Borrower's ability to fulfil its obligations under the Loan Agreement

Risks relating to the Borrower's business activities and industry

Shared Ownership Risk: The Borrower generates some revenue from its housing for sale programme (predominantly shared ownership) and is consequently exposed to market risk in relation to housing for sale, including both demand and pricing risks. Shared Ownership income is generated on the initial sale of the "first tranche" and subsequent sales of further "tranches" or "staircasings".

The shared ownership market is subject to the impact of falling property values and any reduction in the availability of mortgages. Shared ownership properties account for 48 per cent. of the Borrower's identified development programme as at 31 July 2019. Where shared ownership properties remain

unsold for a period longer than envisaged, the Borrower will consider a number of options that include switching tenure to market rents or affordable rent.

Significant falls in sales values caused through deterioration in the housing market could cause schemes to become loss making. This could, in turn, impact upon the Borrower's cash flow and its ability to comply with its payment obligations under the Loan Agreement, which could, in turn, adversely affect the ability of the Issuer to meet its payment obligations under the Bonds.

Outright Sales Risk: The Borrower also generates revenues from outright sales through its wholly-owned non-charitable subsidiary Moat Housing Group Limited (**MHG**) and is consequently exposed to market risk in relation to housing for sale, including both demand and pricing risks.

MHG's primary activity is the development of property for outright sale. MHG receives income from the sale of properties. The Borrower is therefore exposed to the trading performance of MHG, some of whose profits are passed on to the Borrower as gift aid payments. However, the Borrower does not rely on those payments to meet its own operating obligations.

Significant falls in sales values caused through deterioration in the housing market could cause schemes to become loss making. This could, in turn, impact upon the Borrower's cash flow and its ability to comply with its payment obligations under the Loan Agreement, which could, in turn, adversely affect the ability of the Issuer to meet its payment obligations under the Bonds.

Rental Income Risk: The majority of the Borrower's properties are social rented (general needs, sheltered housing and supported housing), all of which have a limited exposure to housing market downturn risk. Rental income from these properties provides the major source of the Borrower's income. A material reduction in rental income could impact on the Borrower's ability to meet its payment obligations generally under the Loan Agreement. The Issuer is dependent upon contributions from the Borrower under the Loan Agreement and therefore this could adversely affect the ability of the Issuer to meet its payment obligations under the Bonds.

Welfare Reform Risk: The tenants of the Borrower's properties are personally responsible for the rental payments on the relevant occupied properties. There is currently a greater risk of non-payment for those tenants who are not in receipt of full or partial housing benefit compared to tenants eligible for housing benefit which under the legacy benefit system is paid by the local authority direct to the landlord. There is also a risk that payments of housing benefit by local authorities may be delayed. In such circumstances, the non-payment, or any delay in payment, of material amounts of rental income could affect the ability of the Borrower to meet its payment obligations under the Loan Agreement.

Currently the benefit payment system is in transition to the Universal Credit system where payment of the housing cost element is paid directly to tenants by default. The risk of non-payment by tenants increases since there is a risk that some tenants may fail or be delayed in applying for Universal Credit, that a failure in the governments administrative Universal Credit processes may delay the initial payments of universal credit to tenants, or that not all tenants will use the housing cost element to pay their rent. In the event that any such tenants fail to pay rent in full on a timely basis, this could also affect the ability of the Borrower to fulfil its obligations under the Loan Agreement.

As at 31 July 2019, the Borrower estimated that 1,720 of its tenants were in receipt of Universal Credit. As at 31 July 2019, the Borrower's arrears performance including Universal Credit was 3.14 per cent.. Excluding Universal Credit, this was 2.32 per cent..

Grenfell Tower Fire: Following the Grenfell Tower fire on 14 June 2017 a number of changes have been introduced to building regulations which could lead to an increase in the cost of construction of new homes or to additional costs in relation to the refurbishment or adaptation of existing homes. The Borrower owns and/or manages 7 buildings which are either over six storeys or over 18 metres in height.

None of these blocks has Aluminium Composite Material (**ACM**) cladding and up to date fire risk assessments are in place at the buildings. Following surveys and advice from professional advisers in respect of one of the buildings, Leamington Court, the Borrower has decided (although it does not have ACM cladding) to replace the cladding because of issues with the way it has been constructed. The cost of these works is estimated at £3.8m and is allowed for in the business plan. In total the Borrower has 18 blocks that are owned and/or managed of five storeys or higher, all of which have been inspected, all have up to date fire risk assessments and none have ACM cladding.

In addition, the Borrower has residents in 35 blocks over four storeys where fire safety is the responsibility of the managing agents. Principally these are blocks where the Borrower does not own the freehold and is often not the majority landlord in the block. All of the managing agents have been contacted in writing and confirmed that fire risk assessments are in place and that cladding has been checked and is deemed compliant with current standards. There is one exception, Teatro Tower, which is a 9-storey building has partial ACM cladding on 3 of the 4 elevations but only between the first and the seventh floors with the cladding generally limited to the balcony areas of the building and not extending between the floors. The Borrower has 14 units in the building out of a total of 54 units. Of the Borrower's 14 units, 9 are rented and 5 are leaseholders. The Borrower does not own the freehold, the managing agent on behalf of the freeholder is currently out to tender for proposals to replace the ACM cladding. Given that it is ACM cladding, the works are eligible for the government funding scheme. In the event government scheme partially funds or doesn't fund at all, it's possible that the freeholder might cover the cost. If the freeholder does not cover the cost the Borrower will be liable for a share based on its 9 rented units.

It is possible that any changes required to be made to these buildings might have an impact on the financial condition of the Borrower and, in turn, the ability of the Borrower to meet its payment obligations on a timely basis under the Loan Agreement, which in turn, could adversely affect the ability of the Issuer to meet its payment obligations under the Bonds.

Right to Buy Risk: Rather than including the Right to Buy extension in legislation, there is an agreement by the social housing sector to deliver the extension voluntarily. No implementation date has been announced although a pilot scheme is underway. The exercise by tenants of the Right to Buy could also have an adverse impact on the rental cash flow (and operating margin) of the Borrower which could have an adverse impact on the ability of the Borrower to comply with its obligations under the Loan Agreement and which, in turn, could adversely affect the ability of the Issuer to meet its payment obligations under the Bonds.

Housing Grant Risk: The Borrower receives grant funding from a variety of sources. Due to the nature of grant funding, there is a risk that the amount of funding available and the terms of grants will vary. Following approval of a grant from Homes England, there is a risk that Homes England may revise the terms of a grant and reduce entitlement or suspend or cancel any instalment of such a grant. In certain circumstances, set out in the "*Capital Funding Guide and the Recovery of Capital Grants General Determination*", including, but not limited to, failure to comply with conditions associated with the grant or a disposal of the property funded by a grant, the grant may be required to be repaid or reused. Any such reduction in or withdrawal, repayment or re-use of grant funding could adversely impact the future development of the Borrower and therefore the ability of the Borrower to meet its payment obligations under the Loan Agreement and which, in turn, could adversely affect the ability of the Issuer to meet its payment obligations under the Bonds.

Housing Market and Development Risk: Residential property investment is subject to varying degrees of market, development and operational risk. Market risks which may impact upon both the rental market and the development of residential properties include the risk of changes to UK Government regulation, including, but not limited to, regulation relating to planning, taxation, landlords and tenants and welfare benefits. Furthermore, 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 (in particular house price inflation) may also have an effect.

Among other things, these market risks may impact upon the expenses incurred by the 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, its ability to sell shared ownership properties and its ability to acquire additional sites. This could, in turn, impact upon the Borrower's cash flow and its ability to satisfy any asset cover covenants which it is required to maintain pursuant to the terms of existing facility arrangements.

Legal and Regulatory Risk

Regulatory Risk: In May 2019, the Borrower had an in-depth assessment by the Regulator who published a narrative regulatory judgement for the Borrower, which concluded that both the viability and governance standards were met and awarded the Borrower (along with the other social housing entity in the Group) the highest possible scores of "G1" for governance and "V1" for viability.

Any breach of regulations could lead to the exercise of the Regulator's statutory powers. Serious non-compliance with the economic standard could lead to a downgrade of the Regulator's published regulatory judgement and agreement with the Regulator of the corrective action to be taken. Any such intervention by the Regulator in respect of the Borrower may affect the ability of the Borrower to meet its payment obligations under the Loan Agreement and could trigger an event of default under its other loan agreements. This could, in turn adversely affect the ability of the Issuer to comply with its payment obligations under the Bonds.

Risks relating to withdrawal of the UK from the European Union: On 29 March 2017, the UK invoked Article 50 of the Lisbon Treaty and officially notified the European Union (the **EU**) of its decision to withdraw from the EU. This commenced the formal two-year process of negotiations regarding the terms of the withdrawal and the framework of the future relationship between the UK and the EU, which has since been further extended to 31 January 2020.

Due to the on-going political uncertainty as regards the terms and the timing of the UK's withdrawal from the EU and the structure of the future relationship, the precise impact on the business of the Borrower is difficult to determine. As such, no assurance can be given that such matters would not adversely affect the ability of the Borrower to meet its obligations under the Loan Agreement, and therefore adversely affect the ability of the Issuer to meet its obligations under the Bonds and/or the market value and/or the liquidity of the Bonds in the secondary market.

Legal and Compliance Risk:

The Borrower knows the significance to its operations of, and is focused on, adhering to all legal and compliance legislation, in particular those in relation to health and safety including gas safety, fire safety, asbestos and legionella. The Borrower is not currently aware of any material failure to adhere to applicable health and safety or environmental laws, litigation or breach of regulatory laws, or failure to comply with corporate, employee or taxation laws that has not already been reported and accounted for. If any of this were to occur in the future, this could have an adverse impact on the Borrower's results or operations and could adversely affect its ability to comply with its payment obligations under the Loan Agreement, which in turn, could affect the ability of the Issuer to meet its payment obligations to Bondholders in respect of the Bonds.

To date, claims made against the Moat Group have not had a material impact on the revenue or business of the Moat Group, although there can be no assurance that the Moat Group will not, in the future, be subject to a claim which may have a material impact upon its revenue or business.

Risks relating to the Borrower's financial situation

Capital Resources and Treasury Risk: The Borrower currently relies on financing through committed lines of credit from major banks and building societies, and through revolving debt (all of which is secured). However, the Borrower could find itself unable to access sources of financing if bank or building society lines become unavailable to the Borrower (for example, if banks and building societies are unable to provide new, or extend existing facilities, or unable to meet commitments to provide funds under existing committed lines) or if a reduction in the Borrower's credit rating makes the cost of accessing the public and private debt markets prohibitive.

The Borrower is also subject to interest rate risk in respect of its variable rate borrowing. As at 31 March 2019, approximately 78 per cent. of the Moat Group's borrowings were capped or fixed rate debt.

The Borrower has entered into a number of standalone interest rate hedges to reduce interest rate risk volatility and uncertainty within the parameters of its treasury policy. The Borrower is therefore exposed to negative mark-to-market exposure that may result in cash being required to be posted as collateral. The Borrower is also subject to counterparty credit risk with the banks and/or building societies that provide standalone derivatives and/or cash deposit facilities and this risk is monitored on a regular basis.

Pensions Risk: The Borrower and its subsidiaries participate in a number defined benefit pension schemes in respect of which there are net liabilities (see "*Description of the Borrower – Pensions*" below).

There may be certain circumstances in which the sponsoring employers of the Borrower's pension arrangements are required to make good the funding deficit. Certain forms of restructuring of the Borrower may result in circumstances in which a funding deficit has to be met. For example, a transfer of engagements or a transfer under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006/246).

There is also a risk that the Borrower could be required to contribute to pension schemes on the basis that they are parties "connected to" or "associated with" the relevant employers, whether or not they themselves are classified as "employers". The Pensions Regulator may require certain parties to make contributions to certain pension schemes that have a deficit by serving a contribution notice or financial support direction.

If a contribution notice or financial support direction were to be served on the Borrower, this could have an adverse impact on cash flow. Specifically, if the amount payable under a contribution notice or support direction was material, this could adversely affect their ability to meet their payment obligations under their financing arrangements.

Permitted Reorganisations: The Loan Agreement permits the Borrower to undertake Permitted Reorganisations. In such circumstances, the resulting entity's credit risk may change.

Internal control risk

Business Interruption Risk: Business interruption may result from major systems failure or breaches in systems security, data breaches, cyber fraud and other cyber business disruptions and the consequences of theft, fraud, health and safety and environmental issues, natural disaster and acts of terrorism. The precise impact on the business of the Issuer will depend on the severity and duration of any such events and mitigation action taken, but there such events could have an adverse impact on the Borrower's results or operations and could adversely affect the ability of the Borrower to meet its obligations under the Loan Agreement or, consequently, the ability of the Issuer to meet its obligations under the Bonds and/or the market value of the Bonds in the secondary market.

Factors which are material for the purpose of assessing the market risks associated with the Bonds

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

Redemption prior to maturity: In the event that the Bonds become repayable prior to maturity either following the Loan becoming repayable as a result of a Borrower Default (which includes, *inter alia*, failure by the Borrower to make payments of interest under the Loan Agreement) or an Event of Default (as defined in Condition 12 (*Events of Default and Enforcement*)) or due to taxation (pursuant to Condition 9.3 (*Early Redemption for Tax Reasons*)), the Bonds will be redeemed in full at their principal amount, plus accrued interest. In such circumstances it may not be possible for an investor to reinvest the redemption proceeds at an effective rate of interest as high as the interest rate on the Bonds. Furthermore, the optional redemption feature of the Bonds is likely to limit their market value as the market value generally will not rise substantially above the price at which they can be redeemed.

Modification, waivers and substitution: The Conditions of the Bonds and the Bond 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 Conditions of the Bonds and the Bond Trust Deed also provide that the Bond Trustee may, without the consent of Bondholders (a) agree to any modification (except as stated in the Bond Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Bonds or any Transaction Document or (b) determine without the consent of the Bondholders that any Potential Event of Default or Event of Default shall not be treated as such or (c) agree to the substitution of another company, registered society or other entity as principal debtor under the Bonds in place of the Issuer, in the circumstances described in the Conditions, provided, in each case, that the Bond Trustee is of the opinion that to do so would not be materially prejudicial to the interests of Bondholders.

Denominations involve integral multiples: definitive Bonds: The Bonds have denominations consisting of a minimum of £100,000 plus one or more higher integral multiples of £1,000. It is possible that the Bonds may be traded in amounts that are not integral multiples of £100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than £100,000 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 £100,000.

If definitive Bonds are issued, holders should be aware that definitive Bonds which have a denomination that is not an integral multiple of £100,000 may be illiquid and difficult to trade.

Change in Law: Changes in law may affect the rights of Bondholders as well as the market value of the Bonds. The structure of the issue of the Bonds is based on English law, regulatory and administrative practice in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or regulatory or administrative practice in the United Kingdom after the date of this Prospectus. Such changes in law may include changes in statutory, tax and regulatory regimes during the life of the Bonds, which may have an adverse effect on an investment in the Bonds.

Taxation: Under the Conditions of the Bonds (see Condition 10 (*Taxation*) below), the Issuer may, but will not be obliged to, gross up payments in respect of the Bonds if any deduction or withholding on account of tax is imposed. In the event that any deduction or withholding on account of tax is imposed and the Issuer does not opt to gross up payments in respect of the Bonds (or, if having previously opted to gross up notifies the Bond Trustee and the Bondholders of its intention to cease grossing up payments

in respect of the Bonds), the Bonds will be redeemed in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*). In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds. In addition, any amounts in respect of accrued interest which fall due on any such redemption of the Bonds (and, where the redemption follows the next following Interest Payment Date, such Interest Payment Date) shall be paid subject to the required withholding or deduction and the Issuer shall not be obliged to pay any additional amounts in respect thereof. The Bondholders will therefore bear the risk of any such withholding or deduction in respect of the period from the previous Interest Payment Date to the date of redemption.

The Loan Agreement requires that if any withholding or deduction is required by law to be made by the Borrower thereunder, the amount of the payment due from the Borrower shall be increased to an amount which (after making the tax deduction) leaves an amount equal to the payment which would have been due if no tax deduction had been required.

For a description of the current United Kingdom law and practice relating to withholding tax treatment of the Bonds, see below in "*Taxation*".

Exchange rate risks and exchange controls: The Issuer pays and will pay principal and interest on the Bonds in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (a) the Investor's Currency-equivalent yield on the Bonds, (b) the Investor's Currency-equivalent value of the principal payable on the Bonds and (c) the Investor's Currency-equivalent market value of the Bonds. The UK Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Risks Relating to the Security of the Bonds

Considerations relating to the Issuer Security and the Underlying Security: The validity of any Underlying Security given by the Borrower in connection with additions and substitutions of Charged Properties may depend on the solvency of the Borrower at the time of the grant. If any security is found to be invalid as a result, this will affect the amounts available to Bondholders in the event of a default under the Bonds.

Environmental Considerations: Under relevant UK environmental legislation, liability for environmental matters can be imposed on the "owner" or any "person in control" of land. The term "owner" is not specifically defined and could include anyone with a proprietary interest in a property, which could include a representative of a trustee as a mortgagee in possession (in respect of which see the risk factor entitled "*Mortgagee in Possession Liability*" below). Environmental laws may impose liability on the owner for clean-up costs if a property is or becomes contaminated. The Borrower may therefore be liable for the entire amount of the clean-up and redemption costs for a contaminated site regardless of whether the contamination was caused by it or not. These costs may be significant and may affect the ability of the Borrower to meet its payment obligations under the Loan Agreement and, in turn, the ability of the Issuer to meet its payment obligations under the Bonds.

In addition, the presence of hazardous or toxic substances, or the failure to adequately remedy adverse environmental conditions at a Charged Property, may adversely affect the market value of the Charged Property, as well as the Borrower's ability to sell, lease or refinance the Charged Property.

Any environmental liability imposed on the Borrower could also affect the ability of the Borrower to meet its payment obligations under the Loan Agreement and, in turn, the ability of the Issuer to meet its payment obligations under the Bonds.

Sufficiency of Insurance: Although each Charged Property is required to be insured at appropriate levels and against customary risks, there can be no assurance that any loss incurred will be of a type covered by such insurance, nor can there be any assurance that the loss will not exceed the limits of such insurance. Any reduction in income or any loss or damage caused to a Charged Property not adequately covered by insurance could result in a shortfall in funds available to meet the Borrower's payment obligations under the Loan Agreement and, in turn, a shortfall in funds available to meet the Issuer's payment obligations under the Bonds.

Investment of Retained Proceeds in Permitted Investments: For so long as any part of the net proceeds of the issue of the New Bonds remains undrawn pursuant to the Loan Agreement, the Issuer may invest such amounts in Permitted Investments in accordance with the Custody Agreement.

Although Permitted Investments are limited to highly rated securities which satisfy certain specified criteria, the Issuer may be required to liquidate such Permitted Investments (a) prior to the enforcement of the Issuer Security, to fund advances to the Borrower pursuant to the Loan Agreement or to fund redemptions of the Bonds in accordance with the Conditions or (b) following the enforcement of the Issuer Security, to make payments in accordance with the Post-enforcement Priority of Payment, in either case at a time when the disposal proceeds of such Permitted Investments is less than the price paid by the Issuer upon the acquisition thereof.

Prior to the enforcement of the Issuer Security, any losses realised by the Issuer in respect of a sale of Permitted Investments purchased with Retained Proceeds is passed on to the Borrower pursuant to the terms of the Loan Agreement as a result of (i) the Issuer's obligation to fund a principal amount of an advance being such that it may be satisfied by funding such advance at a discount in proportion to any such losses and (ii) the Borrower's obligation to make further payments to the Issuer in respect of any prepayment of the loan in full to enable the Issuer to fund any shortfall on a redemption of the Bonds. However, following the enforcement of the Issuer Security, any losses in respect of the Permitted Investments will reduce the amounts available to the Issuer to satisfy its payment obligations in respect of the Bonds. For the purpose of calculating the Borrower's compliance with the Asset Cover Test, the value of such Permitted Investments will be the purchase price thereof and the Borrower shall not be required to monitor the market value of such Permitted Investments. Consequently, the value attributed to the Permitted Investments for this purpose may be more than the realisable value from time to time.

In the event that the enforcement of the Issuer Security takes place prior to Properties being charged with an aggregate Minimum Value equal to the principal amount of the Bonds, and/or at a time when the Permitted Investments have been acquired with the disposal proceeds or otherwise charged by the Borrower as security, the value of the proceeds of enforcement of the Underlying Security, together with such amounts, may be insufficient to enable the Issuer to pay its obligations under the Bonds in full. There is no limit as to the proportion of the Asset Cover Test which may be satisfied by Permitted Investments in the form of Retained Proceeds and/or Charged Cash (although, in respect of Retained Proceeds, these will be deemed to be zero after the Final Charging Date).

The Issuer's ability to meet its obligations under the Bonds after enforcement under the Loan: Following default by the Borrower, the Security Trustee may enforce the Underlying Security and appoint a Receiver pursuant to its powers under the Security Trust Deed.

The Issuer's ability to continue to pay principal and interest on the Bonds following default by the Borrower under the Loan is dependent upon the ability of the Issuer to receive from the Security Trustee

pursuant to the collection of rental income or a disposal of the Underlying Security, sufficient funds to make such payment.

Fixed charges may take effect under English law as floating charges: Pursuant to the Bond Trust Deed, the Issuer has purported to grant fixed charges over, amongst other things, all rights and benefits under the Transaction Account, the Disposal Proceeds Account and the Initial Cash Security Account. English law relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than assignment of security) may take effect under English law only as floating charges if, for example, it is determined that the Bond Trustee does not exert sufficient control over the charged assets for the security to be said to "fix" over those assets. If the charges take effect as floating charges instead of fixed charges, then the claims of the Bond Trustee will be subject to claims which are given priority over a floating charge by law, including, amongst other things, prior charges, certain subsequent charges, the expenses of any winding up or administration and the claims of preferential creditors. Consequently, there may be less moneys available to pay Bondholders what is owed to them under the Bonds.

Mortgagee in Possession Liability: There is a risk that the Security Trustee may be deemed to be a mortgagee in possession if it physically enters into possession of a Charged Property or performs an act of control or influence which may amount to possession, such as submitting a demand direct to tenants requiring them to pay rents to the Security Trustee. In such circumstances the Security Trustee may incur further costs and expenses which will be recoverable by it from the enforcement proceeds prior to any payment being made to Bondholders, thereby reducing the amounts available to pay amounts owing under the Bonds.

Moratorium and housing administration: The Security Trustee must notify the Regulator of its intention to enforce its security and cannot enforce its security during the resulting moratorium without the consent of the Regulator. This may adversely affect the Security Trustee's ability to enforce the security over the Charged Properties.

The Security Trustee's ability to ability to enforce the security over the Charged Properties may also be adversely affected for so long as any housing administration order is in place in respect of the Borrower or could result in a housing administrator disposing of Charged Property belonging to the Borrower at a time when proceeds are not sufficient to discharge the Issuer's obligations under the Bonds.

Risks Relating to the Market Generally

Potential Limited Liquidity: The New Bonds may not have an established market when issued. There can be no assurance of a secondary market for the New Bonds or the continued liquidity of such market if one develops. The development or continued liquidity of any secondary market for the New Bonds will be affected by a number of factors such as the state of credit markets in general and the Borrower's creditworthiness, as well as other factors such as the time remaining to the maturity of the Bonds.

Credit ratings may not reflect all risks: The Borrower is currently rated "A2" by Moody's and the New Bonds are expected to be rated "A2" by Moody's. These ratings may not reflect the potential impact of all risks related to the structure, market and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the assigning rating agency at any time. As of the date of this Prospectus, Moody's is not established in the European Union and has not applied for registration under the CRA Regulation. However, the application for registration under the CRA Regulation of Moody's Investors Service Limited, which is established in the European Union, disclosed the intention to endorse the global sale credit ratings assigned by its non-EU entities, including Moody's.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in

the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended). If the endorsement by Moody's Investors Service Limited or its status changes, European regulated investors may no longer be able to use the rating for regulatory purposes and the Bonds may have a different regulatory treatment. This may result in European regulated investors selling Bonds held by them which may have an impact on the value of the Bonds in the secondary market.

CONDITIONS OF THE NEW BONDS

The following are the Conditions of the New Bonds which will be endorsed on each Bond in definitive form (if issued).

The £150,000,000 5 per cent. Secured Bonds due 2041 (the **New Bonds**, and together with the Original Bonds (as defined below), the **Bonds**) of Moat Homes Finance Plc (the **Issuer**) are constituted by a Supplemental Bond Trust Deed dated 8 November 2019 (such Supplemental Bond Trust Deed as modified and/or supplemented and/or restated from time to time, the **Supplemental Bond Trust Deed**) made between the Issuer and Prudential Trustee Company Limited (the **Bond Trustee**, which expression shall include any successor as Bond Trustee) 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 Supplemental Bond Trust Deed is supplemental to the Bond Trust Deed dated 23 September 2011 (such Bond Trust Deed as modified and/or supplemented and/or restated from time to time, the **Original Bond Trust Deed** and, together with the Supplemental Bond Trust Deed, the **Bond Trust Deed**) made between the same parties and constituting the £150,000,000 5 per cent. Secured Bonds due 2041 (the **Original Bonds**) issued by the Issuer on 23 September 2011. The New Bonds are consolidated and form a single series, and rank *pari passu*, with the Original Bonds.

The Bonds have the benefit of an Agency Agreement dated 23 September 2011 (such Agency Agreement as supplemented on 8 November 2019 and as further amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) and made between the Issuer, the Bond Trustee, The Bank of New York Mellon as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Copies of the Bond Trust Deed, the Agency Agreement, the Loan Agreement, the Legal Mortgages and the Security Trust Deed are available for inspection during normal business hours at the registered office for the time being of the Bond Trustee being at the date of the issue of the New Bonds at 10 Fenchurch Avenue, London EC3M 5AG and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Bond Trust Deed and the Agency Agreement. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Bond Trust Deed, which includes the form of the Bonds.

1 DEFINITIONS

Words and expressions defined in the Bond Trust Deed or the Agency Agreement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated.

In these Conditions:

Account Agreement means the Account Agreement dated 23 September 2011 and made between the Issuer, the Bond Trustee and the Account Bank, as supplemented on 8 November 2019 and as further amended and/or supplemented and/or restated from time to time;

Account Bank means The Bank of New York Mellon, London Branch as account bank pursuant to the Account Agreement or any successor account bank appointed thereunder;

Accounting Profit has the meaning given to it in the Loan Agreement;

Appointee means any attorney, manager, agent, delegate, nominee, custodian, receiver or other person appointed by the Bond Trustee under, or pursuant to, these Conditions or the Bond Trust Deed;

Bondholder Specific Withholding means any withholding or deduction of Taxes which is required in respect of any payment in respect of any Bond or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Bond or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Bond or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Day (as defined in Condition 8.5 (*Payment Day*)).

Borrower means Moat Homes Limited, as borrower under the Loan Agreement;

Borrower Default has the meaning given to it in the Loan Agreement;

Cancelled Retained Proceeds has the meaning given to it in the Loan Agreement;

Charged Disposal Proceeds means, at any time, the aggregate of all amounts (whether representing proceeds of disposal or other moneys) standing to the credit of the Disposal Proceeds Account and, to the extent invested in Permitted Investments in accordance with the Custody Agreement, such Permitted Investments and any income received by the Issuer in respect of such Permitted Investments, provided however that, for the purpose of determining the Borrower's compliance with the Asset Cover Test (as defined in the Loan Agreement), the value to be attributed to such Permitted Investments shall be the purchase price thereof;

Compliance Certificate has the meaning given to it in the Loan Agreement;

Custodian means The Bank of New York Mellon, London Branch as custodian pursuant to the Custody Agreement or any successor custodian appointed thereunder;

Custody Account means the account of the Issuer set up with the Custodian in respect of the Permitted Investments in accordance with the Custody Agreement;

Custody Agreement means the Custody Agreement dated 23 September 2011 and made between the Issuer, the Bond Trustee and the Custodian, as supplemented on 8 November 2019 and as further amended and/or supplemented and/or restated from time to time;

Disposal Proceeds Account means the account of the Issuer set up with the Account Bank in respect of the Charged Disposal Proceeds in accordance with the Account Agreement;

Initial Cash Security Account means the account of the Issuer set up with the Account Bank in respect of the Retained Proceeds in accordance with the Account Agreement;

Issuer Charged Property has the meaning given to it in Condition 4;

Issuer Security has the meaning given to it in Condition 4;

Legal Mortgages means the Legal Mortgages dated 23 September 2011 and 8 November 2019 and made between the Borrower and the Security Trustee pursuant to which the Borrower provides security in respect of its obligations under the Loan Agreement and any additional legal mortgage entered into between the Borrower and the Security Trustee substantially in the form set out in the Security Trust Deed pursuant to which the Borrower provides security in respect of its obligations under the Loan Agreement;

Loan means the loan made by the Issuer to the Borrower pursuant to the terms of the Loan Agreement;

Loan Agreement means the Bond Loan Agreement dated 23 September 2011, as supplemented on 8 November 2019, between the Issuer, the Borrower and the Security Trustee;

Loan Payment Day means a day on which principal or interest in respect of the Loan is due and payable by the Borrower to the Issuer in accordance with the terms of the Loan Agreement;

Moat Group means the Borrower and any other present or future, direct or indirect, subsidiaries of the Borrower (which includes, for the avoidance of doubt, any entity with which the Borrower may merge or be consolidated with at any time including as a result of a Permitted Reorganisation);

New Bond Issue Date means 8 November 2019;

New Retained Bonds means the £50,000,000 in principal amount of the New Bonds purchased by the Issuer on the New Bond Issue Date;

Original Issue Date means the issue date of the Original Bonds, being 23 September 2011;

Original Retained Bonds means the £50,000,000 in principal amount of the Existing Bonds purchased by the Issuer on the Original Issue Date;

Permitted Investments has the meaning given to it in the Loan Agreement;

Permitted Investment Profit means, in respect of any sale of Permitted Investments, the amount by which the sale price of such Permitted Investments exceeds the original purchase price of such Permitted Investments (if any);

Permitted Reorganisation has the meaning given to it in the Loan Agreement;

Potential Event of Default means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the forming of an opinion and/or the fulfilment of any similar condition, would constitute an Event of Default;

Registered Provider of Social Housing has the meaning given to it in the Loan Agreement;

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 Principal Paying Agent or the Bond 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 15 (*Notices*);

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 or Coupons.

Retained Accrued Interest means, in respect of the New Bonds, an amount equal to 46 days' accrued interest in respect of the period from, and including, 23 September 2019 to but, excluding, the New Bond Issue Date;

Retained Bond Premium Amount means, in respect of any sale by the Issuer of Retained Bonds, the amount by which the net sale price of such Retained Bonds exceeds the principal amount of such Retained Bonds (if any);

Retained Bond Profit has the meaning given to it in the Loan Agreement;

Retained Bonds means the Original Retained Bonds and the New Retained Bonds;

Retained Proceeds means, at any time, (a) an amount of the net issue proceeds of the Bonds (other than the Retained Bonds and the Retained Accrued Interest in respect of the Bonds (other than the Retained Bonds)) which have not been advanced to the Borrower pursuant to the Loan Agreement at such time (if any) plus (b) an amount of the net sale proceeds of the Retained Bonds (less any Retained Bond Premium Amount) which are not advanced to the Borrower pursuant to the Loan Agreement immediately following receipt thereof by the Issuer and have not subsequently been advanced to the Borrower (if any);

Secured Parties means the Bond Trustee (for itself and on behalf of the Bondholders and Couponholders), the Principal Paying Agent, the other Paying Agents, the Account Bank and the Custodian;

Security Trust Deed means the Security Trust Deed dated 2 July 2008 between, *inter alios*, the Borrower and the Security Trustee (as amended from time to time);

Security Trustee means Prudential Trustee Company Limited as security trustee under the Security Trust Deed for, *inter alios*, the Issuer;

Taxes has the meaning given to it in Condition 10.1 (*Payments without withholding*);

Transaction Account means the account of the Issuer set up with the Account Bank in respect of the Bonds in accordance with the Account Agreement;

Transaction Documents means the Loan Agreement, the Bond Trust Deed, the Security Trust Deed, the Agency Agreement, the Account Agreement and the Custody Agreement;

Transaction Parties means any person who is party to a Transaction Document; and

UK Government Gilt means Sterling denominated gilts or stock issued by or on behalf of Her Majesty's Treasury.

2 FORM, DENOMINATION AND TITLE

The Bonds are in bearer form, serially numbered, in the denomination of £100,000 and integral multiples of £1,000 in excess thereof up to and including £199,000, with Coupons and Talons attached on issue. No Bonds will be issued with a denomination above £199,000.

Title to the Bonds and Coupons will pass by delivery. The Issuer, any Paying Agent and the Bond Trustee will (except as otherwise required by law) deem and treat the bearer of any Bond or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes.

3 STATUS

The Bonds and Coupons are direct obligations of the Issuer, secured in the manner set out in Condition 4 (*Security*), and rank *pari passu* without preference or priority amongst themselves.

4 SECURITY

The Issuer's obligations in respect of the Bonds are secured (subject as provided in these Conditions and the Bond Trust Deed) pursuant to the Bond Trust Deed in favour of the Bond Trustee for the benefit of itself and the Bondholders and the other Secured Parties as follows:

- (a) by an assignment by way of security of the Issuer's rights, title and interest arising under the Loan Agreement, the Security Trust Deed, the Legal Mortgages, the Agency Agreement, the Custody Agreement and the Account Agreement, in each case to the extent they relate to the Bonds;
- (b) by a charge by way of first fixed charge over all moneys and/or securities from time to time standing to the credit of the Transaction Account, the Disposal Proceeds Account, the Initial Cash Security Account and the Custody Account and all debts represented thereby; and
- (c) by a charge by way of first fixed charge over all sums held from time to time by the Paying Agents for the payment of principal or interest in respect of the Bonds.

The property charged and assigned pursuant to the Bond Trust Deed listed in (a) to (c) above, together with any other property or assets held by and/or assigned to the Bond Trustee and/or any deed or document supplemental thereto, is referred to herein as the **Issuer Charged Property** and the security created thereby, the **Issuer Security**.

5 ORDER OF PAYMENTS

5.1 Pre-enforcement

Prior to the enforcement of the Issuer Security, the Issuer shall apply the monies standing to the credit of the Transaction Account on each Interest Payment Date and such other dates on which a payment is due in respect of the Bonds in the following order of priority (the **Pre-enforcement Priority of Payment**):

- (a) first, in payment of any taxes due and owing by the Issuer to any taxing authority (insofar as they relate to the Bonds);

- (b) second, in payment of any unpaid fees, costs, charges, expenses and liabilities incurred by the Bond Trustee (including remuneration payable to it and any Appointee) in carrying out its functions under the Bond Trust Deed;
- (c) third, in payment of any unpaid fees, expenses and liabilities of the Issuer owing to the Paying Agents under the Agency Agreement, the Account Bank under the Account Agreement and the Custodian under the Custody Agreement on a *pro rata* and *pari passu* basis;
- (d) fourth, in payment of any other unpaid fees, expenses and liabilities of the Issuer (in so far as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (e) fifth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (f) sixth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (g) seventh, in payment to the Borrower of any amount due and payable under the terms of the Loan Agreement; and
- (h) eighth, in payment of any Permitted Investment Profit, Accounting Profit, Retained Bond Profit or Retained Bond Premium Amount, as the case may be, to any charitable member of the Moat Group.

5.2 **Post-enforcement**

Following the enforcement of the Issuer Security, all monies standing to the credit of the Transaction Account, the Disposal Proceeds Account and the Initial Cash Security Account and the net proceeds of enforcement of the Issuer Security shall be applied in the following order of priority (the **Post-enforcement Priority of Payment**):

- (a) first, in payment or satisfaction of the fees, costs, charges, expenses and liabilities incurred by the Bond Trustee, any Appointee or any receiver in preparing and executing the trusts under the Bond Trust Deed (including the costs of realising any Issuer Security and the Bond Trustee's and such receiver's remuneration);
- (b) second, in payment of all amounts owing to the Paying Agents under the Agency Agreement, the Account Bank under the Account Agreement and the Custodian under the Custody Agreement on a *pro rata* and *pari passu* basis;
- (c) third, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (d) fourth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (e) fifth, in payment of any other unpaid fees and expenses of the Issuer (in each case insofar as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (f) sixth, in payment to the Borrower of any amount due and payable under the terms of the Loan Agreement; and

- (g) seventh, in payment of any Permitted Investment Profit, Accounting Profit, Retained Bond Profit or Retained Bond Premium Amount, as the case may be, to any charitable member of the Moat Group.

6 COVENANTS

6.1 General Covenants

In addition to the covenants of the Issuer set out in the Bond Trust Deed, for so long as any of the Bonds remain outstanding, the Issuer covenants that it will not, without the consent in writing of the Bond Trustee, engage in any activity or do anything other than:

- (a) carry out the business of a company which has as its purpose raising finance and on-lending such finance for the benefit of the Borrower (including, without limitation, as envisaged by the Transaction Documents); and
- (b) perform any act incidental to or necessary in connection with (a) above.

The Issuer also covenants, for so long as any of the Bonds remain outstanding, not to create or permit to subsist, over any of the security constituted by or created pursuant to the Bond Trust Deed, any mortgage or charge or any other security interest ranking in priority to, or *pari passu* with, the security created by or pursuant to the Bond Trust Deed.

6.2 Information Covenants

For so long as any of the Bonds remain outstanding, the Issuer shall:

- (a) send to the Bond Trustee and, upon request by any Bondholder to the Issuer, make available to such Bondholder at the Issuer's registered office during normal business hours, a copy of the Compliance Certificate promptly upon receipt of the same from the Borrower pursuant to the terms of the Loan Agreement;
- (b) send to the Bond Trustee and, upon request by any Bondholder to the Issuer, make available to such Bondholder at the Issuer's registered office during normal business hours, a copy of the consolidated annual reports of the Borrower (if any) promptly upon publication of the same by the Borrower; and
- (c) at the request of Bondholders holding not less than 33 per cent. in principal amount of the Bonds for the time being outstanding, convene a meeting of the Bondholders to discuss the financial position of the Issuer and the Moat Group, provided, however, that the Issuer shall not be required to convene any such meeting pursuant to this Condition 6.2(c) more than once in any calendar year. Upon the request of Bondholders to convene any such meeting, as aforesaid, the Issuer shall notify all Bondholders of the date (which such date shall be no more than 21 days following such request), time and place of the meeting in accordance with Condition 15 (*Notices*). The Issuer shall act in good faith in addressing any questions regarding the financial position of itself or any other member of the Moat Group raised at any such meeting, provided, however, that the Issuer shall not be obliged to disclose any information which it, in its absolute discretion, considers to be of a confidential nature. For the avoidance of doubt, the provisions of this Condition 6.2(c) are in addition to the meetings provisions set out in Condition 17 (*Meetings of Bondholders, Modification and Waiver*).

6.3 Loan Agreement, Legal Mortgages and Security Trust Deed Consents Covenant

For so long as any of the Bonds remain outstanding, the Issuer covenants that it shall not consent to any waiver, amendment or modification of, or take any action or direct the Security Trustee to take any action pursuant to, the Loan Agreement, the Legal Mortgages or the Security Trust Deed except with the prior consent of the Bond Trustee. The Bond Trustee may seek the consent of the Bondholders in accordance with the Bond Trust Deed prior to giving any such consent.

7 INTEREST

7.1 Interest Rate and Interest Payment Dates

The New Bonds bear interest from (and including) 23 September 2019 at the rate of 5 per cent. per annum, payable semi-annually in arrear in equal instalments on 23 March and 23 September in each year (each, an **Interest Payment Date**), commencing on 23 March 2020.

7.2 Interest Accrual

Each Bond will cease to bear interest from (and including) its due date for redemption 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 Bond Trust Deed.

7.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full half year, 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 **Interest Payment Date** multiplied by 2, and multiplying this by the rate of interest specified in Condition 7.1 above and the relevant principal amount of the Bonds.

8 PAYMENTS

8.1 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 on an **Interest 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 any of the Paying Agents.

8.2 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.

8.3 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), failing which the full amount of any relative missing unmatured

Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 11 (*Prescription*)) in respect of the relevant Bond (whether or not the Coupon would otherwise have become void pursuant to Condition 11 (*Prescription*)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

8.4 **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 thereto in the place of payment.

8.5 **Payment Day**

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

For these purposes, **Payment Day** means any day which (subject to Condition 11 (*Prescription*)):

- (a) is, or falls after, the relevant due date;
- (b) is, or falls at least one Business Day after, the corresponding Loan Payment Day;
- (c) is a Business Day in the place of the specified office of the Paying Agent at which the Bond or Coupon is presented for payment; and
- (d) in the case of payment by a credit or transfer to a Sterling account in London as referred to above, is a Business Day in London.

In this Condition, **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

8.6 **Initial Paying Agents**

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

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be at least one Paying Agent (which may be the Principal 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 to maintain a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC 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 changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 15 (*Notices*).

In acting under the Agency Agreement, the Paying Agents act solely as agents of the Issuer and, in certain circumstances specified therein, of the Bond Trustee and do not assume any obligation to, or relationship of agency or trust with, any Bondholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Paying Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

8.7 Interpretation of principal and interest

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

- (a) any additional amounts which may be payable with respect to principal under Condition 10 (*Taxation*); and
- (b) any specific redemption price referred to in Condition 9 (*Redemption and Purchase*) which may be payable by the Issuer under or in respect of the Bonds.

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

9 REDEMPTION AND PURCHASE

9.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified in these Conditions, the Bonds will be redeemed by the Issuer at their principal amount on 23rd September, 2041.

9.2 Early Redemption

Subject to Condition 9.4 (*Mandatory Early Redemption*) below, if in accordance with the Loan Agreement, the Borrower elects to prepay the Loan in whole or in part prior to the repayment date specified in the Loan Agreement or the Loan otherwise becomes prepayable in whole or in part prior to the repayment date specified in the Loan Agreement (other than as a result of the Bonds becoming due and repayable), then the Issuer shall redeem the Bonds in whole or, in respect of a prepayment in part, in an aggregate principal amount equal to the nominal amount of the Loan to be repaid on the date which is two Business Days after that on which payment is made by the Borrower under the Loan Agreement (the Loan Prepayment Date).

Redemption of the Bonds pursuant to this Condition 9.2 shall be made at the higher of the following:

- (a) par; and

- (b) the amount (as calculated by a financial adviser nominated by the Issuer and approved by the Bond Trustee (the **Nominated Financial Adviser**) and reported in writing to the Issuer and the Bond Trustee) which is equal to the principal amount of the Bonds to be redeemed multiplied by the price (expressed as a percentage and calculated by the Nominal Financial Adviser) (rounded to three decimal places (0.0005 being rounded upwards)) at which the Gross Redemption Yield on the Bonds (if the Bonds were to remain outstanding until their original maturity) on the Determination Date would be equal to the sum of (i) the Gross Redemption Yield at 3:00 pm (London time) on the Determination Date of the Benchmark Gilt and (ii) 0.20 per cent.,

together with any interest accrued up to (but excluding) the Loan Prepayment Date.

For the purposes of this Condition:

Benchmark Gilt means the 4¾% Treasury Stock 2038 or such other conventional (i.e. not index-linked) UK Government Gilt as the Issuer (with the advice of the Nominated Financial Adviser) may determine (failing such determination, as determined by the Bond Trustee with such advice) to be the most appropriate benchmark conventional UK Government Gilt;

Determination Date means three Business Days prior to the Loan Prepayment Date; and

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

9.3 **Early Redemption for Tax Reasons**

If as a result of any actual or proposed change in tax law, the Issuer determines (in its reasonable commercial judgement), and certifies to the Bond Trustee, that it would, on the next following Interest Payment Date, be required to make a withholding or deduction in respect of payments to be made on such Interest Payment Date (other than in respect of a Bondholder Specific Withholding) and the Issuer does not opt to pay additional amounts pursuant to Condition 10.2 (*No obligation to pay additional amounts*) or, having so opted, notifies the Bond Trustee and the Bondholders, in accordance with Condition 15 (*Notices*), of its intention to cease paying such additional amounts, the Issuer shall redeem the Bonds in whole, but not in part, at their principal amount, plus accrued interest to (but excluding) the date of redemption, as soon as reasonably practicable prior to the next following Interest Payment Date or, if it is not reasonably practicable for the Issuer to redeem the Bonds prior to the next following Interest Payment Date, within three Business Days thereafter. For the avoidance of doubt, any amounts in respect of accrued interest which fall due on any such redemption of the Bonds (and, where the redemption follows the next following Interest Payment Date, such Interest Payment Date) shall be paid subject to the required withholding or deduction and the Issuer shall not be obliged to pay any additional amounts in respect thereof.

9.4 **Mandatory Early Redemption**

If the Loan becomes repayable:

- (a) as a result of a Borrower Default; or

- (b) following the Borrower ceasing to be a Registered Provider of Social Housing (other than if the Borrower regains its status as a Registered Provider of Social Housing within 180 days),

then the Issuer shall redeem the Bonds in full at their principal amount, plus accrued interest to (but excluding) the date on which the Loan is repaid (the **Loan Repayment Date**), on the date which is two Business Days after the Loan Repayment Date.

9.5 **Notice of Early Redemption**

Notice of any early redemption in accordance with Condition 9.2 (*Early Redemption*), Condition 9.3 (*Early Redemption for Tax Reasons*) or Condition 9.4 (*Mandatory Early Redemption*) above shall be given by the Issuer to the Bond Trustee, the Paying Agents and the Bondholders, in accordance with Condition 15 (*Notices*), 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 Bond Trustee may approve and in such manner and at such time as the Bond 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, the early redemption amount 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.

9.6 **Calculations**

Each calculation, by or on behalf of the Issuer, for the purposes of this Condition 9 shall, in the absence of manifest error, be final and binding on all persons. If the Issuer does not at any time for any reason calculate amounts referred to in this Condition 9, such amounts may be calculated by the Bond Trustee, or an agent appointed (at the expense of the Issuer) by the Bond Trustee for this purpose, (without any liability accruing to the Bond Trustee as a result) based on information supplied to it by the Issuer and each such calculation shall be deemed to have been made by the Issuer.

9.7 **Purchase of Bonds by the Borrower or members of the Moat Group**

The Borrower and any other member of the Moat Group (other than the Issuer) may at any time purchase Bonds in the open market or otherwise at any price. Following any such purchase, the Borrower or such member of the Moat Group, as the case may be, may (but is not obliged to) surrender the Bonds to the Issuer for cancellation. An amount equal to the principal amount of the Bonds being surrendered shall be deemed to be prepaid under the Loan Agreement (but, for the avoidance of doubt, without triggering a redemption under Condition 9.2 (*Early Redemption*)) or, to the extent that no Loan is then outstanding, an amount of the Undrawn Commitment equal to the Outstanding Balance of the Bonds surrendered shall be deemed to be cancelled for the purposes of the Loan Agreement and an amount of Retained Proceeds equal to the Cancelled Retained Proceeds shall be paid by the Issuer to the Borrower or such member of the Moat Group, as the case may be.

9.8 **Purchase of Bonds by the Issuer**

The Issuer may not at any time purchase Bonds other than the Retained Bonds.

9.9 Cancellation of purchased or redeemed Bonds

All Bonds redeemed by the Issuer pursuant to Conditions 9.2 (*Early Redemption*), Condition 9.3 (*Early Redemption for Tax Reasons*) or Condition 9.4 (*Mandatory Early Redemption*) or surrendered to the Issuer for cancellation pursuant to Condition 9.7 (*Purchase of Bonds by the Borrower or members of the Moat Group*) shall be cancelled and may not be issued or resold.

The Issuer (a) may cancel any Retained Bonds held by it or on its behalf following a request by the Borrower, pursuant to the Loan Agreement, to cancel a corresponding amount of the Undrawn Commitment and (b) shall cancel all Retained Bonds held by or on behalf of the Issuer (i) immediately prior to such Retained Bonds being redeemed in accordance with Condition 9.1 (*Redemption at Maturity*) and (ii) forthwith upon notice that the Bonds are to be redeemed (and, in any event, prior to such redemption) in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*), Condition 9.4 (*Mandatory Early Redemption*) or Condition 12 (*Events of Default and Enforcement*).

10 TAXATION

10.1 Payments without withholding

All payments of principal and interest in respect of the Bonds and Coupons by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdiction, unless such withholding or deduction is required by law in which case the relevant payment will be made subject to such withholding or deduction.

10.2 No obligation to pay additional amounts

Subject as follows, neither the Issuer, the Bond Trustee nor any Paying Agent shall be obliged to pay any additional amounts to the Bondholders or Couponholders as a result of any withholding or deduction made in accordance with Condition 10.1 (*Payments without withholding*).

Notwithstanding the foregoing, in the event that the Issuer would, on the next Interest Payment Date, be required to make a withholding or deduction in respect of tax (other than in respect of a Bondholder Specific Withholding), the Issuer may, provided that it has given notice to the Bond Trustee and the Bondholders, in accordance with Condition 15 (*Notices*), of its intention to do so prior to such Interest Payment Date, pay to Bondholders such additional amounts as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction will equal the amounts of principal and interest which would have been received in respect of the Bonds in the absence of such withholding or deduction. If at any time the Issuer intends to cease paying such additional amounts it may do so by giving notice to the Bondholders and the Bond Trustee of its intention to do so with effect from the next Interest Payment Date.

11 PRESCRIPTION

The Bonds and Coupons will become void unless presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 8 (*Payments*) or any Talon which would be void pursuant to Condition 8 (*Payments*).

For the purposes of this Condition:

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 Principal Paying Agent or the Bond 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 15 (*Notices*).

12 EVENTS OF DEFAULT AND ENFORCEMENT

12.1 Events of Default

The Bond Trustee at its discretion may, and if so requested in writing by the holders of at least one-fourth in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being secured and/or indemnified to its satisfaction), (but in the case of the happening of any of the events described in paragraphs (b), (c) and (i) below, only if the Bond Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Bondholders), give notice in writing to the Issuer that the Bonds are, and the Bonds shall thereupon immediately become, due and repayable at their principal amount together with accrued interest as provided in the Bond Trust Deed if any of the following events (each an **Event of Default**) shall occur:

- (a) if default is made in the payment of any principal or interest due in respect of the Bonds or any of them and the default continues for a period of seven days in the case of principal and fourteen days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under, or in respect of, the Conditions or the Bond Trust Deed or if any representation given by the Issuer to the Bond Trustee in the Bond Trust Deed is found to be untrue, incorrect or misleading as at the time it was given and (except in any case where, in the opinion of the Bond Trustee, the failure or inaccuracy is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure or inaccuracy continues for the period of 30 days next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) (A) any other present or future indebtedness of the Issuer for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Issuer fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds £10,000,000 or its equivalent in other currencies (as reasonably determined by the Bond Trustee); or
- (d) if any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer save for the purposes of reorganisation on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution; or

- (e) if the Issuer ceases or threatens to cease to carry on the whole or, in the opinion of the Bond Trustee, substantially all of its business, save for the purposes of reorganisation on terms previously approved in writing by the Bond Trustee or by an Extraordinary Resolution; or
- (f) if the Issuer stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or
- (g) if (A) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, liquidator, manager, administrator or other similar official, or an administrative or other receiver, liquidator, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to all or substantially all of the Issuer's undertaking or assets, or an encumbrancer takes possession of all or substantially all of the Issuer's undertaking or assets, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against all or substantially all of the Issuer's undertaking or assets and (B) in any case (other than the appointment of an administrator) is not discharged within 14 days; or
- (h) if the Issuer initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or
- (i) if it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds, the Bond Trust Deed or the Loan Agreement.

12.2 **Enforcement**

The Bond Trustee may at any time, at its discretion and without notice, take such proceedings and/or other steps or action (including lodging an appeal in any proceedings) against or in relation to the Issuer as it may think fit to enforce the provisions of the Bond Trust Deed, the Bonds, the Coupons and/or any of the other Transaction Documents or otherwise, but it shall not be bound to take any such proceedings or other steps or action in relation to the Bond Trust Deed, the Bonds, the Coupons or any of the other Transaction Documents or otherwise unless (i) it shall have been so directed by an Extraordinary Resolution or so requested in writing by the holders of at least one-fourth in principal amount of the Bonds then outstanding and (ii) it shall have been secured and/or indemnified to its satisfaction.

No Bondholder, Couponholder or any Secured Party (other than the Bond Trustee) shall be entitled to (i) take any steps or action against the Issuer to enforce the performance of any of the provisions of the Bond Trust Deed, the Bonds, the Coupons or any of the other Transaction Documents or (ii) take any other action (including lodging an appeal in any proceedings) in respect of or concerning the Issuer, in each case unless the Bond Trustee, having become

bound so to take any such steps, actions or proceedings, fails so to do within a reasonable period and the failure shall be continuing.

13 REPLACEMENT OF BONDS, COUPONS AND TALONS

Should any Bond, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (subject to all applicable laws and the requirements of the UK Listing Authority or the London Stock Exchange) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds, Coupons or Talons must be surrendered before replacements will be issued.

14 EXCHANGE OF TALONS

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

15 NOTICES

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

Notices to be given by any Bondholder shall be in writing and given by lodging the same, together with the relative Bond or Bonds, with the Principal Paying Agent.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of the Bonds in accordance with this Condition 15 (*Notices*).

16 SUBSTITUTION

The Bond Trust Deed contains provisions permitting the Bond Trustee to, subject to any required amendment of the Bond Trust Deed, without the consent of the Bondholders or the Couponholders or any Secured Party, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Bond Trust Deed of another company, registered society or other entity subject to:

- (a) the Bond Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution; and
- (b) certain other conditions set out in the Bond Trust Deed being complied with.

Any such substitution shall be notified to the Bondholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

17 MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

17.1 Meetings of Bondholders

The Bond Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds, the Coupons or any of the provisions of the Bond Trust Deed (as more particularly described in the Bond Trust Deed). Such a meeting may be convened by the Issuer or the Bond Trustee and shall be convened by the Issuer if required in writing by Bondholders holding not less than ten per cent. in principal amount of the Bonds for the time being remaining outstanding (other than in respect of a meeting requested by Bondholders to discuss the financial position of the Issuer and the Moat Group, which shall be requested in accordance with, and shall be subject to, Condition 6.2(c) (*Information Covenants*)). The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing in aggregate more than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Bonds or the Coupons or the Bond Trust Deed (including, inter alia, modifying the date of maturity of the Bonds or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Bonds or altering the currency of payment of the Bonds or the Coupons), the quorum shall be one or more persons holding or representing in aggregate not less than 75 per cent. in principal amount of the Bonds for the time being outstanding, or at any such adjourned meeting one or more persons holding or representing in aggregate not less than 25 per cent. in principal amount of the Bonds for the time being outstanding. The Bond Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Bond Trust Deed by a majority consisting of not less than 75 per cent. of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Bond Trustee) by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Bondholders. An Extraordinary Resolution passed by the Bondholders shall be binding on all the Bondholders, whether or not (in the case of Extraordinary Resolutions passed at any meeting) they are present at any meeting and whether or not they voted on the resolution, and on all Couponholders.

17.2 Modification, Waiver, Authorisation and Determination

The Bond Trustee may agree, without the consent of the Bondholders, Couponholders or any Secured Party, to any modification (except as stated in the Bond Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds, the Bond Trust Deed, any Legal Mortgage or any other Transaction Document, or determine, without any such consent as aforesaid, that any Potential Event of Default or Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of the Bondholders so to do or may agree, without any such consent as aforesaid, to any modification which, in the opinion of the Bond Trustee, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Bond Trustee, proven. Any such modification, waiver, authorisation or determination shall

be binding on the Bondholders, the Couponholders and the Secured Parties and (unless the Bond Trustee otherwise agrees) shall be notified to the Bondholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

17.3 Bond 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, determination or substitution), the Bond 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) and, in particular but without limitation, 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 and the Bond Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Bond Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders.

18 INDEMNIFICATION OF THE BOND TRUSTEE AND BOND TRUSTEE CONTRACTING WITH THE ISSUER

The Bond Trust Deed contains provisions for the indemnification of the Bond Trustee and for its relief from responsibility, including provisions relieving it from taking action unless secured and/or indemnified to its satisfaction. The Bond Trustee is exempted from any liability in respect of any loss, diminution in value or theft of all or any part of the Issuer Charged Property, from any obligation to insure all or any part of the Issuer Charged Property (including, in either such case, any documents evidencing, constituting or representing the same or transferring any rights, benefits and/or obligations thereunder), or to procure the same to be insured.

The Bond Trust Deed also contains provisions pursuant to which the Bond Trustee is entitled, inter alia, (a) to enter into or be interested in any contract or financial or other transaction or arrangement with the Issuer or any other Transaction Party or any person or body corporate associated with the Issuer or any Transaction Party and (b) to accept or hold the trusteeship of any other trust deed constituting or securing any other securities issued by or relating to the Issuer or any Transaction Party or any such person or body corporate so associated or any other office of profit under the Issuer or any Transaction Party or any such person or body corporate so associated.

The Bond Trustee shall not be bound to take any step or action in connection with the Bond Trust Deed or the Bonds or obligations arising pursuant thereto or pursuant to the other Transaction Documents, where it is not satisfied that it is indemnified and/or secured against all its liabilities and costs incurred in connection with such step or action and may demand, prior to taking any such step or action, that there be paid to it in advance such sums as it considers (without prejudice to any further demand) shall be sufficient so as to indemnify it.

The Bond Trustee shall have no responsibility for the validity, sufficiency or enforceability of the Issuer Security. The Bond Trustee shall not be responsible for monitoring the compliance by any of the other Transaction Parties with their obligations under the Transaction Documents, neither shall the Bond Trustee be responsible for monitoring the compliance by the Borrower or any of the other parties to the Legal Mortgages and the Security Trust Deed of their obligations under the Legal Mortgages, the Security Trust Deed or any other document.

19 FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Bondholders or the Couponholders to create and issue further bonds having terms and conditions (and backed by the same assets) the same as the Bonds or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single series with the outstanding Bonds. Any further bonds so created and issued shall be constituted by a trust deed supplemental to the Bond Trust Deed.

20 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

21 GOVERNING LAW

The Bond Trust Deed, the Loan Agreement, the Agency Agreement, the Account Agreement, the Bonds and the Coupons, and any non-contractual obligations or matters arising from or in connection with them, shall be governed by, and construed in accordance with, English law.

FORM OF THE NEW BONDS AND SUMMARY OF PROVISIONS RELATING TO THE NEW BONDS WHILE IN GLOBAL FORM

Form of the Bonds

Form, Exchange and Payments

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

The New Bonds are intended upon issue to be deposited with The Bank of New York Mellon as common safekeeper and, although the bonds are issued in NGN form, this does not necessarily mean that the New Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life.

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

On and after the date (the **Exchange Date**) which is 40 days after the Temporary Global Bond is issued, interests in the Temporary Global Bond will be exchangeable (free of charge) upon a request as described therein for interests recorded in the records of Euroclear or Clearstream, Luxembourg, as the case may be, in a permanent global bond (the **Permanent Global Bond** and, together with the Temporary Global Bond and the permanent global bond representing the Original Bonds, the **Global Bonds**), against certification of beneficial ownership as described above unless such certification has already been given. The holder of the Temporary Global Bond will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Global Bond for an interest in the Permanent Global Bond is improperly withheld or refused.

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

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

The Permanent Global Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bonds with interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (a) an Event of Default (as defined in Condition 12.1 (*Events of Default*)) has occurred and is continuing, or (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Bond Trustee is available or (c) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bonds represented by the relevant Global Bond in definitive form. The Issuer will promptly give notice to Bondholders in accordance with Condition 15 (*Notices*) if an

Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (c) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Legend concerning United States persons

The following legend will appear on all Bonds (other than the Temporary Global Bond) and interest coupons relating to the Bonds:

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

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

Summary of Provisions relating to the Bonds while in Global Form

Notices

For so long as all of the Bonds are represented by one or more of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Bondholders (which includes, for this purpose, any Compliance Certificate or annual reports required to be made available pursuant to a request by any of the Bondholders pursuant to Condition 6.2 (*Information Covenants*)) may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders (as defined below) rather than by publication as required by Condition 15 (*Notices*). Any such notice shall be deemed to have been given to the holders of the Bonds on the day after the day on which such notice was delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

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

Accountholders

For so long as any of the Bonds is represented by a Global Bond 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 of Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (the **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 be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such principal amount of such Bonds for all purposes other than with respect to the payment of principal or interest on such principal amount of such Bonds, for which purpose the bearer of the relevant Global Bond shall be treated as the holder of such principal amount of such Bonds in accordance with and subject to the terms of the relevant Global Bond and the expressions **Bondholder** and **holder of Bonds** and related expressions shall be construed accordingly.

In determining whether a particular person is entitled to a particular principal amount of Bonds as aforesaid, the Bond Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

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

Prescription

Claims against the Issuer in respect of principal and interest on the Bonds represented by a Global Bond will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 11 (*Prescription*)).

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 will be effected by entry in the records of Euroclear or Clearstream, Luxembourg, as the case may be.

Partial Redemption

For so long as all of the Bonds are represented by one or more of the Global Bonds and such Global Bond(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, no selection of Bonds will be required under Condition 9.5 (*Notice of Early Redemption*) in the event that the Borrower elects to repay the Loan in part and Bonds are to be redeemed in part pursuant to Condition 9.2 (*Early Redemption*). In such event, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the Global Bond(s) are to be subject to such redemption.

Single Series

The New Bonds shall be consolidated and form a single series with the Original Bonds on and from the date on which, and to the extent that, interests in the Temporary Global Bond are exchanged for interests in the Permanent Global Bond, as described above. Such exchange shall not occur earlier than 40 days after the Temporary Global Bond is issued.

USE OF PROCEEDS

The Issuer estimates that the net amount of the proceeds of the issue (other than the Retained Accrued Interest which will be retained by the Issuer in the Transaction Account) of the New Bonds (other than the New Retained Bonds) will be £140,256,000. The net amount of the proceeds of the sale of the New Retained Bonds to a third party will depend on the sale price agreed in respect thereof, which will itself be dependent on market conditions at the relevant time.

The net proceeds from the issue of the New Bonds (other than the Retained Accrued Interest which will be retained by the Issuer in the Transaction Account) or, in the case of the New Retained Bonds, the net proceeds of the sale of the New Bonds to a third party (after deduction of expenses payable by the Issuer) will be advanced by the Issuer to the Borrower pursuant to the Loan Agreement to be applied in the achievement of the Borrower's charitable objects.

DESCRIPTION OF THE LOAN AGREEMENT

The following description of the Loan Agreement consists of a summary of certain provisions of the Loan Agreement and is subject to the detailed provisions thereof. The Loan Agreement is not, however, incorporated by reference into, and therefore does not form part of, this Prospectus.

Definitions used in this section but not otherwise defined in this Prospectus have the meanings given to them in the Loan Agreement.

Facility

Subject to the provisions of the bond loan agreement dated 23 September 2011 (the **Original Loan Agreement**) as supplemented by a supplemental bond loan agreement to be dated the New Bond Issue Date (the **Supplemental Loan Agreement** and, together with the Original Loan Agreement, the **Loan Agreement**), each between the Issuer, the Borrower and the Security Trustee, the Issuer shall commit to make a further loan to the Borrower in the principal amount of £150,000,000 (the **New Commitment** and, together with the Original Commitment (as defined in the Original Loan Agreement) and any further commitments, the **Commitment**). The **New Loan** is the principal amount of the New Commitment that has been advanced to the Borrower or the outstanding balance thereof.

The New Commitment may be drawn in one or more drawings and the maximum principal amount of each drawing shall be an amount which corresponds to the Minimum Value of the Existing Properties and any Additional Properties which have, on or before the date of such drawing, been charged in favour of the Security Trustee, for the benefit of the Issuer, less such amount of the Commitment which has previously been drawn.

The initial drawing of the New Commitment shall be advanced at a premium in an amount equal to the principal amount of such drawing multiplied by the Issue Price of the New Bonds (and, for the avoidance of doubt, the difference between the principal amount of such drawing and the actual advance amount thereof shall be ignored in determining the amount of the New Loan and, *inter alia*, the calculation of interest, principal and premium payments payable in respect thereon).

The New Commitment may not be drawn until the Security Trustee is satisfied that the value of the Issuer's Designated Security (based solely on the relevant confirmation from the Borrower of the Minimum Value of the Properties forming part of the Issuer's Designated Security (which itself shall be evidenced by the relevant Valuation), which the Security Trustee is entitled to rely upon without further enquiry or investigation in respect thereof) is such that the Asset Cover Test is satisfied immediately following such drawing and, in respect of any part of the New Commitment which is to be funded by the Issuer by a sale of New Retained Bonds, the receipt by the Issuer of such net sale proceeds thereof.

The New Commitment shall be advanced in an amount equal to the Actual Advance Amount. The Borrower has acknowledged that the Issuer may invest all or any part of the Retained Proceeds in Permitted Investments in accordance with the Custody Agreement and that, as a result of (i) any losses made by the Issuer in respect of such Permitted Investments and/or (ii) any issue or sale of Bonds by the Issuer made at a discount to the principal amount of such Bonds, the amount of Retained Proceeds held by the Issuer, at the time of any drawdown request, may be less than the Undrawn Commitment which is to be funded from such Retained Proceeds. In such circumstances, each drawing of the New Commitment to be funded from the Retained Proceeds shall be advanced in an amount equal to the Actual Advance Amount (which may be a discount to the principal amount requested).

For the avoidance of doubt:

- (a) the Borrower shall not be required to monitor the market value of any Permitted Investments;

- (b) any difference between the principal amount of a drawing and the relevant Actual Advance Amount shall be ignored in determining the amount of the Loan and, inter alia, the calculation of interest, principal and premium payments payable in respect thereon; and
- (c) any income received by the Issuer in respect of Permitted Investments shall not be credited to the Initial Cash Security Account but shall instead be credited to the Transaction Account in accordance with the Account Agreement.

The Issuer and the Borrower have agreed that:

- (a) where the Issuer is required to sell any Permitted Investments to fund a drawing under the Loan Agreement and such sale results in a Permitted Investment Profit, the Issuer shall make a Gift Aid Payment to a Charitable Group Member in an amount equal to the Permitted Investment Profit and, for the avoidance of doubt, such drawing shall be advanced at the Actual Advance Amount; and
- (b) immediately prior to the end of each accounting period, to the extent that the Issuer would otherwise be required to recognise a profit for tax purposes in respect of its Permitted Investments and/or Retained Bonds as a result of the movement in the fair value recognised in its accounts of such Permitted Investments and/or Retained Bonds for that accounting period, the Issuer shall sell Permitted Investments in an aggregate amount equal to the Accounting Profit and shall, in the same accounting period or, where the Lender makes a valid claim under section 199 of the Corporation Tax Act 2010, within nine months of the end of that accounting period, make a Gift Aid Payment to a Charitable Group Member in an amount equal to the Accounting Profit.

For these purposes:

Actual Advance Amount means:

- (a) in respect of each drawing of the New Commitment (other than a drawing which is to be funded by the sale of New Retained Bonds), the lesser of:
 - (i) the principal amount of such drawing multiplied by 140.256 per cent.; and
 - (ii) the principal amount of such drawing multiplied by the result of dividing:
 - (A) the amount of New Bond Retained Proceeds held by the Issuer at the time of the drawdown request (for the avoidance of doubt, after taking into account any losses suffered by the Issuer as a result of investing in Permitted Investments but, for this purpose, excluding any Permitted Investment Profit), by
 - (B) the Undrawn Commitment which is to be funded from such New Bond Retained Proceeds; and
- (b) in respect of each drawing of the New Commitment which is to be funded by the sale of New Retained Bonds, the lesser of:
 - (i) the principal amount of such drawing multiplied by the sale price of such New Retained Bonds (or the proportion thereof being sold to fund such drawing); and
 - (ii) the principal amount of such drawing multiplied by the result of dividing:

- (A) the amount of New Retained Bond Retained Proceeds held by the Issuer at the time of the drawdown request (for the avoidance of doubt, after taking into account any losses suffered by the Issuer as a result of investing in Permitted Investments but, for this purpose, excluding any Permitted Investment Profit), by
- (B) the Undrawn Commitment which is to be funded from such New Retained Bond Retained Proceeds.

New Bond Retained Proceeds means the net issue proceeds of the New Bonds (other than the New Retained Bonds) which are retained by the Issuer in the Initial Cash Security Account or, to the extent invested in Permitted Investments in accordance with the Custody Agreement, the net sale proceeds of such Permitted Investments; and

New Retained Bond Retained Proceeds means, in respect of any New Retained Bonds, the net sale proceeds of such New Retained Bonds which are retained by the Issuer in the Initial Cash Security Account or, to the extent invested in Permitted Investments in accordance with the Custody Agreement, the net sale proceeds of such Permitted Investments.

The Borrower has agreed that, where the Issuer is required to sell any Retained Bonds in order to fund a drawdown request, the Issuer's obligations to fund such drawdown 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, the Borrower may request that an amount 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 Commitment shall take effect upon the cancellation of such Retained Bonds.

Each of the Issuer and the Borrower have also agreed that, immediately prior to the end of each accounting period or, in each case where the Issuer makes a valid claim under section 199 of the Corporation Tax Act 2010, within nine months of the end of the accounting period, the Issuer shall make a gift aid payment to a Charitable Group Member in an amount equal to the Retained Bond Profit.

Subject to the conditions precedent set out in Clause 4.2 (*Conditions to the Making of Further Commitments*) of the Original Loan Agreement, the Issuer may make further commitments to the Borrower, each in an amount to be agreed between the Issuer, the Borrower and the Security Trustee, following the issuance of further bonds pursuant to Condition 19 (*Further Issues*).

Purpose

The proceeds of the New Loan may only be used by the Borrower in accordance with the Borrower's charitable objects, as permitted by its Rules.

Interest

Rate of Interest

Following its advance, the New Loan carries interest from (and including) 8 November 2019 at the rate of 5 per cent. per annum, payable in arrear by half yearly instalments on each Loan Payment Date (being four Business Days prior to each Interest Payment Date).

Interest Periods

Notwithstanding the fact that interest is payable on each Loan Payment Date, interest accrues daily on the Loan from (and including) an Interest Payment Date (or, in the case of the first interest period of the New Loan, 8 November 2019) to (but excluding) the immediately following Interest Payment Date (each, a **Loan Interest Period**).

The amount of interest payable by the Borrower in respect of the Interest Payment Date immediately following the New Bond Issue Date will be reduced by an amount equal to the product of:

- (a) the Retained Accrued Interest and any interest received by the Issuer in respect of the Retained Accrued Interest from the Account Bank pursuant to the Account Agreement, multiplied by
- (b) the Advanced Percentage (being the principal amount of the New Commitment which has been drawn by the Borrower pursuant to Clause 3 of the Supplemental Bond Loan Agreement expressed as a percentage of the New Commitment).

Commitment Fee

The Borrower shall pay to the Issuer a commitment fee in respect of the Undrawn Commitment on each Loan Payment Date in an amount equal to:

- (a) the aggregate of the interest payable by the Issuer under the Bonds on the following Interest Payment Date, less
- (b) the aggregate of:
 - (i) the interest received from the Borrower under the Loan Agreement on such Loan Payment Date;
 - (ii) any interest otherwise received by the Issuer in respect of the Retained Proceeds in the relevant Loan Interest Period (including, but not limited to, any income received by the Issuer in respect of any Permitted Investments in which any Retained Proceeds are, for the time being, invested);
 - (iii) to the extent not applied as a gift aid payment pursuant to Clause 2(l) of the Original Loan Agreement, any income received by the Issuer in respect of the Retained Bonds during that period (but excluding, for the avoidance of doubt, any income to be received by the Issuer on the Interest Payment Date immediately following the Loan Payment Date on which such commitment fee is due); and
 - (iii) in respect of the Interest Payment Date immediately following the New Bond Issue Date, an amount equal to the product of:
 - (x) the Retained Accrued Interest and any interest received by the Issuer in respect of the Retained Accrued Interest from the Account Bank pursuant to the Account Agreement; and
 - (y) the Retained Percentage (being the principal amount of the New Commitment which has not been drawn by the Borrower pursuant to Clause 3 of the Supplemental Loan Agreement expressed as a percentage of the New Commitment).

The commitment fee shall accrue on a daily basis.

Repayment

The Borrower must repay the Loan in full four Business Days prior to the Interest Payment Date in September 2041 (the **Loan Maturity Date**).

Bond Purchase

The Borrower or any other member of the Moat Group may at any time purchase Bonds on the London Stock Exchange, by tender (available to all Bondholders alike) or by private treaty at any price.

Following any such purchase, the Borrower or the relevant member of the Moat Group may (but is not obliged to) surrender the Bonds to the Issuer to be cancelled. An amount of the outstanding balance of the Loan equal to the outstanding balance of the Bonds surrendered shall be deemed to be prepaid (or, to the extent that no Loan is then outstanding, then an amount of the relevant Undrawn Commitment equal to the outstanding balance of the Bonds surrendered shall be deemed to be cancelled for the purposes of the Loan Agreement and a corresponding portion of the Retained Proceeds shall be paid by the Issuer to the Borrower or the relevant member of the Moat Group).

The Borrower has acknowledged that the terms of the Bond Trust Deed provide that any Bonds which are for the time being held by or on behalf of, *inter alios*, the Borrower or any member of the Moat Group as beneficial owner shall be deemed not to remain outstanding for the purpose of, *inter alia*, the right to attend and vote at any meeting of the Bondholders.

Optional Prepayment

Pursuant to Clause 5.3 (*Optional Prepayment*) of the Original Loan Agreement, the Borrower may, at any time (a) on or after the Final Retained Bond Disposal Date and (b) before the Loan Maturity Date, by giving not less than 45 nor more than 60 days' notice in writing to the Issuer and the Security Trustee, prepay the whole or (as the case may be) any part of the outstanding balance of the Loan, together with any interest accrued up to and including the date of prepayment and the relevant Prepayment Premium (being, for so long as any Bonds are outstanding, an amount equal to the excess of the amount notified to the Borrower by the Issuer as being the price determined under the Bond Trust Deed for the redemption of a corresponding principal amount of the Bonds over par).

Mandatory Prepayment – Redemption of Bonds

If the Bonds become redeemable prior to the Maturity Date, other than as a result of a prepayment or termination of the Loan Agreement, the Borrower shall prepay, at least one Business Day prior to the relevant date of redemption of the Bonds, the outstanding balance of the Loan, together with accrued interest and accrued commitment fee thereon up to and including the date of redemption.

Mandatory Prepayment – Cancellation of Status

Pursuant to Clause 5.6 (Mandatory Prepayment – Cancellation of Status) of the Original Loan Agreement, the Borrower shall promptly notify the Issuer and the Security Trustee if it ceases to be a Registered Provider of Social Housing. Within 180 days of such notification, the Borrower shall prepay the whole of the outstanding balance of the Loan, together with any interest and commitment fee accrued up to and including the date of prepayment, provided, however, that if the Borrower regains its status as a Registered Provider of Social Housing within such period of 180 days, the Borrower shall no longer be required to prepay the Loan in accordance with the above-mentioned Clause 5.6 (*Mandatory Prepayment – Cancellation of Status*).

A **Registered Provider of Social Housing** is defined for the purpose of the Loan Agreement as is defined for the purpose of the Loan Agreement as meaning a person listed in the register of providers of social housing established under Chapter 3 of Part 2 of the Housing and Regeneration Act 2008 (as amended from time to time) or any replacement or successor legislation thereto.

Redemption of Bonds – Further Payment in Respect of Retained Proceeds Par Amount

In the event that the Borrower elects to, or is otherwise required to, prepay the whole of the outstanding balance of the Loan and the Issuer is required to notify the Borrower of the price determined under the Conditions for the redemption of a corresponding principal amount of the Bonds, then the Issuer shall be entitled to also take account of the redemption of such principal amount of the Bonds that shall correspond to the Retained Proceeds Par Amount (being an amount equal to the Retained Proceeds including, where any Retained Proceeds are invested in Permitted Investments, the purchase price of the relevant Permitted Investments and ignoring, for these purposes, any increase or decrease in such Retained Proceeds as a result of gains or losses in respect of such Permitted Investments and/or any discount on a sale of Retained Bonds by the Issuer), and the price notified to the Borrower shall be increased accordingly.

Warranties and Covenants

The Borrower will make various warranties and covenants pursuant to Clause 8 (*Warranties and Covenants by the Borrower*) of the Original Loan Agreement. These warranties and covenants include, *inter alia*, the following:

Information Covenants

The Borrower must supply to the Issuer and the Security Trustee not later than 180 days after the end of each relevant financial year (i) copies of the consolidated audited financial statements of the Borrower for such financial year; (ii) a certificate setting out, among other things, calculations in respect of the asset cover ratio substantially in the form set out in the Original Loan Agreement (the **Compliance Certificate**) signed by two Authorised Signatories of the Borrower.

Negative Pledge

The Borrower shall not create or allow to exist any Security Interest on any assets which are Security Assets, except as set out in Clause 8.2(c) (*General Covenants*) of the Original Loan Agreement, which includes the Security Interests created pursuant to, *inter alia*, the Security Trust Deed and the Legal Mortgages and any Security Interests created with the prior written consent of the Issuer or by operation of law.

Charged Properties

The Borrower shall obtain any authorisation or licence required in order to enable the Security Trustee pursuant to the powers of enforcement conferred on it by the Security Documents to sell vacant Charged Properties and maintain insurances on and in relation to its Charged Properties.

Covenants

The Borrower shall (unless the Security Trustee otherwise agrees in writing) comply with any covenants or restrictive covenants relating to a Charged Property which are binding on it.

Asset Cover Ratio

Pursuant to Clause 9 (*Asset Cover Ratio*) of the Original Loan Agreement, the Borrower shall procure that at all times the sum of:

- (a) the Minimum Value of the Properties forming part of the Issuer's Designated Security;
- (b) the Retained Proceeds Par Amount; and
- (c) the Charged Disposal Proceeds,

will not be less than the aggregate amount of the Outstanding Commitment (the **Asset Cover Test**), provided however, that from and including the Final Charging Date, the Retained Proceeds Par Amount shall be deemed to be zero for the purpose of determining the Borrower's compliance with the Asset Cover Test.

Interpretation

For these purposes:

Additional Properties means any Properties (other than the Existing Properties) which have been charged in favour of the Security Trustee, for the benefit of the Issuer, for the purpose of providing underlying security for the Bonds;

Designated Security means the assets, rights and property mortgaged or charged or assigned pursuant to any Security Document, the proceeds of which are allocated in the reduction of all moneys, liabilities and obligations owing by the Borrower to the Issuer under the Loan Agreement;

Existing Properties means the Properties which, as at the New Bond Issue Date, have been charged in favour of the Security Trustee for the benefit of the Issuer, for the purpose of providing underlying security for the Bonds.

Final Charging Date means:

- (a) in respect of the Retained Proceeds from the Original Retained Bonds, the date falling six months after the Original Issue Date; and
- (b) in respect of the Retained Proceeds from the New Retained Bonds, the date falling six months after the New Bond Issue Date;

Minimum Value means:

$$\left(\frac{A}{105} + \frac{B}{115} \right) \times 100$$

where:

A = the Value of the residential EUV-SH Charged Properties determined on the basis of EUV-SH; and

B = the Value of the residential MV-ST Charged Properties determined on the basis of MV-ST.

The Properties forming part of the Issuer's Designated Security shall each be treated as EUV-SH Charged Properties for the purpose of determining the Minimum Value unless and until a Value, determined on the basis of MV-ST, is given by a valuer in respect of any such Property and the valuer

has confirmed that it has reviewed a Certificate of Title in respect of such Property certifying that it may be disposed of by the Borrower on an unfettered basis (meaning subject only to any existing tenancies disclosed in the Certificate of Title but not subject to any security interest, option or other encumbrance or to any restriction preventing or restricting its sale to, or use by, any person for residential use);

Property means all estates or interests of the Borrower in any freehold, heritable or leasehold property wheresoever situate now or in future belonging to it and all buildings, fixtures, fittings (other than tenants fixtures and fittings) and fixed plant and machinery from time to time thereon (and **Properties** shall be construed accordingly);

Retained Proceeds Par Amount means an amount equal to the Retained Proceeds at the time of calculation and, for this purpose, (a) where any Retained Proceeds are at that time invested in Permitted Investments, the amount of such Retained Proceeds shall be taken as the purchase price of the relevant Permitted Investments ignoring any gains or losses in respect of those Permitted Investments since the date of purchase and (b) where the source of any Retained Proceeds is the net sale proceeds of any Retained Bonds which were sold at a discount, the amount of such Retained Proceeds shall be taken as the principal amount of such Retained Bonds; and

Value means, at any time and in relation to the Charged Properties, the value of those properties as shown in the then latest Valuation Report or Desk Top Valuation on the basis of EUV-SH or, as the case may be, MV-ST (provided that if any Charged Property or part thereof is sold pursuant to a Right to Buy, the Value of the relevant Charged Property shall, for the purposes of this definition and with effect from the date of the relevant sale or release, be zero (if the entire relevant Charged Property has been sold) or (if only part of the relevant Charged Property has been sold) shall be the proportion of the value of the Charged Property which has not been sold pursuant to the relevant Right to Buy).

Substitution and Release of Charged Properties and Statutory Disposals

Substitution

At the request and expense of the Borrower, the Security Trustee shall (subject to receiving an amended Designated Properties Schedule from the Borrower and the Issuer in accordance with the Security Trust Deed) release from the relevant Security Documents (and reallocate, if applicable) such of the Properties forming part of the Issuer's Designated Security and substitute such of the Properties (each, a **Substitute Property**) as may be selected by the Borrower, provided that the Borrower satisfies the conditions precedent specified in Clause 10.2 (*Substitution of Charged Properties*) of the Original Loan Agreement in relation to the Substitute Properties. Such conditions precedent include, inter alia, a completed Substitute Property Certificate certifying, inter alia, that the relevant Substitute Property is a residential property of a type and nature that is usually owned by Registered Providers of Social Housing and that, immediately following such release (and reallocation, if applicable), the Asset Cover Test will not be breached as a result of the substitution of the relevant Charged Properties, Valuation Reports in respect of each Substitute Property and a Certificate of Title in respect of the Substitute Properties.

Disposal Proceeds

Pending the acquisition of any proposed Substitute Property by the Borrower, the Borrower may deposit the proceeds of disposal of the relevant Charged Properties which are released from charge under the Security Trust Deed into the Disposal Proceeds Account of the Issuer for the purpose of maintaining the Asset Cover Test (for the avoidance of doubt, the Borrower shall not be required to monitor the market value of any Permitted Investments). The Charged Disposal Proceeds may be withdrawn from the Disposal Proceeds Account (a) to be applied by the Borrower (provided, for the avoidance of doubt, that the Borrower continues, at such time, to be a Registered Provider of Social Housing) in the acquisition of a Substitute Property or (b) to the extent that such withdrawal would not cause a breach of the Asset Cover Test.

Notwithstanding the above, the Borrower may, at any time, deposit, or arrange for the deposit of, any other money into the Disposal Proceeds Account for the purposes of satisfying the Asset Cover Test.

The Borrower has acknowledged that the money standing to the credit of the Disposal Proceeds Account shall be charged in favour of the Bond Trustee pursuant to the terms of the Bond Trust Deed.

The Borrower has also acknowledged that the Issuer may invest all or any part of the Charged Disposal Proceeds in Permitted Investments in accordance with the Custody Agreement and that, as a result of any gains or losses made by the Issuer in respect of such Permitted Investments and any income received thereon (which shall, for the avoidance of doubt, be credited to the Disposal Proceeds Account), the amount of such Charged Disposal Proceeds may be greater or less than the amount deposited in the Disposal Proceeds Account by the Borrower. The Borrower has acknowledged that it shall not have any recourse to the Issuer in respect of any losses realised by the Issuer in respect of the Charged Disposal Proceeds as a result of investment in any Permitted Investments.

Following the redemption in full of the Bonds, the Issuer shall return any amount standing to the credit of the Disposal Proceeds Account to the Borrower, to the extent that such balance has not otherwise been applied in accordance with the terms of the Bond Trust Deed.

Release and reallocation

At the request and expense of the Borrower, the Security Trustee shall release (subject to receiving an amended Designated Properties Schedule from the Borrower and the Issuer in accordance with the Security Trust Deed) from the relevant Security Documents (and reallocate, if applicable) such Charged Properties forming part of the Issuer's Designated Security as may be selected by the Borrower, provided that the Borrower delivers to the Issuer and the Security Trustee a completed Property Release Certificate, certifying that, immediately following such release (and reallocation, if applicable), the Asset Cover Test will not be breached as a result of the release (and reallocation, if applicable) of such part of the security.

Statutory Disposals

The Borrower shall have the right to withdraw Property from the Issuer's Designated Security pursuant to any Statutory Disposal and the Borrower shall deliver to the Issuer and the Security Trustee, as soon as reasonably practicable after it has received notice of such Statutory Disposal, a completed Statutory Disposal Certificate, certifying that the relevant withdrawal relates to a Statutory Disposal.

Additional Properties

Pursuant to Clause 3.2 (*Conditions Precedent*) of the Security Trust Deed (see "*Additional Security*" below), on or prior to creating a Legal Mortgage in respect of any Property for the benefit of the Issuer, the Borrower must, in respect of such security, provide the conditions precedent documents specified in the Schedule 2 of the Security Trust Deed. In addition, pursuant to the Loan Agreement, the Borrower must provide a completed Additional Property Certificate confirming that, *inter alia*, the proposed Additional Properties are residential properties of a type and nature that are usually owned by Registered Providers of Social Housing, (b) Valuation Reports in respect of each Additional Property, (c) a Certificate of Title in respect of each tranche of Additional Properties charged and (d) the other Additional Property conditions precedent set out in the Loan Agreement.

Valuations

Full Valuations

The Borrower shall deliver a Valuation Report to the Issuer and the Security Trustee within 60 days of 23 September 2021 and thereafter within 60 days of each consecutive fifth anniversary of such date in accordance with Clause 11.1 (*Full Valuations*) of the Original Loan Agreement.

Desk Top Valuations

The Borrower shall deliver to the Issuer and the Security Trustee a Desk Top Valuation (being a valuation prepared by a Valuer on a "desk-top" basis) in the period between 31 March and the date falling 120 days thereafter in each year other than a year in respect of which a Valuation Report is required to be delivered under Clause 11.1 (*Full Valuations*) of the Original Loan Agreement.

Loan Events of Default and Enforcement Borrower Default

Each of the following (which is set out in more detail in Clause 13 (*Borrower Default*) of the Original Loan Agreement) is a Borrower Default:

- (a) **Non-payment:** The Borrower does not pay on the due date any amount payable by it under the Finance Documents in the manner required under the Finance Documents, unless the non-payment continues for a period of not more than seven days in the case of principal and not more than 14 days in the case of interest.
- (b) **Breach of other obligations:** The Borrower fails to perform or observe any of its obligations under the Finance Documents (other than as referred to in (a) above, and (j) below) and (except in any case where, in the opinion of the Security Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Security Trustee on the Borrower of notice requiring the same to be remedied.
- (c) **Other non-payment:** (A) Any other present or future indebtedness of the Borrower for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (C) the Borrower fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned in in this paragraph (c) have occurred equals or exceeds £10,000,000 or its equivalent in other currencies (as reasonably determined by the Security Trustee) (and provided further, for the avoidance of doubt, that the amounts mentioned in (A), (B) or (C) above in this paragraph (c) shall exclude the amount of any Public Sector Subsidy except for any Public Sector Subsidy which is or becomes due and payable to the relevant grant making body or organisation).
- (d) **Enforcement Event:** An Enforcement Event occurs under a Relevant Document.
- (e) **Winding-up:** Any order is made by any competent court or resolution passed for the winding up or dissolution of the Borrower save for the purposes of a Permitted Reorganisation or a reorganisation on terms previously approved in writing by the Security Trustee.
- (f) **Cessation of Business:** The Borrower ceases or threatens to cease to carry on the whole or, as determined by the Security Trustee, substantially the whole of its business, save for the

purposes of a Permitted Reorganisation or a reorganisation on terms previously approved in writing by the Security Trustee.

- (g) **Failure or inability to pay debts:** The Borrower stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent.
- (h) **Insolvency:** Any of the insolvency related events occurs or proceedings are taken as referred to in Clause 13.9 (Insolvency) or Clause 13.10 (Insolvency Proceedings), respectively, of the Original Loan Agreement (which exclude any Permitted Reorganisation or reorganisation on terms previously approved in writing by the Security Trustee).
- (i) **Unlawfulness:** It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Documents.
- (j) **Breach of Asset Cover Test:** The Borrower fails to perform its obligations under Clause 9 (Asset Cover Ratio) of the Original Loan Agreement and (except in any case where, in the opinion of the Security Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 60 days next following the service by the Security Trustee on the Borrower of notice requiring the same to be remedied.

For these purposes **Permitted Reorganisation** means:

- (a) the transfer of the engagements of Bourne Housing Society Limited to the Borrower; or
- (b) any amalgamation, merger, consolidation or transfer of engagements (whether entering into or acceptance thereof) of the whole of the Borrower's property (including, for the avoidance of doubt, any statutory procedure as provided for under the Co-operative and Community Benefit Societies Act 2014) made between the Borrower (**Party A**) and any other entity (**Party B**) provided that (i) Party B is a Registered Provider of Social Housing and any new amalgamated entity to be created as a result thereof will be a Registered Provider of Social Housing; (ii) following any such amalgamation, merger, consolidation or transfer of engagements in respect of which the property of Party A (including, for the avoidance of doubt, any liabilities) shall become vested in Party B or a new amalgamated entity, Party B or such new amalgamated entity will thereafter be responsible for all the liabilities of Party A pursuant to the Co-operative and Community Benefit Societies Act 2014; and (iii) a legal opinion confirming the above is provided to the Bond Trustee.

Obligation to Notify the Issuer and the Security Trustee

The Borrower shall notify the Issuer and the Security Trustee of any Borrower Default (and the steps, if any, being taken to remedy it) or potential Borrower Default promptly upon becoming aware of the same. The Issuer shall also notify the Security Trustee of any Borrower Default or potential Borrower Default promptly upon becoming aware of the same (unless the Issuer is aware that a notification has already been provided by the Borrower) including, but not limited to, the non-payment by the Borrower of any amounts owing to the Issuer under the Loan Agreement on the due date for payment thereof.

Borrower Default Notice

Following the occurrence of a Borrower Default (but in the case of the happening of any of the events described in paragraphs (b) (*Breach of other obligations*), (c) (*Other non-payment*) and (i) (*Unlawfulness*) above, only if the Security Trustee shall have certified in writing to the Borrower that

such event is, in its opinion, materially prejudicial to the interests of the Issuer), the Issuer may declare by notice to the Borrower either:

- (a) that the security for the Loan has become, whereupon the security for the Loan shall become, immediately enforceable (and the Issuer shall notify the Security Trustee of the same in accordance with the Security Trust Deed); and/or
- (b) (irrespective of whether a notice to the effect set out in (a) shall have already been given) that the Loan has become due and repayable, whereupon that Loan shall become immediately due and repayable at the outstanding balance thereof together with accrued interest, premium (if any) and any other amounts and the security therefor shall become immediately enforceable.

Enforcement

If the security constituted under any Security Documents for the benefit of the Issuer becomes enforceable as a result of the service of a notice pursuant to Clause 13.14 (*Borrower Default Notice*) of the Original Loan Agreement, then the Security Trustee or any Receiver (where appropriate) shall hold the moneys arising from any sale, calling in, collection or conversion under, or otherwise arising from the exercise of, the powers of conversion contained in the Security Documents after the security has become enforceable upon trust to apply the same:

- (a) first, in payment or retention of all costs, charges, expenses and liabilities incurred in or about the exercise of such powers or otherwise in accordance with the Security Documents and payments made by the Security Trustee, any Appointee or any Receiver in accordance with the Security Documents and of all remuneration payable to the Security Trustee, any Appointee or any Receiver in accordance with the Security Documents with interest thereon as provided in the Security Documents;
- (b) second, in or towards payment to the Issuer of all interest then due and remaining unpaid on the Loan and all commitment fees then due and remaining unpaid;
- (c) third, in or towards payment to the Issuer of all principal and premium (if any) then due and remaining unpaid in respect of the Loan; and
- (d) fourth, in or towards payment to the Issuer of all other amounts then due and remaining unpaid under the Loan Agreement.

Taxes

The Borrower must make all payments to be made by it to the Issuer under, *inter alia*, the Loan Agreement, the Legal Mortgages and the Security Trust Deed, without any deduction or withholding for or on account of tax, unless a deduction or withholding is required by law.

If a deduction or withholding from any such payment is required by law to be made by the Borrower, the amount of the payment due from Borrower shall be increased to an amount which (after making such deduction or withholding) leaves an amount equal to the payment which would have been due if no deduction or withholding had been required. If, as a result of any actual or proposed change in tax law, the Issuer determines (in its reasonable commercial judgement) that it would on the next following Interest Payment Date be required to make a withholding or deduction in respect of payments to be made by the Issuer to the Bondholders pursuant to the Conditions (other than in respect of a Bondholder Specific Withholding), the Issuer shall notify the Borrower of the same. The Borrower may (but, for the avoidance of doubt, shall not be obliged to), in its sole discretion, pay to the Issuer such additional amounts as will enable the Issuer (after such withholding or deduction) to pay to the Bondholders the amounts of principal and interest which they would have received in respect of the Bonds in the absence

of such withholding or deduction. The Borrower shall continue to pay such additional amounts to the Issuer unless and until the Borrower delivers to the Issuer a notice stating that it shall cease to make such additional payments with effect from the next following Interest Payment Date.

Governing Law

The Loan Agreement, and any non-contractual obligations or matters arising from or connected with it, are governed by, and shall be construed in accordance with, English law.

DESCRIPTION OF THE LEGAL MORTGAGES AND THE SECURITY TRUST DEED

The Issuer's obligations in respect of the Bonds are secured pursuant to the Bond Trust Deed in favour of the Bond Trustee for the benefit of itself and the Bondholders and the other Secured Parties by the Issuer Security, which includes an assignment by way of security of the Issuer's rights, title and interest arising under the Legal Mortgages and the Security Trust Deed.

The following description of the Legal Mortgages and the Security Trust Deed consists of a summary of certain provisions of the Legal Mortgages and the Security Trust Deed and is qualified by reference to the detailed provisions thereof. The Legal Mortgages and the Security Trust Deed are not, however, incorporated by reference into, and therefore do not form part of, this Prospectus.

Definitions used in this section but not otherwise defined in this Prospectus have the meanings given to them in the Legal Mortgages and/or the Security Trust Deed.

LEGAL MORTGAGES

The Borrower has, in relation to the Existing Properties, entered into Legal Mortgages dated 23 September 2011 and 8 November 2019 and shall, in relation to any additional properties to be charged as underlying security for the Bonds, enter into further Legal Mortgages substantially in the form set out in the Security Trust Deed.

Fixed Legal Mortgage and Charge

Pursuant to the Legal Mortgages, the Borrower, as security for the payment of all Secured Obligations, has charged, or will charge, in favour of the Security Trustee for the benefit of itself and, inter alios, the Issuer:

- (a) by way of a first fixed legal mortgage all the property specified therein together with all buildings and Fixtures, erections and structures thereon or in the course of construction thereon, the proceeds of sale of all or any part thereof and (so far as the same are capable of being mortgaged) the benefit of any covenants for title given or entered into by any predecessor in title of the Borrower and any moneys paid or payable in respect of such covenants;
- (b) by way of first fixed charge:
 - (i) all plant and machinery now or in the future owned by the Borrower and its interest in any plant and machinery in its possession which form part of or are operated by the Borrower on the Mortgaged Property;
 - (ii) all benefits in respect of the Insurances and all claims and returns of premiums in respect thereof;
 - (iii) the benefit of all present and future licences, consents and authorisations (statutory or otherwise) held in connection with the Mortgaged Properties and the use of any of the Security Assets specified in (a) and (b)(i) above and the right to recover and receive all compensation which may at any time become payable to it in respect thereof; and
 - (iv) if and in so far as the legal mortgage set forth in (a) above or the assignments set forth in the section entitled "Assignment" below shall for any reason be ineffective as legal mortgages or assignments, the assets referred to therein.

Assignment

Pursuant to the Legal Mortgages, the Borrower, as security for payment of the Secured Obligations, has covenanted or will covenant that on the request of the Security Trustee it shall, following an Enforcement Event which has occurred and is continuing unremedied or unwaived and is not remedied within any applicable grace period, with full title guarantee assign to the Security Trustee for the benefit of itself and, *inter alios*, the Issuer all of its rights, title and interest in and to:

- (a) the personal agreements and covenants by the tenants, lessees, licensees or other parties under the Letting Documents and by all guarantors and all security held by the Borrower from time to time, whether present or future, in respect of the obligations of the tenants, lessees, licensees or other parties under the Letting Documents (including, without limiting the generality of the foregoing, all moneys due and owing to the Borrower or which may become due and owing to the Borrower at any time in the future in connection therewith);
- (b) all agreements now or from time to time entered into or to be entered into to enable the charging of the Security Assets and for the sale, letting or other disposal or realisation of the whole or any part of the Security Assets (including, without limiting the generality of the foregoing, all moneys due and owing to the Borrower or which may become due and owing to the Borrower at any time in the future in connection therewith);
- (c) all agreements, contracts, deeds, licences, undertakings, guarantees, covenants, warranties, representations and other documents (including all documents entered into now or in the future so as to enable the Borrower to perfect its rights under this Deed or any such agreement, contract, deed, licence, undertaking, guarantee, covenant, warranty, representation or other documents) now or hereafter entered into by or given to the Borrower in respect of the Mortgaged Properties and all claims, remedies, awards or judgements paid or payable to the Borrower (including, without limitation, all liquidated and ascertained damages payable to the Borrower under the above) in each case relating to the Mortgaged Properties;
- (d) all licences held now or in the future in connection with the relevant Mortgaged Property and also the right to recover and receive all compensation which may at any time become payable to the Borrower in relation to the relevant Mortgaged Property;
- (e) all rights and claims to which the Borrower is now or may hereafter become entitled in relation to any development, construction project, redevelopment, refurbishment, repair or improvement of or on the relevant Mortgaged Property;
- (f) all guarantees, warranties, bonds and representations given or made now or hereafter by, and any rights or remedies against, all or any of the designers, builders, contractors, surveyors, valuers, professional advisers, sub-contractors, manufacturers, suppliers and installers of any Fixtures in respect of the relevant Mortgaged Property; and
- (g) all rental income and disposal proceeds in each case relating to the relevant Mortgaged Property which has not been assigned as set forth in (a), (b) or (c) above and the right to make demand for and receive the same.

Representations, Warranties and Undertakings

The Borrower makes various representations in respect of the Mortgaged Property including as to ownership, planning permission, covenants and security interests. In addition, the Borrower undertakes to, *inter alia*, repair, insure, pay or procure the payment of taxes in respect of and comply with all leases in respect of, the Mortgaged Property.

Enforcement of Security

Each Legal Mortgage provides, or will provide, that at any time after an Enforcement Event has occurred and is continuing and has not been remedied within any applicable grace period, the security created by or pursuant to such Legal Mortgage will be immediately enforceable and the Security Trustee may enforce all or any part of such security.

The Legal Mortgages further entitle the Security Trustee and, *inter alios*, the Issuer to be indemnified out of the Security Assets in respect of, *inter alia*, all liabilities and expenses properly incurred by them in the execution or purported execution of any of the powers, authorities or discretions vested in them pursuant to the Legal Mortgages.

Any moneys received by the Security Trustee pursuant to the enforcement of the Legal Charges shall be applied by the Security Trustee in the following order of priority:

- (a) first, in or towards payment of all Relevant Trustee Costs;
- (b) second, in or towards satisfaction of all monies, liabilities and obligations whatsoever (present or future, actual or contingent) payable, owing, due or incurred by the Borrower to the Issuer (other than Relevant Trustee Costs) in accordance with the Loan Agreement;
- (c) third, to the extent not recovered under (a) above, in or towards payment of all Trustee Costs; and
- (d) fourth, the balance, if any, to the Borrower.

Governing Law

The Legal Mortgages are, or will be, governed by and construed in accordance with English law.

SECURITY TRUST DEED

The benefit of the security created by the Borrower pursuant to the Legal Mortgages shall be held by the Security Trustee on trust for the benefit of itself and, *inter alios*, the Issuer on the terms of the Security Trust Deed.

The Security

Designation of Security

The Security Trust Deed provides that the Security Trustee, the Borrower and the Issuer shall agree the allocation of properties which shall comprise the Issuer's Designated Security in respect of the Loan Agreement. All properties which are not Designated Security shall form the Undesignated Security.

Additional Security

Pursuant to Clause 3.2 (*Conditions Precedent*), on or prior to the Borrower creating a Legal Mortgage in respect of any Property for the benefit of the Issuer, the Borrower must deliver to the Security Trustee the documentation relating thereto as set out therein. Such documents must be in the form and substance satisfactory to the Security Trustee and the Issuer.

Release and Reallocation of Security

Pursuant to the terms of the Security Trust Deed, the Borrower and the Issuer may agree to amend the Issuer's Designated Security by either removing Designated Security or by designating any

Undesignated Security as the Issuer's Designated Security by, *inter alia*, delivering an amended Designated Properties Schedule signed by the Borrower and the Issuer to the Security Trustee.

At any time prior to the Security Trustee taking any steps to enforce the Undesignated Security, upon receiving instructions from the Borrower, the Security Trustee shall release the benefit of any encumbrance, rights or obligations held by it over the Undesignated Security as security for all or any of the Secured Obligations provided that the Borrower shall have paid to the Security Trustee, or provided for to the satisfaction of the Security Trustee, all Trustee Costs which relate to that Undesignated Security.

Any such release or reallocation will be subject to the requirements set out in the Loan Agreement (see "*Description of the Loan Agreement*" above).

Application of Proceeds

Upon the enforcement of, *inter alia*, all rights vested in the Security Trustee by virtue of, or pursuant to, its holding the interests conferred on it by the Security Documents, and after satisfying claims which at law rank in priority to sums owing under or in respect of any of the Relevant Documents, the Security Trustee shall apply all Proceeds and all money derived therefrom:

- (a) in respect of Designated Security in the following order:
 - (i) first, in or towards payment of all Relevant Trustee Costs;
 - (ii) second, in or towards satisfaction of all Relevant Liabilities of the Relevant Beneficiary (other than Relevant Trustee Costs) in accordance with the Relevant Documents in respect of the Relevant Liabilities;
 - (iii) third, to the extent not recovered under (a) above, in or towards payment of all Trustee Costs; and
 - (iv) fourth, the balance, if any, to the Borrower.
- (b) in respect of Undesignated Security in the following order:
 - (i) first, to the extent not recovered under paragraphs (i), (ii) or (iii) (a) above, in or towards payment of all Trustee Costs; and
 - (ii) second, to the Borrower.

Enforcement of Security

Pursuant to Clause 8 (*Activities of the Security Trustee*) of the Security Trust Deed, the Security Trustee shall only be required to take action to enforce or protect the security in respect of the Loan Agreement if so instructed by the Issuer (and then only if it has been indemnified and/or secured to its satisfaction).

In respect of instructions given by the Issuer, the Issuer has assigned its rights under, *inter alia*, the Security Trust Deed and the Legal Mortgages to the Bond Trustee and, pursuant to Condition 6.3, has covenanted not to take any action or direct the Security Trustee to take any action pursuant thereto except with the prior consent of the Bond Trustee. The Bond Trustee may, but is not obliged to, seek the consent of the Bondholders in accordance with the Bond Trust Deed prior to giving any such consent.

In enforcing the Issuer Security (including the Issuer's rights, title and interests in the Security Trust Deed and the Legal Mortgages insofar as they relate to the Bonds) the Bond Trustee may act in its discretion. It is, however, required to take action, pursuant to Condition 12.2, where so directed by the

requisite majority of the Bondholders provided, however, that it is secured and/or indemnified to its satisfaction.

Governing Law

The Security Trust Deed is governed by and shall be construed in accordance with English law.

DESCRIPTION OF THE ACCOUNT AGREEMENT AND THE CUSTODY AGREEMENT

The Issuer has appointed The Bank of New York Mellon, London Branch a banking corporation organised under the laws of the State of New York and operating through its branch in London at One Canada Square, London E14 5AL, United Kingdom, as its Account Bank pursuant to the Account Agreement and as its Custodian pursuant to the Custody Agreement in relation to the issue of the Bonds.

The Bank of New York Mellon (formerly The Bank of New York), a wholly owned subsidiary of The Bank of New York Mellon Corporation, is incorporated, with limited liability by Charter, under the Laws of the State of New York by special act of the New York State Legislature, Chapter 616 of the Laws of 1871, with its head office situated at 240 Greenwich Street, New York, New York 10286, USA and having a branch registered in England & Wales with FC No 005522 and BR No 000818 with its principal office in the United Kingdom situated at One Canada Square, London E14 5AL.

The Bank of New York Mellon's corporate trust business services \$12 trillion in outstanding debt from 55 locations around the world. It services all major debt categories, including corporate and municipal debt, mortgage-backed and asset-backed securities, collateralised debt obligations, derivative securities and international debt offerings. The Bank of New York Mellon's corporate trust and agency services are delivered through The Bank of New York Mellon and The Bank of New York Mellon Trust Company, N.A.

The Bank of New York Mellon Corporation is a global financial services company focused on helping clients manage and service their financial assets, operating in 35 countries and serving more than 100 markets. The company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset management and wealth management, asset servicing, issuer services, clearing services and treasury services through a worldwide client-focused team. It has more than \$26 trillion in assets under custody and administration and more than \$1.4 trillion in assets under management. Additional information is available at bnymellon.com.

The following description of the Account Agreement and the Custody Agreement consists of a summary of certain provisions of the Account Agreement and the Custody Agreement and is qualified by reference to the detailed provisions thereof. The Account Agreement and the Custody Agreement are not, however, incorporated by reference into, and therefore do not form part of, this Prospectus.

Definitions used in this section but not otherwise defined in this Prospectus have the meanings given to them in the Account Agreement and the Custody Agreement.

ACCOUNT AGREEMENT

Accounts

The Account Bank maintains three accounts for the Issuer in respect of the Bonds: the Transaction Account, the Initial Cash Security Account and the Disposal Proceeds Account.

Initial Deposits

Pursuant to the Account Agreement, the Issuer shall on the New Bond Issue Date:

- (a) credit the Initial Cash Security Account with the Retained Proceeds (if any) to the extent that such amount is not invested directly in Permitted Investments which are deposited in the Initial Cash Security Custody Sub-Account;
- (b) credit the Transaction Account with the Retained Accrued Interest in respect of the New Bonds (other than the New Retained Bonds); and

- (c) credit the Transaction Account with the net issue proceeds of the New Bonds (less the amounts referred to above) to the extent that such amount is not paid directly to or to the order of the Borrower pursuant to, and in accordance with, the Loan Agreement.

The Issuer shall, upon receipt, credit to the Disposal Proceeds Account all amounts received from the Borrower pursuant to Clause 10.3 (*Disposal Proceeds*) of the Original Loan Agreement.

Retained Bond Deposits

Pursuant to the Account Agreement, the Issuer shall, upon the sale of any Retained Bonds:

- (a) credit the Initial Cash Security Account with the net sale proceeds of such Retained Bonds (less any Retained Bond Premium Amount), to the extent that such amount is not paid directly to the Borrower pursuant to, and in accordance with, the Loan Agreement; and
- (b) credit the Transaction Account with the Retained Bond Premium Amount (if any), pending application in accordance with the Conditions.

Upon the receipt by the Issuer of any interest in respect of the Retained Bonds held by it or on its behalf, the Issuer shall credit such interest to the Transaction Account pending application in accordance with the Conditions.

Future Deposits and Withdrawals

The Issuer has covenanted, pursuant to the Bond Trust Deed that:

- (a) prior to the enforcement of the Issuer Security, payments from the Initial Cash Security Account shall only be made to fund:
 - (i) the Commitment pursuant to, and in accordance with the terms of, the Loan Agreement;
 - (ii) payment to the Borrower or a member of the Moat Group in respect of any Bonds surrendered for cancellation in accordance with the Loan Agreement;
 - (iii) the purchase of Permitted Investments pursuant to the Custody Agreement; or
 - (iv) redemptions of the Bonds in accordance with the Conditions;
- (b) prior to the enforcement of the Issuer Security, payments from the Disposal Proceeds Account shall only be made to the Borrower pursuant to, and in accordance with the terms of, the Loan Agreement or to purchase Permitted Investments pursuant to the Custody Agreement; and
- (c) no payments from the Transaction Account will be made other than in accordance with the Conditions and the Issuer has undertaken to procure that amounts are paid into and out of the Transaction Account only in accordance with the Conditions, the Account Agreement and the Agency Agreement.

The Account Bank is under no obligation to monitor compliance with the above covenants.

Interest

Any moneys standing to the credit of the Transaction Account, the Initial Cash Security Account and/or the Disposal Proceeds Account will earn interest at the rate(s) agreed from time to time between the Account Bank and the Issuer.

Pursuant to the Account Agreement, interest accrued on the Transaction Account and the Initial Cash Security Account shall be credited to the Transaction Account and interest accrued on the Disposal Proceeds Account shall be credited to the Disposal Proceeds Account.

Change of Account Bank

The appointment of the Account Bank may, with the prior written approval of the Bond Trustee, be terminated upon 45 days' written notice (subject to the appointment of a replacement Account Bank) or forthwith at any time the Account Bank is adjudged bankrupt or insolvent. The appointment of the Account Bank may also be terminated in the event that the short-term senior, unsecured and unguaranteed indebtedness rating of the Account Bank as assigned by Moody's falls below "P-1" or is withdrawn, and there are amounts standing to the credit of the Initial Cash Security Account or the Disposal Proceeds Account (subject to the appointment of a replacement Account Bank).

The Account Bank may resign its appointment upon giving at least 60 days' written notice (subject to the appointment of a replacement Account Bank).

Pursuant to the Account Agreement, the appointment of any replacement Account Bank shall be subject to the prior written approval of the Bond Trustee, be on substantially the same terms as the Account Agreement and be subject to the condition that such replacement Account Bank must have a short-term senior, unsecured and unguaranteed indebtedness rating from Moody's of no less than "P-1".

CUSTODY AGREEMENT

Custody Account

Pursuant to the Custody Agreement, the Custodian maintains, in the name of the Issuer, the Disposal Proceeds Custody Sub-Account and the Initial Cash Security Custody Sub-Account (the **Custody Sub-Accounts**) and the Disposal Proceeds Cash Sub-Account and the Initial Cash Security Cash Sub-Account (the **Cash Sub-Accounts** and, together with the Custody Sub-Accounts, the **Custody Account**).

Payments and Delivery

The Issuer has authorised the Custodian to make payments and delivery out of the Custody Account only for the purpose of any acquisition or sale of Permitted Investments or as provided below.

Pursuant to the Custody Agreement, unless otherwise instructed pursuant to Instructions to make a payment out of the proceeds of any Distributions in respect of Permitted Investments held by the Issuer in the settlement of an acquisition of other Permitted Investments on or prior to the date of receipt of such Permitted Investments (subject as provided below), the Issuer has authorised and instructed the Custodian, forthwith upon receipt by the Custodian of any Distributions, to transfer:

- (a) all Distributions credited to the Disposal Proceeds Cash Sub-Account to the Disposal Proceeds Account;
- (b) all Distributions (including any amount representing Permitted Investment Profit (if any)) credited to the Initial Cash Security Cash Sub-Account (other than Distributions which represent redemption and/or sale proceeds less any Permitted Investment Profit (if any)) to the Transaction Account; and
- (c) all Distributions credited to the Initial Cash Security Cash Sub-Account (other than those to be credited to the Transaction Account pursuant to (b) above) to the Initial Cash Security Account,

subject, in each case, to any deductions in respect of any taxes or levies required by any revenue or governmental authority.

The Issuer has agreed that it shall not instruct the Custodian pursuant to Instructions to make a payment out of the proceeds of any Distributions standing to the credit of the Initial Cash Security Cash Sub-Account other than Distributions which represent redemption and/or sale proceeds (but excluding any amount representing Permitted Investment Profit (if any)) and that such amounts shall forthwith upon receipt be transferred to the Transaction Account in accordance with (b) above.

Interest

Notwithstanding the above, any moneys standing to the credit of the Disposal Proceeds Cash Sub-Account and the Initial Cash Security Cash Sub-Account will earn interest at the rate(s) agreed between the Issuer and the Account Bank pursuant to the Account Agreement in respect of the Disposal Proceeds Account and the Initial Cash Security Account respectively.

Change of Custodian

The appointment of the Custodian may, with the prior written approval of the Bond Trustee, be terminated upon 45 days' written notice (subject to the appointment of a replacement Custodian) or forthwith at any time the Custodian is adjudged bankrupt or insolvent. The appointment of the Custodian may also be terminated in the event that the short-term senior, unsecured and unguaranteed indebtedness rating of the Custodian as assigned by Moody's falls below "P-1" or is withdrawn, and there are Permitted Investments standing to the credit of the Custody Account (subject to the appointment of a replacement Custodian).

The Custodian may resign its appointment upon giving at least 30 days' written notice to the Issuer and the Bond Trustee (subject to the appointment of a replacement Custodian).

Pursuant to the Custody Agreement, the appointment of any replacement Custodian shall be subject to the prior written approval of the Bond Trustee, be on substantially the same terms as the Custody Agreement and be subject to the condition that such replacement Custodian must have a short-term senior, unsecured and unguaranteed indebtedness rating from Moody's of no less than "P-1".

DESCRIPTION OF THE ISSUER

Incorporation and Status

Moat Homes Finance Plc (the **Issuer**) is a public limited company incorporated in England and Wales with registered number 7743490 on 17 August 2011 under the Companies Act 2006.

The registered address of the Issuer is Mariner House, Galleon Boulevard, Crossways, Dartford, Kent DA2 6QE. The telephone number of its registered address is 0300 323 0011.

The website of the Issuer is at www.moat.co.uk. The information on the Issuer's website does not form part of this Prospectus unless that information is incorporated by reference into this Prospectus (see "*Documents Incorporated by Reference*" below).

The Issuer has no subsidiaries.

Principal Activities of the Issuer

The Issuer is a special purpose vehicle established for the purpose of issuing the Bonds (and incurring other indebtedness (including other secured indebtedness but subject to the covenant set out in Condition 6.1 (*General Covenants*))) and lending the proceeds thereof to the Borrower to be applied in the achievement of the Borrower's objects.

The Issuer previously issued £150,000,000 5 per cent. Secured Bonds due 2041 in September 2011.

Directors

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

Name	Other Principal Activities
Hazel Sharp	Director of Accounting Services, Moat Homes Limited
Greg Taylor	Executive Director of Finance & Corporate Services, Moat Homes Limited Director, Moat Housing Group Limited Director, Moat Foundation Non-executive Director, FW Lettings Limited

The business address of each of the directors is Mariner House, Galleon Boulevard, Crossways, Dartford, Kent DA2 6QE.

The Secretary of the Issuer is Matthew Hayday whose business address is at Mariner House, Galleon Boulevard, Crossways, Dartford, Kent DA2 6QE.

Subject as follows, there are no potential conflicts of interest between any duties to the Issuer of the directors of the Issuer and their private interests and/or duties. Each of the directors of the Issuer are board members or employees of the Borrower. However, the constitutional documents of the Issuer and the Borrower allow for this.

Share Capital and Major Shareholders

The entire issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, all of which are paid up to 25 pence.

The Borrower holds all of the shares of the Issuer.

Operations

Financial statements for the year ended 31 March 2019 have been prepared for the Issuer. The profit and loss account shows a result of £nil for the year. This is in line with the Issuer's role as a special purpose lending vehicle which does not seek to generate financial returns.

DESCRIPTION OF THE BORROWER

Incorporation and Status

Moat Homes Limited (the **Borrower**) was incorporated on 1 April 1966 and is a registered society within the meaning of the Co-operative and Community Benefit Societies Act 2014 with registered number 17434R. The Borrower is also registered with the Regulator under the Housing and Regeneration Act 2008, as amended by the Localism Act 2011, with registered number L0386 and is affiliated to the National Housing Federation. The Borrower is an exempt charity.

The registered office of the Borrower is Mariner House, Galleon Boulevard, Crossways, Dartford, Kent DA2 6QE. The telephone number of its principal place of business is 0300 323 0011.

The website of the Borrower is at www.moat.co.uk. The information on the Borrower's website does not form part of this Prospectus unless that information is incorporated by reference into this Prospectus (see "*Documents Incorporated by Reference*" below).

Background and History

The Borrower was first registered as a friendly society, Moat Housing Society Limited, in 1966 and was formed by a group of property professionals, including architects, surveyors and lawyers, who all had the common goal of providing affordable homes to residents in the South East of England.

The Borrower is now a leading housing association working in London and the South East of England, employing over 340 people, and is committed to providing excellent customer service. Its main activities are:

- owning and/or managing and/or financing over 20,000 properties in its core areas of Essex, Kent, Sussex and South London; and
- developing a choice of high quality affordable homes for a wide spectrum of people, with a focus on developing new mixed tenure communities where people are proud to live.

The Moat Homes Limited Group

The Borrower is the parent of the Moat Group (the **Moat Group**). The Moat Group comprises the Borrower, its subsidiaries and their subsidiaries.

The Borrower's subsidiaries are:

- Moat Housing Group Limited (**MHG**), a non-charitable registered provider of social housing regulated by the Regulator. MHG's primary activity is the construction and sale of homes on the open market. Its subsidiaries are:
 - Moat Development Limited, a limited company registered with Companies House, which is currently dormant; and
 - Mariner Facilities Management Limited, a limited company registered with Companies House which is currently dormant;
- the Issuer (see "*Description of the Issuer*" above);
- Moat Construction Services Limited, a limited company registered with Companies House, which is currently dormant; and

- Moat Foundation, a charitable company registered with both Companies House and the Charity Commission, which is focused on communities. Community activities are aimed at young and older people groups in particular, but not exclusively.

Principal Activities of the Borrower

The Borrower is a registered provider of social housing and a community benefit society with charitable objects whose activities are regulated by the Regulator. As such, the Borrower has charitable status but is exempt from registration with the Charity Commission.

The Borrower focuses on four areas where it can make a contribution to its ambition of eliminating housing need:

- Focused on growth – ensuring the continuation of a strong development programme;
- An innovative, commercial business – looking at the development of new products and tenures as a means to further growth;
- Easy to do business with – focusing on simplifying our offer and maximising the use of digital technology service delivery, and
- A consistent customer experience – focusing on setting out a clear and consistent customer offer to deliver the right outcomes and greater efficiency.

In order to have the capacity to do this, it will aim to grow and improve by maximising income and efficiency in everything it does.

Any surpluses generated by the Borrower are reinvested towards the attainment of these objectives.

Board

The Board members of the Borrower (all of whom, other than Elizabeth Austerberry, Greg Taylor and Steve Nunn, are non-executive) and their principal activities outside the Borrower, where these are significant with respect to the Borrower, are as follows:

Name	Principal Activities outside Borrower
Steve White (Chair)	Board member, Habinteg Co-opted Risk committee, BLESMA The Limbless Veterans, Charity
Jo Moran	Head of Transformation, Stores and Property, Marks & Spencer
Tim Boag	Interim Business Finance Managing Director, Aldermore Bank Director, London Welsh RFC
Mark Foster	Chairman, 7Digital Group plc Non-executive Director, Midia Research Ltd Director, Kitmapper Ltd Director, Wishlist Property Ltd Director, The Red Dot Consultancy Ltd

Name	Principal Activities outside Borrower
Ian Lindsay	Partner, Aspire CP LLP Consultancy work, Deloitte LLP
Gerard McCormack	Chairman, Lagan Associates Limited Director, Matrix Medical (and related sister companies) Director, ENTRUST and subsidiaries Governor of Farnborough Hill School
Elizabeth Rantzen	Non-executive Director, West London NHS Trust Independent member, Parole Board Panel Chair, General Dental Council Fitness to Practice Committee Treasurer, Prison Reform Trust Trustee, 29 May 1961 Charitable Trust Trustee, Fidelio Trust Trustee, Rehearsal Orchestra Trustee, Awards for Young Musicians
Elizabeth Austerberry	Board member, National Housing Federation Director, Moat Housing Group Limited
Steve Nunn	Director, Moat Housing Group Limited
Greg Taylor	Director, Moat Homes Finance plc Director, Moat Housing Group Limited Director, Moat Foundation Non-executive Director, FW Lettings Limited

The business address of each of the board members is Mariner House, Galleon Boulevard, Crossways, Dartford, Kent DA2 6QE.

Subject as follows, there are no potential conflicts of interest between any duties to the Borrower of the board members of the Borrower and their private interests and/or duties. Greg Taylor is also a director of the Issuer. However, the constitutional documents of the Issuer and the Borrower allow for this.

Corporate Governance

The Board is responsible for the strategic direction of the Borrower and ensuring the business is run effectively and efficiently to achieve the long-term ambition to eliminate housing need. Whilst the Board has overall responsibility for the affairs of the Borrower, day to day operational responsibility is delegated to the Executive Team and committees. There are, however, certain matters for which the Board reserves its powers. The Board sets the Borrower's strategic aims; ensures that the necessary financial and human resources are in place for the Borrower to meet its objectives; reviews management performance; sets the Borrower's values and standards; and ensures that its obligations to its stakeholders are understood and met.

Recruitment and selection of new members of the Board is based upon the skill set of the Board, aligned with the current and planned activities of the Borrower. Board composition is also monitored against the Borrower's Equality and Diversity Policy.

The Board undertakes an annual review of its performance collectively as well as appraising each member individually. The Board reviews annually the membership of committees, updates its skills

matrix and considers succession planning. As well as formal Board meetings, there is an annual away-day to review strategy, and training sessions.

The Board has adopted the main principles of the UK Corporate Governance Code and has complied with its provisions as far as they can reasonably be applied to a Registered Provider with charitable objectives. The areas of non-compliance are:

- C.1.3 – the Borrower does not produce half-yearly financial statements, these are not required by the Regulator; and
- E.1, E.1.1 and E.1.2 – the requirements in relation to dialogue with shareholders who are not non-executives. Of the Borrower's 11 shareholders, eight are non-executives and all 11 have equal shareholdings.

The Board's code of governance is based on all relevant aspects of the UK Corporate Governance Code.

The Board is supported by the following committees:

- Audit Committee* – The role of the Audit Committee is to monitor the integrity of accounts, review the effectiveness of internal control systems including management, operational, and financial controls, and to monitor the Borrower's risk management systems. As part of this, the Audit Committee monitors the terms of appointment and work of both the internal and external auditors, and has a direct and regular line of communication with them.
- Finance Committee* – The role of the Finance Committee is to monitor the Borrower's financial performance and overall development capital commitments. The Finance Committee also ensures that the Borrower adopts sound treasury management, borrowing, and investment policies and strategies.
- Capital Projects Committee* - This Committee is responsible for monitoring the overall performance of the build programme against investment appraisals, as well as monitoring the planned utilisation of available funding facilities against a range of treasury risk parameters set by the Board.
- Customer and Communities Committee* – The Customer and Communities Committee oversees the delivery of the Borrower's landlord function and great service for the Borrower's customers across all tenures including the framework by which the Borrower's service to customers is managed together with digital initiatives to improve services. The Customer and Communities Committee reviews the Borrower's customer engagement strategies and processes for providing customers with information / feedback and in conjunction with Moat Foundation, ensures the Borrower's community development activities are targeted and consistent with its social purpose.
- Remuneration Committee* – The Remuneration Committee is responsible for reviewing the remuneration of the Chief Executive, the Executive Team, senior management, and non-executive directors.
- Governance and Nominations Committee* – The role of the Governance and Nominations Committee is to review the effectiveness of governance arrangements, the composition of the Board and committees, and succession planning. The Governance and Nominations Committee also leads the process for Board appointments, making recommendations to the Board for its approval. External recruitment consultants assist the Governance and Nominations Committee with the recruitment of new non-executive directors.

The Executive Team comprises the following:

Name	Role
Elizabeth Austerberry	Chief Executive
Steve Nunn	Executive Director, Development & New Business
Anne-Britt Karunaratne	Executive Director, Housing and Customer Services
Greg Taylor	Executive Director, Finance & Corporate Services

The business address of each of the above Executive Team members is Mariner House, Galleon Boulevard, Crossways, Dartford, Kent DA2 6QE.

There are no potential conflicts of interest between any duties to the Borrower of the Executive Team of the Borrower and their private interests and/or duties.

Shares Capital and Major Shareholders

The entire issued share capital of the Borrower comprises 11 shares of £1 each, all of which are fully paid up. Each of the Borrower's shareholders holds one share of £1. These shares confer the right to vote at general meetings and are irredeemable, being cancelled on cessation of membership. They do not confer a right to dividends or a provision for distribution on a winding-up.

Pensions

The Borrower and its subsidiaries participate in the following defined benefit pension schemes:

- the Social Housing Pension Scheme Defined Benefit (**SHPS DB**)
- the Pension Trust Growth Plan (**PTGP**)
- the Local Government Pension Schemes (**LGPS**) administered by the London Borough of Merton (**LGPS Merton**); and
- the Local Government Pension Schemes (**LGPS**) administered by Essex County Council (**LGPS Essex**)

SHPS DB: The triennial valuation results at 30 September 2017, completed in 2018, show the market value of the whole scheme's assets as £4.553 billion, with whole scheme liabilities of £6.075 billion, revealing a shortfall of assets compared with the value of liabilities of £1.522 billion. The FRS102 Valuation Report for the year ending 31 March 2019 for the Borrower produced by the Scheme Actuary shows a net liability of £13,259,000.

PTGP: The Borrower participates in the PTGP on an AVC basis only. It is not possible for the Borrower to obtain sufficient information to account for the scheme as a defined benefit scheme and therefore it accounts for PTGP as a defined contribution scheme. In the financial year ended 31 March 2019 the Borrower made a deficit contribution of £7,241 to PTGP.

LGPS Merton: The Borrower no longer has any active members participating in LGPS Merton however has agreed with the scheme that it can continue to participate and make deficit contributions until such time as its liability has been paid. The FRS102 Valuation Report for the year ending 31 March 2019 for the Borrower produced by the Scheme Actuary shows a net liability of £687,000.

LGPS Essex: The Borrower has one active member participating in the LGPS Essex. The FRS102 Valuation Report for the year ending 31 March 2019 for the Borrower produced by the Scheme Actuary shows a net liability of £471,000.

Recent Developments

There have been no recent events particular to the Borrower that are, to a material extent, relevant to the evaluation of the Borrower's solvency.

Corporate Rating

The Borrower has been assigned a credit rating of "A2" by Moody's. Moody's is not established in the European Union and has not applied for registration under the CRA Regulation. However, the application for registration under the CRA Regulation of Moody's Investors Service Limited, which is established in the European Union, disclosed the intention to endorse the global sale credit ratings assigned by its non-EU entities, including Moody's Investors Service, Inc.

DESCRIPTION OF THE REGULATION AND FUNDING ENVIRONMENT APPLICABLE TO THE BORROWER

Regulation and Regulatory Framework

The Housing and Regeneration Act 2008, as amended by the Localism Act 2011 and the Housing and Planning Act 2016 (the **HPA 2016**), (the **HRA 2008**) makes provision for the regulation of social housing provision in England.

Pursuant to the HRA 2008, the Homes and Communities Agency (the **HCA**) acted as the regulator of Registered Providers of Social Housing in England, including the Issuer. Since January 2018, Homes England has operated the non-regulatory arm and the Regulator of Social Housing (the **Regulator**) has taken on the functions of the regulation committee. The Regulator provides economic regulation for Registered Providers of Social Housing in order to ensure that they are financially viable and well governed.

The Regulator regulates Registered Providers of Social Housing in accordance with the regulatory framework for social housing in England (the **Regulatory Framework**), which sets out the standards that apply to Registered Providers of Social Housing (the **Standards**).

The Regulator proactively regulates the 3 Standards which are classified as 'economic'. These are

- the Governance and Financial Viability Standard;
- the Value for Money Standard; and
- the Rent Standard.

The Regulator has issued 2 codes of practice: one code to amplify the Governance and Financial Viability Standard and the code for the Value for Money Standard. Furthermore, the Regulator has issued a Rent Standard Guidance.

The remaining 4 standards are classified as 'consumer' for which the Regulator's role is reactive in response to referrals or other information received. Its role is limited to intervening where failure to meet the standards has caused or could have caused serious harm to tenants. The consumer standards are:

- the Tenant Involvement and Empowerment Standard;
- the Home Standard;
- the Tenancy Standard; and
- the Neighbourhood and Community Standard.

Registered Providers of Social Housing are expected to comply with the Standards and to establish arrangements to ensure that they are accountable to their tenants, the Regulator and relevant stakeholders. The enforcement by the Regulator of the Standards other than those relating to governance and financial viability, rent and value for money is restricted to cases in which there is, or there is a risk of, serious detriment to tenants (including future tenants). The Regulatory Framework includes guidance as to how the Regulator will assess whether serious detriment may arise.

In April 2015 the HCA (as the predecessor of the Regulator) published updates to the Regulatory Framework. These provide for changes in the way the Regulator regulates, including asset and liability registers which are aimed to ensure that social housing assets are not put at risk, to protect the public value in those assets and to ensure that Registered Providers of Social Housing can continue to attract the necessary finance to build new homes.

In March 2019, the Regulator updated its "*Regulating the Standards*" publication which outlines the Regulator's operational approach to assessing Registered Providers of Social Housing compliance with the economic and consumer standards.

On 14 August 2018 the Ministry of Housing, Communities and Local Government (**MHCLG**) published the green paper titled "*A new deal for social housing*". The paper sets out the UK Government's intention to carry out a review of regulation of social housing to ensure it remains fit for purpose, reflects changes in the social housing sector and drives a focus on delivering a good service for residents. A "call for evidence" which marks the first stage in the review process has been launched which asks interested parties such as residents, landlords and lenders for information on how the regulatory regime is meeting its current objectives – both what works well and what does not. Alongside questions in the green paper it marks the first stage in the review process. The deadline for responses was 6 November 2018 and, as at the date of this Prospectus, the UK Government has not yet published its feedback and the proposed next steps.

Housing Grant

Grant funding for Registered Providers of Social Housing has, in recent years, undergone significant and material change. Under the 2011–2015 Affordable Homes Programme, the level of capital grant made available to fund new affordable homes was reduced to £4.5 billion compared to £8.4 billion under the previous review period. To compensate for this, Registered Providers of Social Housing are able to charge Affordable Rents where a Framework Delivery Agreement with Homes England has been entered into.

The 2015-2018 Affordable Homes Programme (the **New Framework**) was launched in January 2014. In December 2014 the Chancellor announced that the grant programme would be extended to 2020 with additional grant being made available. The primary change brought about under the New Framework is that all of the available funding is not allocated from the outset. The New Framework allows bidders the opportunity to bid for the remaining funding for development opportunities as these arise during the programme, where they can be delivered within the programme timescales.

In April 2016, the HCA announced that it was making available £4.7 billion of capital grant between 2016- 2021 under the Shared Ownership and Affordable Homes Programme 2016-2021 (**SOAHP 2016 to 2021**). That marked a decisive shift towards support for home ownership in England. However, the Autumn Statement 2016 announced that an additional £1.4 billion would be made available to build 40,000 affordable homes and that the SOAHP 2016 to 2021 will support a variety of tenures which now includes affordable rent, shared ownership and rent to buy. This, together with the publication of the Housing White Paper "*Fixing our broken housing market*" published in February 2017, has marked a shift of emphasis in UK Government investment priorities back towards rented housing.

Social Housing Rents

As part of the 2012 spending round, the UK Government confirmed, through its policy "*Guidance on Rents for Social Housing*" published in May 2014, that from 2015-2016, rents in the social sector should increase by up to the Consumer Price Index (**CPI**) at September of the previous year plus 1 per cent. annually, for ten years, whilst rent convergence (including the ability to charge an additional £2 per week) would end in April 2015.

The relevant rent standard guidance for Registered Providers of Social Housing is contained within the Regulatory Framework.

In the 2015 Summer Budget, the UK Government announced that rents for social housing (as defined in Part 2 of the HRA 2008) in England would be reduced by 1 per cent. a year for the next four years. This change was introduced on 1 April 2016 pursuant to Section 23 of the Welfare Reform and Work Act 2016 (the **WRWA 2016**).

In the WRWA 2016 and associated amendment regulations there is provision for exceptions to the rent reduction requirement and MHCLG has regulation making powers to introduce other exemptions. For example, reductions do not apply to rents payable by residents in low cost home ownership and shared ownership properties. Furthermore, the WRWA 2016 also gives the Regulator the power, by direction, to exempt a Registered Provider of Social Housing from the rent reduction requirement but only where compliance with the requirement would jeopardise that Registered Provider of Social Housing's financial viability.

On 4 October 2017, the UK Government announced that social housing rents will be restored to the CPI plus 1 per cent. formula for five years from 2020. Rent reductions will continue to apply until then.

Household Benefit Cap

The Summer Budget 2015 announced, and the Spending Review and Autumn Statement 2015 confirmed, that the total household benefit cap (the combined income from a number of welfare benefits for those receiving housing benefit or Universal Credit and that are of working age) would be reduced to £20,000 per year for couples or parents (or £23,000 for Greater London) and £13,400 per year for single people without children (or £15,410 in Greater London). Measures to implement the lowering of the threshold were included in the WRWA 2016 which applies to Registered Providers of Social Housing.

Exemptions to the total household benefit cap can apply to those tenants who qualify for working tax credit; are above the qualifying age for pensions credit; obtain certain benefits for sickness and disability; or claim a war pension. The benefit cap will not apply in circumstances where a tenant or a tenant's partner is in receipt of, or is responsible for, a child or young person who is in receipt of benefits such as disability living allowance, personal independence payment or carer's allowance. Housing benefit will not be included when calculating total benefit income where tenants are housed in specified accommodation including supported housing.

Occupation Size Criteria

The Welfare Reform Act 2012 (the **WRA 2012**) introduced a size criterion for working age social housing tenants in receipt of housing benefit known as the "removal of the spare room subsidy" or "bedroom tax". The arrangements allow each of certain defined categories of people (such defined categories being: (a) a couple, (b) an adult (over 16), (c) two children of the same sex, (d) two children under the age of 10, (e) any other child, (f) those with a disability, and (g) a non-resident overnight carer) to be entitled to one bedroom. Exemptions are applied to supported housing tenants. Where a household has one extra bedroom, housing benefit is reduced by 14 per cent. of the rent charge. Where a household has two or more extra rooms, the reduction to housing benefit is 25 per cent.

Universal Credit

Universal Credit, introduced under the WRA 2012, replaces six existing means-tested benefits and tax credits for working-age families, namely income support, income-based jobseeker's allowance, income-related employment and support allowance, housing benefit, child tax credit and working tax credit with a single monthly payment, transferred directly into a household bank account of choice, and is currently in an extended "roll out" phase across the UK which is expected to last until 2023.

There are three types of alternative payment arrangements available for claimants:

- (a) direct payment of the housing cost element to landlords (known as managed payments);
- (b) splitting of payments between members of a couple; and
- (c) more frequent payment of benefit where a claimant is in arrears with their rent for an amount equal to, or more than, two months of their rent or where a claimant has continually underpaid

their rent over a period of time, and they have accrued arrears of an amount equal to or more than one month's rent.

If the Department of Work and Pensions (the **DWP**) does not set up a managed payment, Registered Providers of Social Housing can request a managed payment and inform the DWP of other reasons why a managed payment might be needed. Landlords can request deductions from a claimant's Universal Credit to repay existing rent arrears, known as third party deductions. Deductions will be a minimum of 10 per cent. and a maximum of 20 per cent. of a claimant's Universal Credit standard allowance.

Right to Buy

The introduction of the right to buy to assured tenants of Registered Providers of Social Housing was a manifesto commitment by the Conservative party for the 2015 general election. An announcement from the Secretary of State for Communities and Local Government on 24 September 2015 confirmed a proposal made by the National Housing Federation (**NHF**) to introduce the right to buy voluntarily. The voluntary arrangement is based on four key principles:

- (a) tenants would have the right to purchase a home at right to buy discounts (maximum discount of £77,900 (£103,900 in London)) subject to government funding for the scheme;
- (b) Registered Providers of Social Housing will have the final decision about whether to sell an individual property;
- (c) Registered Providers of Social Housing will receive the full market value of the properties sold, with the value of the discount funded by the UK Government; and
- (d) nationally, for every home sold under the agreement a new affordable property would be built, thereby increasing supply.

The Prime Minister confirmed on 7 October 2015 that the NHF's proposal had been accepted by the UK Government. This means that, rather than including the right to buy extension in the HPA 2016 as a statutory obligation, there is an agreement by the social housing sector to deliver the extension voluntarily. The HPA 2016 establishes a statutory framework to facilitate the implementation of the voluntary right to buy scheme and makes provision for grants to be paid to Registered Providers of Social Housing to cover the cost of selling housing assets at a discount. The HPA 2016 states that such grant may be made on any terms and conditions the MHCLG considers appropriate.

The UK Government ran an initial pilot scheme in January 2016 involving five housing associations and launched a further regional pilot in August 2018. The latest pilot is currently underway and will run for two years (though is now closed for registrations of interest). It will test two aspects of the voluntary agreement that the original pilot did not cover, namely (a) one for one replacement and (b) portability of discounts. The latest pilot will also test the application of the Voluntary Right to Buy guidance, which is the policy that details how the scheme will operate. This policy has been jointly designed by housing associations, the NHF and the UK Government.

LHA Cap and Sheltered Rent

In the 2015 Spending Review, the Chancellor outlined plans to cap the amount of rent that housing benefit will cover in the social housing sector to the level of the relevant Local Housing Allowance (the **LHA Cap**). This was to take effect in England only from April 2019 with the key elements being:

- the LHA Cap will apply to all tenants in supported and sheltered housing from April 2019;
- housing cost will continue to be paid through the benefit system up to LHA level;
- no Shared Accommodation Rate - one-bedroom LHA rate for under 35 year olds in supported housing;

- local authority top-up, with ring-fenced funds transferred across from the DWP and allocated by the Department for Communities and Local Government;
- the UK Government believes a different system needs to be worked out for short-term transitional services and it will consult on this; and
- the 1 per cent. rent reduction applies to supported and sheltered housing from April 2017 for three years – except refuges, alms houses and co-ops.

Following a joint DWP/Department for Communities and Local Government select committee inquiry, the UK Government announced on 31 October 2017 that the LHA Cap will not apply to tenants in supported housing, nor to the wider social rented sector, and therefore will not apply to the majority of Registered Providers of Social Housing. It was also announced, on 31 October 2017, that the UK Government will introduce a new sheltered rent for the of a 'sheltered rent' sheltered housing and extra care sector from April 2020. This will keep funding within the welfare system and acknowledge the higher cost generated by this type of housing in comparison with general needs housing.

After several consultations, in August 2018 the UK Government confirmed that housing costs for supported housing will continue to be paid through Housing Benefit. Additionally, there will be no introduction, which means there will be no cap on services charges in sheltered and extra care schemes.

Moratorium and Housing Administration

In order to protect the interests of tenants and to preserve the housing stock of a Registered Provider of Social Housing within the social housing sector and within the regulatory regime, a 28 day moratorium on the disposal of land (including the enforcement of any security) by a non-profit Registered Provider of Social Housing will apply upon notice being given to the Regulator of certain steps being taken in relation to that provider such as presenting a winding up petition, the appointment of an administrator or the intention to enforce security over its property. The Regulator may then seek to agree proposals about the future ownership and management of the provider's land with its secured creditors. The Security Trustee is required to notify the Regulator of its intention to enforce the security created pursuant to the Security Documents and it cannot enforce its security during the resulting moratorium without the consent of the Regulator.

The Borrower is a registered society within the meaning of the Cooperative and Community Benefit Society Act 2014, and is therefore not subject to administration under the Insolvency Act 1986. However, the Housing and Planning Act 2016, the Insolvency of Registered Providers of Social Housing Regulations 2018 and the Housing Administration (England and Wales) Rules 2018 introduced a special administration regime called housing administration which was brought into force on 5 July 2018 and is available in addition to the moratorium regime. This provides for a court to appoint a qualified insolvency practitioner known as a "housing administrator" to manage the affairs, business and property of a Registered Provider of Social Housing, following an application from the Secretary of State or (with the permission of the Secretary of State) the Regulator.

An interim moratorium will run from the date of issue of an application for a housing administration order until the application is either dismissed or a housing administration order takes effect and, upon the making of a housing administration order, a Registered Provider of Social Housing shall become subject to a moratorium, for so long as such Registered Provider of Social Housing is subject to a housing administration order, that prevents secured creditors from enforcing their security without the consent of the housing administrator or the permission of a court.

Each housing administration order will last for 12 months (subject to certain exceptions), but may be extended. In certain circumstances a court may make an order enabling a housing administrator to dispose of property belonging to a Registered Provider of Social Housing which is subject to a fixed charge, albeit only on terms that the fixed charge holder receives the proceeds up to the value of the security and those proceeds are topped up to "market value" if the property is sold for less than this.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with:

- (a) the Issuer's audited annual financial statements, which include the report of the board, strategic report, independent auditor's report and annual accounts, for the financial years ended 31 March 2018 and 31 March 2019 (the **Issuer Financial Statements**); and
- (b) the Borrower's audited consolidated annual financial statements, which include the report of the board, operating and financial review, independent auditor's report and annual accounts, for the financial years ended 31 March 2018 and 31 March 2019 (the **Borrower Financial Statements** and, together with the Issuer Financial Statements, the **Financial Statements**),

which have previously been published and have been filed with the Financial Conduct Authority and shall be incorporated in, and form part of, this Prospectus, save that any statement contained in the Financial Statements shall be modified or superseded for the purposes of this Prospectus to the extent that a statement contained herein modifies or superseded such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Prospectus.

Copies of the Financial Statements can be obtained from the registered office of the Issuer, from the specified office of the Principal Paying Agent for the time being in London and on the Issuer's website (at <https://www.moat.co.uk/about-us/reports-documents-and-policies>).

Any documents themselves incorporated by reference in the Financial Statements shall not form part of this Prospectus.

VALUATION REPORT

The holders of the New Bonds share their security with the holders of the Original Bonds and will share in the security for the Original Bonds.

The following valuation report (the **Valuation Report**) is dated (and the opinions of value therein are effective as at) the date of this Prospectus and relates to the properties which are, or will on the New Bond Issue Date be, charged in favour of the Security Trustee and allocated for the benefit of the Issuer (the **Existing Properties**) to secure the Bonds, together with the Retained Proceeds (if any).

The Valuation Report was prepared by Savills Advisory Services Limited, Chartered Surveyors, of 33 Margaret Street, London W1G 0JD (the **Valuer**). The Valuation Report is included in this Prospectus with the consent of the Valuer and the Valuer has authorised the contents of this section for the purpose of this Prospectus.

The Valuer does not have a material interest in the Issuer, the Borrower or the Moat Group.

Summary of valuations

A summary of the values of the Existing Properties set out in the Valuation Report is set out below:

EUV-SH or, where appropriate, MV-ST*				Total
Units	EUV-SH is appropriate	Units	MV-ST is appropriate	
No.	£	No.	£	£
1,124	£88,852,000	1,826	£290,813,000	£379,665,000

* In addition, a further 113 units have been attributed a nil value.

Moat Homes Finance Plc

Valuation of housing stock relating to the issue by Moat Homes Finance Plc of £150,000,000 5 per cent. Secured Bonds due 2041 (to be consolidated and form a single series with the £150,000,000 5 per cent. Secured Bonds due 2041)

As at 6 November 2019



FILE Ref: 435334

6 November 2019

Matthew Sale BSc (Hons) MRICS
E: msale@savills.com
DL: +44 (0) 1444 446034

PRIVATE & CONFIDENTIAL

To: **Prudential Trustee Company Limited**

in its capacity as Security Trustee acting trustee for and on behalf of itself and the Beneficiaries and each of their respective successors, assignees and transferees from time to time under (and as each such term is defined in) the security trust deed dated 2 July 2008 and made, *inter alios*, between Prudential Trustee Company Limited as security trustee and Moat Homes Limited as borrower (as the same may be amended, novated, supplemented, varied or restated from time to time the "Security Trust Deed") ("the Security Trustee")

and **Prudential Trustee Company Limited**

10 Fenchurch Avenue
London
EC3M 5AG
(the "Bond Trustee")

and **Moat Homes Finance Plc**

Mariner House
Galleon Boulevard
Crossways
Dartford
Kent DA2 6QE
(the "Issuer")

and **Moat Homes Limited**

Mariner House
Galleon Boulevard
Crossways
Dartford
Kent DA2 6QE
(the "Borrower")

Chelsea House
8-14 The Broadway
Haywards Heath
RH16 3AH
T: +44 (0) 1444 446040
savills.com



Dear Sir or Madam,

VALUATION OF HOUSING STOCK RELATING TO THE ISSUE BY MOAT HOMES FINANCE PLC (THE "ISSUER") OF £150,000,000 5 PER CENT. SECURED BONDS DUE 2041 (THE "NEW BONDS") TO BE CONSOLIDATED AND FORM A SINGLE SERIES WITH THE £150,000,000 5 PER CENT. SECURED BONDS DUE 2041 (THE "EXISTING BONDS" AND, TOGETHER WITH THE NEW BONDS, THE "BONDS").

In accordance with the instructions contained in the email from the Issuer to us dated 29 July 2019, as confirmed in our letter to the Issuer dated 23 October 2019, we have inspected the Properties and made such enquiries as are sufficient to provide you with our opinion of value on the bases stated below.

We draw your attention to our accompanying Report together with the General Assumptions and Conditions upon which our Valuation has been prepared, details of which are provided at the rear of our Report.

We trust that our Report meets your requirements, however should you have any queries, please do not hesitate to contact us.

Yours faithfully

A handwritten signature in dark ink, appearing to be "MS", with a long horizontal line extending to the right.

For and on behalf of Savills Advisory Services Limited

Matthew Sale BSc (Hons) MRICS

RICS Registered Valuer

Associate Director

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1. Instructions and Terms of Reference

1.1. Instructions & Terms of Reference

This Report is required in connection with the proposed issue by the Issuer of the Bonds.

Further to instructions received from the Issuer and the Savills Advisory Services Limited Terms Of Business Letter dated 23 October 2019 which confirmed our instructions we now have pleasure in reporting the following valuations and advice.

The schedule of properties which are the subject of this valuation (the "Properties") with apportioned values is attached at **Appendix 1** and relates to 3,063 units in total.

In completing this exercise, we have:

- a) agreed a full set of property schedule data with the Borrower;
- b) discussed details as to our approach and methodology; and
- c) completed our own inspections, research and analysis.

The above has enabled us to arrive at the valuation assumptions that have enabled us to carry out our valuations and final reported figures herein.

For the avoidance of doubt, we confirm that it would not be appropriate or possible to compare this valuation with any values appearing in the annual accounts of the Borrower. This Report has been prepared in accordance with the RICS Red Book (as defined herein). The valuations are prepared on this basis so that we can determine the value recoverable if the charges over the Properties were enforced as at the Effective Date (as defined herein). We understand that the values given in the accounts of the Borrower are prepared on an historic cost basis, which considers how much the Properties have cost and will continue to cost the Borrower. This is an entirely different basis of valuation from that used for loan security purposes. Moreover, the figure in the Borrower's latest published annual accounts represents a valuation based on the going concern of the whole stock, in contrast with the valuation for the Bonds which only represents the value to a funder in possession of a portion of the stock. As such different assumptions would be applied. Consequently, in addition to being impractical, any comparison would not be an accurate comparison.

Our valuations have been carried out on the basis of the General Assumptions and Standard Conditions set out in **Appendix 3**.

1.2. Basis of Valuation MV-STT - Unencumbered Stock

In relation to Properties which may be disposed of by a mortgagee in possession on an unfettered basis (meaning subject to tenancies but otherwise vacant possession and not subject to any security interest option or other encumbrance or to any restriction preventing its sale to, or use by, any person for residential use):-

The Market Value of such properties for loan security purposes firstly reflecting the fact or (where not the case) making an assumption as to the fact that the Properties are subject to existing tenancies that grant security of tenure to the occupational tenant. Our valuation will refer to this basis of value as "MV-STT" or "market value, subject to tenancies"; and

The Existing Use Value – Social Housing ("EUV-SH") of such properties for loan security purposes.

1.3. Basis of Valuation EUV-SH - Encumbered Stock

In relation to Properties other than those specified in paragraph 1.2 above that have restrictions on title, in planning and the retained equity in shared ownership properties:-

The Existing Use Value for Social Housing ("EUV-SH") of such properties for loan security purposes.

1.4. Definition of Basis of Valuations

Existing Use Value for Social Housing is defined by the Royal Institution of Chartered Surveyors ("RICS") at UK VPGA 7 as:-

"Existing use value for social housing (EUV-SH) is an opinion of the best price at which the sale of an interest in a property would have been completed unconditionally for a cash consideration on the valuation date, assuming:

- a) a willing seller*
- b) that prior to the valuation date there had been a reasonable period (having regard to the nature of the property and the state of the market) for the property marketing of the interest for the agreement of the price in terms and for the completion of the sale*
- c) that the state of the market, level of values and other circumstances were on any earlier assumed data of exchange of contracts, the same as on the date of valuation*
- d) that no account is taken of any additional bid by a prospective purchaser with a special interest*
- e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion*
- f) that the property will continue to be let by a body pursuant to delivery of a service for the existing use*
- g) that the vendor would only be able to dispose of the property to organisations intending to manage their housing stock in accordance with the regulatory body's requirements*
- h) that properties temporarily vacant pending re-letting should be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession and*
- i) that any subsequent sale would be subject to all the same assumptions above"*

Market Value is defined by the Royal Institution of Chartered Surveyors at VPS 4.4 as:-

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

1.5. Freehold & Long-Leasehold Properties

We have valued the freehold and long-leasehold property and listed these separately at **Appendix 1**, splitting the schedules between those valued at EUV-SH and MV-STT.

We confirm that there will be no material difference in the valuations between freehold and long-leasehold interests (on either basis; MV-STT and EUV-SH).

1.6. General Assumptions and Conditions

All our valuations have been carried out on the basis of the General Assumptions and Standard Conditions set out in **Appendix 3** of this Report.

1.7. Valuation Date

Our opinions of value are as at the date of this Report (the “Effective Date”). The importance of the valuation date must be stressed as property values can change over a relatively short period of time.

1.8. Purpose of Valuation

We understand that our valuation is required for loan security purposes in connection with the proposed issue by the Issuer of the New Bonds. The Properties will be charged pursuant to Legal Mortgages by the Borrower as security in favour of the Security Trustee and held by the Security Trustee on the basis of a Security Trust Deed for the benefit of itself and the Issuer. The Issuer shall, pursuant to the Bond Trust Deed, assign its rights in respect of the Properties to the Bond Trustee for the benefit of the Bond Trustee, the holders of the Bonds and the other Secured Parties.

This Report is issued for the benefit of the addressees and for the inclusion in the Prospectus (the “”) for the New Bonds to be issued by the Issuer and may only be used in connection with the transaction referred to in this Report and for the purposes of the Prospectus.

We hereby give consent to the publication of this Report within the Prospectus and accept responsibility for the information contained in this Report. To the best of our knowledge and belief the information given in this Report is in accordance with the facts and does not omit anything likely to affect the import of such information.

1.9. Conflicts of Interest

We are independent valuers and are not aware of any conflict of interest, either with the Properties, the Issuer or the Borrower, preventing us from providing you with an independent valuation of the Properties in accordance with the RICS Red Book. We will value the Properties as External Valuers, as defined in the RICS Red Book.

1.10. Valuer Details and Inspection

The due diligence enquiries referred to below were undertaken by Matthew Sale MRICS. The valuations have also been reviewed by Andy Garrett MRICS and David Cotterell MRICS. A representative sample of the Properties was inspected externally and internally by Savills between 27 August – 17 October 2019. The Original Properties have been valued on a desktop basis.

All those above with MRICS or FRICS qualifications are also RICS Registered Valuers. Furthermore, in accordance with VPS 3.7, we confirm that the aforementioned individuals have sufficient current local and national knowledge of the particular market and the skills and understanding to undertake the valuation competently.

1.11. Extent of Due Diligence Enquiries and Information Sources

The extent of the due diligence enquiries we have undertaken and the sources of the information we have relied upon for the purpose of our valuation are stated in the relevant sections of our Report below.

We have also reviewed the final form additional certificate of title prepared by Devonshires Solicitors LLP in respect of the Properties to be charged on or around the date of this Report to be dated on or about the date of this Report and the original certificates of title prepared by Devonshires Solicitors LLP in respect of the Properties in charge prior to the date of this Report dated on or about 20 September 2011 (together, the “Certificate of Title”) and can confirm that our valuations fully reflect the disclosures contained therein.

1.12. RICS Compliance

This Report has been prepared in accordance with Royal Institution of Chartered Surveyors ("RICS") Valuation – Global Standards 2017 (incorporating the IVSC International Valuation Standards) and the RICS Valuation – Global Standards 2017 - UK national supplement, together the "RICS Red Book".

In particular, where relevant, our Report has been prepared in accordance with the requirements of Valuation Professional Standards and Valuation Practice Guidance Applications: VPS 1 Terms of Engagement, VPS 3 Valuation Reports, VPS 4 Bases of Value, Assumptions and Special Assumptions, UK VPGA 1 Valuations for Financial Reporting, UK VPGA 7 Valuations for Registered Social Housing Providers' Assets for Financial Statements, UK VPGA 11 Valuations for Residential Mortgage Purposes, UK VPGA 18 Affordable Rent and Market Rent under the Housing Acts in a Regulatory Context, and UK VPGA 14 Valuation of Registered Social Housing for Loan Security Purposes.

This Report also complies with the International Valuation Standards where applicable.

2. EXECUTIVE SUMMARY OF VALUATION

2.1. Valuation of All Property

Based on the schedule of Properties provided by the Borrower our opinions of value on the bases indicated as at the Effective Date are as follows:

2.2. Valuation of Freehold and Leasehold Property that may be disposed at MV-STT (£)

Our opinion of value, in aggregate, of the 1,826 dwellings as mentioned at 1.2 above, on the basis of

- Market Value – Subject to Tenancies (MV-STT) is £290,813,000 (Two Hundred and Ninety Million, Eight Hundred and Thirteen Thousand Pounds)

Table 1: Valuation of Freehold and Leasehold Property that may be disposed at MV-STT (£)

Tenure Type	Number of Dwellings	Market Value – Subject to Tenancies (MV-STT) £	Equivalent Existing Use Value – Social Housing (EUV-SH) £
Freehold	1661	£265,692,000	£120,332,00
Leasehold	165	£25,121,000	£10,560,000

2.3. Valuation of Freehold and Leasehold Property that may be disposed at EUV-SH (£)

Our opinion of value, in aggregate, of the 1,124 rented dwellings and retained equity in shared ownership dwellings as mentioned at 1.3 above, on the basis of

- Existing Use for Social Housing is £88,852,000 (Eighty Eight Million, Eight Hundred and Fifty Two Thousand Pounds)

Table 2: Valuation of Freehold and Leasehold Property that may be only by disposed at EUV-SH

Tenure Type	Number of Dwellings	Existing Use Value – Social Housing (EUV-SH) £
Freehold	938	£74,482,000
Leasehold	186	£14,370,000

There are 113 properties which have been ascribed a nil value.

A full stock schedule with apportioned values is included at **Appendix 1**.

2.4. VPGA10: Material Valuation Uncertainty

The Valuation Practice Guidance in the RICS Red Book - VPGA 10 - directs us to draw attention to situations where a reduced level of certainty should be attached to our valuations.

The aftermath of the Grenfell Fire on 14 June 2017 has resulted in a wholesale review of the regime relating to building safety in addition to the public inquiry that has been established to investigate the circumstance (and which is planned to continue in the second half of 2019).

The Independent Review of Building Regulations and Fire Safety led by Dame Judith Hackitt was published in May 2018. One of the key recommendations of the Hackitt Review was for a new Building Regulations regime for residential buildings of 10 storeys (30m) or higher. The Government has not yet stated which measures recommended in the Hackitt Review will be implemented or the timing of any such regulatory changes.

However, it announced that Building Regulations would be amended from 21 December 2018 to ban the use of combustible materials on the external walls of new buildings over 18m containing flats, as well as, inter alia, buildings such as new hospitals, residential care homes and student accommodation. The ban also affects existing buildings undergoing major works or undergoing a change of use. Whilst a ban affecting lower rise buildings falling within these categories is not currently anticipated there remains uncertainty as to the potential fire prevention and building safety measures that the Government might implement.

Indeed, the Government made a series of further announcements on 18 December 2018 including how it proposes to implement a tougher and more effective regulatory framework to improve building safety. More specifically, it published a Hackitt Review Implementation Plan for consultation until 12 February 2019 and with a further consultation "Building a Safer Future" issued in June 2019 lasting until 31 July 2019 in respect of the potential new Regulatory regime. The Government has also issued further Advice Notes relating to residential buildings above 18m including, inter alia: Advice Note 22 recommending the immediate removal of certain unsafe High Pressure Laminate Cladding materials; and a separate Advice Note recommending that combustible materials used in the construction of external balconies be removed.

We are aware that market participants that are affected by the same or similar issues continue to review details of construction, health and safety, and particularly fire prevention, mitigation and means of escape from buildings where people sleep, albeit with the focus on residential buildings above 18m. However, in view of the continued lack of clarity on any regulatory changes, it remains too early to fully assess any valuation impact. Since the Grenfell Fire occurred, there has been limited evidence of market activity involving tall residential investments. In the light of these circumstances, this valuation has been undertaken in the context of an unclear regulatory environment and we would therefore recommend that it is kept under regular review. Similarly, in the short-term, it is also likely that potential investors and occupiers will be more cautious, and the liquidity and pricing of some properties may be impacted.

Within the properties valued there are 6 high rise blocks containing 114 units. Of the valued blocks none of these have aluminium composite material ('ACM') cladding. The blocks vary in height between 6 and 11 storeys. We have made enquiries with Moat Homes in respect of the Government's Building Safety Programme and in particular Advice Notes 14 and 22. Moat Homes have confirmed that as far as they are aware these have been followed and compiled with. The value attributed to these properties is £8,452,000 on EUV-SH and £13,979,000 on MV-STT.

There is one block comprising 13 units of 7 storeys which does contain ACM cladding. Moat are a leaseholder of this block and are in discussions with the freeholder over the remedial works required. We have placed a nil value on these units until the extent of the works is known.



We would therefore draw your attention to the fact that, in the case of the subject property as at the date of our valuation, there is greater uncertainty concerning the valuation figure than would normally be the case.

3. The Properties

3.1. The Properties

3.1.1. Location and Description

In total there are 3,063 properties comprised in the instruction. This total includes 113 nil value units leaving 2,950 units which are spread across the local authority areas detailed in **Table 3** below. The Properties are situated across 37 Local Authority areas.

Table 3: Stock Location

Local Authority	Total
Adur	1
Ashford	220
Basildon	18
Bexley	57
Brighton and Hove	187
Bromley	90
Canterbury	76
Castle Point	32
Chelmsford	8
Crawley	154
Croydon	86
Dartford	202
Dover	9
Eastbourne	2
Epping Forest	27
Gravesham	59
Greenwich	108
Harlow	128
Horsham	1
Lewes	1
Maidstone	44
Maldon	133
Medway	204
Merton	33
Mid Sussex	169
Rochford	30
Sevenoaks	186
Shepway	30
Southend-on-Sea	35
Swale	245
Thanet	1
Thurrock	64
Tonbridge and Malling	124
Tunbridge Wells	4
Uttlesford	135
Wealden	44
Worthing	3
Total	2,950

Ignores 113 nil value units

Source: the Borrower

The spread of the stock is shown by the map at **Appendix 2**.

3.1.2. Property Types

The Properties comprise general needs, sheltered, supported, intermediate, keyworker, market rented and shared ownership. As can be seen from the table below 55% of the stock comprises general need properties let at social rent levels. The stock can be summarised by type and tenure as follows:

Table 4: Property Types and Tenure

Type	Flats & Maisonettes	Houses & Bungalows	Rooms	Total	% of stock
General Needs – Social	638	986		1,624	55.1%
General Needs – Affordable	268	178		446	15.1%
Discounted Market Rent	4	10		14	0.5%
Mortgage Rescue	7	95		102	3.5%
Sheltered – Social	235	58		293	9.9%
Supported - Social	26	4	2	32	1.1%
Shared Ownership	288	151		439	14.9%
Total	1,466	1,484	2	2,950	100%

Ignores 113 nil value units

Source: the Borrower

The Properties comprise a range of property types with 3 bedroom houses being the most prevalent comprising over 25% of the stock with 1 bedroom flats comprising over 24% of the stock and being most prevalent in the case of flats. The portfolio comprises mainly self-contained units however there two rooms with shared facilities.

Table 5: Property Types and Number of Bedrooms

Number of Bedrooms	Flats & Maisonettes	%	Houses & Bungalows	%	Rooms	%	Total	%
Bedsit	3	0.1%			2	0.1%	3	0.1%
1-bedroom	706	23.9%	41	1.4%			749	25.4%
2-bedroom	732	24.8%	617	20.9%			1,349	45.7%
3-bedroom	24	0.8%	755	25.6%			779	26.4%
4-bedroom	1	0%	67	2.3%			68	2.3%
5-bedroom			1				1	
6-bedroom			1				1	
Total	1,466	49.7%	1,484	50.2%	2	0.1%	2,950	100%

Ignores 113 nil value units

Source: the Borrower

Please refer to **Appendix 1** for a full list of the Properties including rental income.

3.1.3. Brief Description

The Properties are in the main considered to be of conventional construction for their age and type. Houses are mainly of solid brick, cavity brick or timber frame construction with roofs being mainly pitched and covered in slate or tile. Flats are mainly of cavity brick, metal or timber frame construction with roofs being pitched and covered in tile or are flat and believed to have an asphalt or metal type covering. The majority of the Properties have modern plastic gutters and downpipes.

A high proportion of the Properties have double glazed windows of timber, metal or UPVC casement type. The majority of the Properties benefit from all mains services and gas fired central heating systems supplying radiators.

Within the properties valued there are 6 high rise blocks containing 114 units. Of the valued blocks none of these have aluminium composite material ('ACM') cladding. The blocks vary in height between 6 and 11 storeys. There is one block comprising 13 units of 7 storeys which does contain ACM cladding. The Borrower are a leaseholder of this block and are in discussions with the freeholder over the remedial works required. We have placed a nil value on these units until the extent of the works is known.

3.1.4. Condition

As instructed, we have not carried out a structural survey. However, we can comment, without liability, that during the course of our inspections for valuation purposes, we observed that the Properties appear to be generally in reasonable condition.

Apart from any matters specifically referred to in this Report, we have assumed that the Properties are free from structural faults, or other defects and are in a good and lettable condition internally. This Report is prepared on this assumption.

It is understood from the Borrower that this entire portfolio currently meets the Decent Homes standard as set out by the Ministry of Housing, Communities and Local Government. Properties conform to the Decent Homes standard if they are warm and weatherproof and have reasonably modern facilities.

However we would stress that we have not carried out structural or condition surveys and have relied upon our visual inspection. Apart from any matters specifically referred to in this Report, we have assumed that the Properties are free from structural faults, or other defects and are in a good and lettable condition internally. This Report is prepared on this assumption.

3.1.5. Services

No detailed inspections or tests have been carried out by us on any of the services or items of equipment, therefore no warranty can be given with regard to their purpose. We have valued the Properties on the assumption that all services are in full working order and comply with all statutory requirements and standards.

3.2. Environmental Considerations

3.2.1. Contamination

We have valued the portfolio on the assumption that the Properties have not suffered any land contamination in the past, nor are they likely to become so contaminated in the foreseeable future. However, should it subsequently be established that contamination exists at any Property, or on any neighbouring land, then we may wish to review our valuation advice.

3.2.2. Ground Conditions

We have assumed there to be no adverse ground or soil conditions and that the load bearing qualities of the site are sufficient to support the building constructed thereon.

3.2.3. Flooding

We are not aware of any flooding affecting the Properties and assume there is no history of flooding risk.

3.2.4. Radon Gas

Due to the geographical spread of the stock, we are unable to confirm whether the Properties are in a Radon Affected Area. Radon Protection Measures may be necessary for new properties or extensions to existing ones as described in publication BR211 by the Building Research Establishment.

3.2.5. Invasive Vegetation

Under the Wildlife and Countryside Act 1981 it is an offence to 'plant or otherwise cause Japanese Knotweed to grow in the wild', however the plant still remains prevalent in some areas. It is only possible to establish the presence of invasive vegetation such as Japanese Knotweed by a specific survey by suitably qualified specialist. From our limited inspection, we have no reason to suggest that such a survey is required in this instance, but should a survey subsequently find that our assumption in this respect is incorrect then we should be advised so that we may reconsider the implications for our valuation.

3.3. Town Planning

The "Property Documents" means the Certificate of Title and copies of standard tenancy agreements and various planning agreements in respect of the Properties valued in this Report.

We have not made specific planning enquiries for each site. We have therefore assumed for the purposes of this Report, save as set out in the Property Documents, that there are no planning conditions that would adversely affect the valuation.

3.4. Title and Tenure

3.4.1. Title

Our valuation reflects our opinion of value in aggregate of the freehold or long-leasehold interests (in each case) of the Properties owned by the Borrower and identified by the subject of this Report and scheduled at **Appendix 1**.

In respect of each Property which we have valued on the basis on MV-STT we confirm that we have reviewed the Property Documents and confirm that each such Property can be disposed of on an unfettered basis (i.e. subject only to existing tenancies disclosed in the Property Documents but not subject to any security interest, option or other encumbrance or to any restriction preventing or restricting its sale to or use by any person for residential use).

3.4.2. Tenancies

The We have been supplied with copies of the standard tenancy agreements (Assured Shorthold Tenancy Agreements, an Assured Shared Tenancy Agreement, Assured Tenancy Agreements and a Starter Tenancy Agreement), all of which are in a standard format. Under the assured tenancy agreement rent can be reviewed once a year to an open market level. The tenant has the usual rights of appeal to the local Rent Assessment Committee.

The Assured Shorthold Tenancy Agreement is a weekly tenancy agreement with a continuous weekly term until rolling over into a Non-Shorthold Tenancy Agreement. The tenant has the right to refer the Rent payable to the Rent Assessment Committee in the first 6 months only. The Issuer may increase the rent with 4 weeks' notice, each year, in line with a rent formula. There are versions of the above tenancy agreements that allow rent to be charged at an Affordable rent.
written notice.

3.4.3. Shared Ownership Leases

We have not seen the standard shared ownership lease of the Borrower as part of this revaluation. We have assumed that the shared ownership leases follow a typical format of 99 or 125 years and are essentially a FRI lease making the tenant responsible for all repairs. In addition the lease will allow stair-casing by the leaseholder to buy additional blocks of equity.

The lease will detail the level of specified rent, set at the leases inception, and the rent review provisions of the lease. We understand the majority of the leases provide for annual rent review to RPI + 0.5%. We have increased rents by CPI + 1% which in general terms is the same as RPI + 0.5%. Full details of the rents payable and the equity held by the Borrower are set out in **Appendix 1**.

3.5. Rental Income

The gross annual rental income currently produced by the Properties, before deductions, is shown in the following table broken down by tenure.

Table 6: Gross Rental Income (correct as at 31 March 2019)

Tenure Type	Gross Rent £
General Needs Social Rented	£8,717,535
General Needs Affordable Rented	£3,315,675
Sheltered Social Rented	£1,270,947
Discounted Market Rented	£120,790
Mortgage Rescue	£854,194
Sheltered Rented	£1,270,947
Supported Rented	£143,663
Shared Ownership	£1,795,776
Total	£16,218,580

Source: the Borrower

Average net rent levels, on a 52 week year basis, are shown below, as derived from the property schedule sent to us by the Borrower.

Table 7: Rental Analysis 19/20 £ per week net

Property Type	Current Rent £
General Needs Social Rented	£103.23
Sheltered Social Rented	£83.42
Supported Social Rented	£86.34
Social Rented Average	£99.47
General Needs Affordable Rented	£142.97
Discounted Market Rent	£165.92
Mortgage Rescue	£161.05
Shared Ownership	£78.21

Source: the Borrower

4. Market Commentary

4.1. General Market Commentary

4.1.1. General Summary

Savills' most recent house price forecasts show varied growth between the regions. The northern regions are predicted to outperform the national average for the next five years, whereas the house prices in the southern regions, and London in particular, are predicted to underperform. The Savills annual forecasts for 2019 to 2023 are shown in the table below.

Table 8: Nominal House Price Forecasts – Mainstream Markets

Region	2019	2020	2021	2022	2023
UK	1.5%	4.0%	3.0%	2.5%	3.0%
London	-2.0%	0.0%	2.5%	1.5%	2.5%
East	0.0%	2.0%	2.5%	2.0%	2.5%
South East	0.0%	2.0%	2.5%	2.0%	2.5%

Source: Savills

4.1.2. National Overview

- Economic and political uncertainty has contributed to a slowing within price growth and will likely continue to suppress prices in coming years.
- Buyers have become more cautious as a result of this uncertainty and market confidence has weakened.
- Mortgage interest rates in the UK are likely to rise over the next 5 years, and are likely to put a squeeze on the amount people can borrow, although dramatic increases in the cost of borrowing are unlikely.
- Growth in London is likely to be more constrained than the rest of the country, having experienced much greater house price growth for the majority of the past decade, with previous cycles suggesting that house price growth in the Midlands will exceed that in the south.
- We are not building enough homes of the right type in the right places to meet demand, however there seems to be increased political desire to address this with higher levels of housebuilding, supported by the recent Housing White Paper.
- Build to rent housing has the ability to increase the supply of good quality, well managed rental stock.
- Prime markets predicted to experience 2 years of subdued growth, realistic pricing is currently the key to success.
- Five-year house price forecasts are positive, at close to 15% growth for UK mainstream markets.
- Regional growth in the Midlands and North is expected to continue to outperform the UK average, supported by capacity in household finances and from mortgage lenders.

4.2. Local Market Conditions

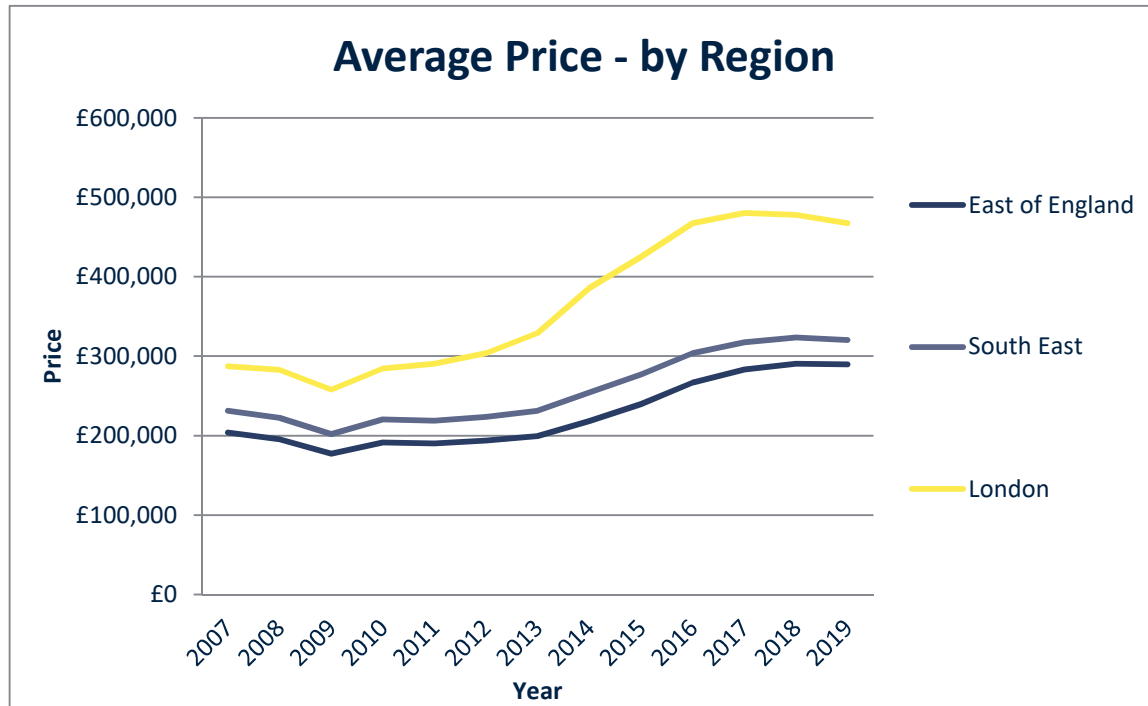
In common with most of the UK, the housing market in these regions suffered difficult market conditions and falling values from 2007 to 2009 as a result of poor economic conditions. The market began to recover in 2010, with average values surpassing those seen pre-recession, and has continued to increase gradually in recent years. This is illustrated in Chart 1 below.

In terms of sales volumes, levels fell significantly between 2007 and 2009 before gradually increasing over the following years. Sales figures have failed to reach the highs seen prior to the recession with figures falling in 2016 due to uncertainty caused as a result of the EU referendum, the tightening of lending regulations and stamp duty changes. This is illustrated in Chart 2 below.

The sales market is currently lacking momentum, with transaction volumes and enquiries both seeing relatively little change over the month. Estate agents in London expect there to be some negative growth during 2019 as affordability levels are being stretched. Outside of London there is price growth this is minimal.

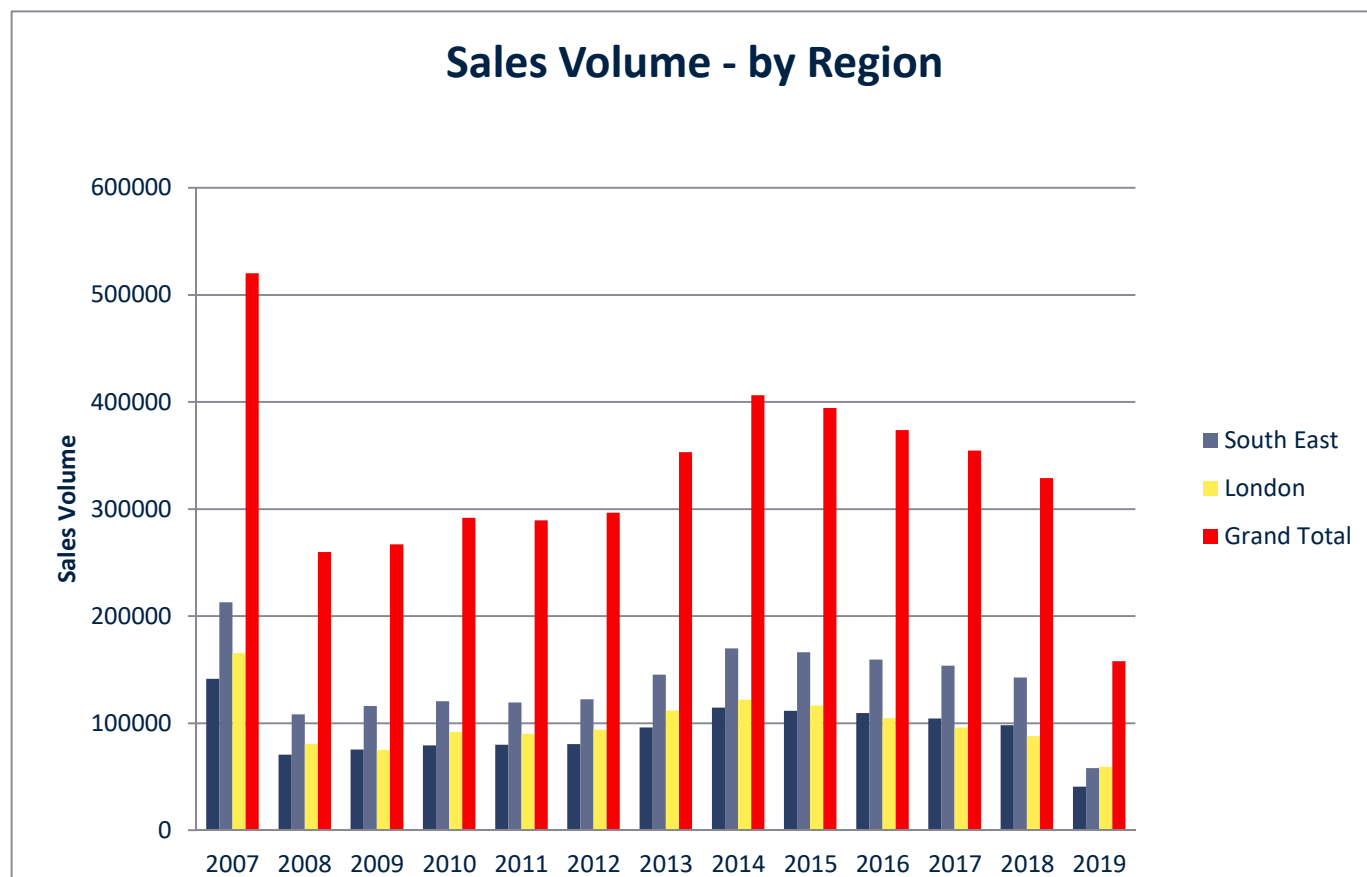
In the lettings market a shortage of supply means that prices continue to rise across the board. This is an issue that could worsen over the medium term - as landlords are expected to decrease their portfolios over the next three years.

Chart 1: Average Price by Region



Source: HM Land Registry *6 months to June 2019

Chart 2: Sales Volume by Region



Source: HM Land Registry *6 months to June 2019

Greater London & South East

House prices in the London Boroughs have generally slowed over the past 12 months, after seeing a significant period of price recovery after the 2008 crash. As prices began to stagnate across Greater London, price rises rippled outward to the Home Counties and the south east, but those markets too are beginning to stagnate. Agents report that there are still many properties coming to the market, and they will sell if priced competitively, but they predict a real slow down over the next year as uncertainty in the market remains. The rental market is still good, although agents mostly say that it has slowed.

East

Agents in the East report a fairly busy market, with good demand for properties, especially for the stock located in the London commuter belt. There are lots of new properties coming to the market, but prices have stabilised and they will not sell if overpriced. Some agents, for example those in the areas of Essex where the stock is located, say that there is an oversupply of flats in the market, so they are struggling a bit more to sell these, unless they are within good proximity to a train station. Otherwise, agents report busy markets with good supply and demand. The rental market is generally good, with a healthy turnover of tenants and good demand.

4.2.1. Comparables

In order to provide market values and rental values we have used evidence of both achieved sales prices and asking prices, where available, for properties on the market in the immediate area to the subject units. Our sources for this information include Rightmove, Rightmove Plus and agents' own websites, as well as discussions with local agents where necessary.

We undertake detailed research in to comparable sales and market lettings and details of these are kept on our files for audit purposes. We do not include comparables in our reports as some of this information is confidential and may be protected under General Data Protection Regulations.

All sale values were considered as open and not forced sales. To achieve values for resale research was undertaken using readily accessible sources that included:

- Determination of the area of similar properties related to market / social sector
- Land registry information on recent completed sales for the immediate post code and where necessary those of the adjoining areas
- Review of values for similar size and type of properties being marketed in the area of the actual location

A comparison between the particular size / quality / condition of the property viewed related to that of known sales values and those of what were being sought and a judgement made as to what could be considered as a fair actual value.

4.3. Vacant Possession Values

Table 9 below shows the average vacant possession values for the self-contained properties included within the valuation summarised by type and bedroom number:

Table 9: Vacant Possession Values

Savills Property Type	Bedrooms	Average VP Value
Houses and Bungalows	1	£183,000
	2	£245,000
	3	£294,000
	4	£348,000
	5	£309,000
	6	£422,000
Average VP value of all Houses & Bungalows		£273,000
Flats and Maisonettes	0	£121,000
	1	£184,000
	2	£235,000
	3	£399,000
	4	£329,000
Average VP value of all Flats & Maisonettes		£213,000

Source: Savills

4.4. Market Rents

Table 10 below shows the average rental values for the self-contained properties included within the valuation summarised by type and bedroom number:

Table 10: Average Market Rents (pw)

Savills Property Type	Bedrooms	Average Market Rent (pw)
Houses and Bungalows	1	£169
	2	£213
	3	£250
	4	£298
	5	£339
	6	£356
Average Market Rent of all Houses & Bungalows		£218
Flats and Maisonettes	0	£127
	1	£179
	2	£221
	3	£343
	4	£249
Average Market Rent of all Flats & Maisonettes		£234

Source: Savills

5. Valuation Approach

5.1. Existing Use Value For Social Housing - Valuation Approach

5.1.1. Approach to EUV-SH

EUV-SH for loan security assumes the property will be disposed of by a mortgagee in possession to another registered provider of social housing ("RP") who will continue the use of the properties for social housing. These organisations will calculate their bid according to their projected income and outgoings profile which they would estimate the properties would produce under their management. This basis assumes rents will remain affordable to those in low paid employment and that all vacant units be managed within the aims and objectives of an RP.

We consider that the appropriate method of valuation is to use a discounted cash flow ("DCF"). The DCF allows us to project rental income and expenditure over the term of the cash flow to arrive at an annual surplus or deficit, which is then discounted to a net present value. However it is also necessary to consider comparable transactional evidence where available.

5.1.2. Principal DCF Variables

The DCF assumptions are derived from information received from the RP and economic data. The table below sets out our principal assumptions. More detailed discussion on discount rate, adopted rent levels and rental growth is contained in the following sections.

Table 11: DCF Variables

DCF Variable	Amount	Year	Variable Unit	Source
Current social rent	£99.97	Current	£ per week	The Borrower
Affordable "convergence" rent adopted	£110.43	Current	£ per week	Savills
Voids and bad debts	3%	All Years	% of Rent	Savills
Turnover	5%-10%	All Years	% pa	Savills
Management costs	£650-£700	All Years	£ per unit pa	Savills
Cyclical & Responsive maintenance. costs	£850	All Years	£ per unit pa	Savills
Programmed Maintenance costs	£1000	All Years	£ per unit pa	Savills
Rental Inflation	2.00 1.80 2.00	Yr 1 Yr 2 Yr 3+	real pa	Savills
Maintenance cost inflation	3.75 2.25 1.50 2.25 1.00	Yr 1 Yr 2 Yr 3 Yr 4 Yr5+	% real pa	Savills
Programmed cost inflation	-0.25 1.75 3.00 4.25 0.50	Yr 1 Yr 2 Yr 3 Yr 4 Yr 5+	% real pa	Savills
Discount rate		All Years	% real pa	Savills

5.1.3. Discount Rate

There is no hard-and-fast rule for determining the most appropriate rate to be adopted in a discounted cash flow. The discount rate is probably the most important variable in the model since it determines the net present value of future predicted income and expenditure flows for the property in question. Our role as valuers is to interpret the way in which potential purchasers of the stock would assess their bids. The market for this stock will be within the RP sector.

Effectively, the discount rate is representative of both the long-term cost of borrowing for an acquiring organisation and the risks implicit in the property portfolio concerned. The current level of long-term interest rates and the overall cost of funds must be reflected in our valuation. In addition to considering the cost of funds, we also need to make an allowance for the risk which attaches to our cashflow assumptions – some of which may be subject to a higher degree of risk than those generally made in the business plans. The margin for risk needs to be considered on a case-by-case basis, having regard to the nature of the stock.

Currently the yield on 30 year Gilts is around 1.33%. This is in effect the risk free discount rate. Yields on Housing Association long dated, rated and unrated bonds are typically around 2.0% to 2.75% (Source: Social Housing, August 2019).

Recent activity in the bond market include the public rated issues of Wrekin Housing Group in October 2.50% (1.48% spread), LiveWest in October 2019 2.25% (1.40% Spread), Accent Group in July 2019 2.635% (1.30% spread), Home Group in March 2019 3.25% (1.70% spread), Incommunities in March 2019 3.29% (1.57% spread), Futures Housing Group (with a coupon of 3.375% (1.68% spread)) in February 2019 and Notting Hill Genesis (with a coupon of 2.875% (1.73% spread)) and Clarion ((with a coupon of 2.625% (1.47% spread)) both in January 2019. The MORHomes aggregator also issued its first series of bonds in February 2019 (with a coupon of 3.476% (1.90% spread)).

The supply of traditional long term (25 or 30 year) funding has diminished and is only available from a handful of lenders. Shorter term traditional funding (5–7 years) and funding with in-built options to re-price margins at a future date are commonplace, introducing a new level of re-financing risk to business plans.

Notwithstanding this, new business plans are typically being run at nominal interest rates at 'all-in' costs of funds of around 5%, reflecting the increased availability of long term finance from the capital markets.

Given the sustained reduction in funding costs our view is that for good quality, generally non-problematical stock, a discount rate between 4.75% and 5.5% real is appropriate (over a long-term CPI inflation rate of 2%). A greater margin for risk will be appropriate in some cases. We would expect to value poorer or more risky stock at rates around 5.75% to 6.5% real. On the other hand, exceptional stock could be valued at rates around 4.25% to 4.75% real.

We have adopted a discount rates of 5.0%-5.5% real for the self-contained general needs units, 5.5%-6.0% real for the self-contained sheltered and 6.5% real for the non-self-contained units over an assumed CPI inflation rate of 2.0%.

Our cashflows are run in perpetuity and not over 30 yrs. For your information our valuation implies an average real discount rate over a 30 year cashflow of 3.0%-4.0%.

5.1.4. Social Rents - Savills "Convergence" Rents and Rental Growth

RPs are required to set their Social Rents in accordance with the current Rent Standard issued by the Homes and Communities Agency ('HCA') and revised in 2015, as amended by The Social Housing Rents Regulations 2016. The Guidance and the Regulations set out a formula for calculating Social rents. Service charges are charged over and above the rents and should reflect the services being provided to tenants.

Provisions introduced by the Welfare Reform and Work Act 2016 have modified the original rent increase provisions of the Rent Standard Guidance. Instead of increasing at CPI plus 1% per annum, rents for general needs properties have had to reduce by 1% each year from 2016 to 2019.

Mortgagees in possession and their successors in title are exempted from the rent setting and increase/reduction provisions of the Rent Standard and the Welfare Reform and Work Act. In theory, therefore, a purchaser could base a bid for the properties on rents up to open market levels as permitted under the terms of the tenancy agreements. However any RP purchaser would need to set rents that are consistent with its objectives as a social housing provider.

We therefore believe that a purchaser in a competitive transaction is likely to set rents at a level which they consider are the maximum affordable to those in low paid employment locally. We assume they would intend to charge such rents for new tenants and increase existing rents to a sustainable and affordable rent over a reasonable period.

The average rents across the charged stock are set out below, along with the current formula rents and our assessed sustainable affordable rent or "convergence" rent. We have adopted these convergence rents in our valuation.

Table 12: Rental Analysis 2019/20 £ per week net

Type	Estimated Tenant Household Incomes £	Net Rent 2019/20 £	Savills Convergence Rent 2019/20 £	Savills Convergence Rent Afford. Ratio 2019/20 %	Market Rent 2019/20 £
House	£575.27	£108.70	£123.46	21.4%	£227.02
Flat	£449.61	£94.77	£103.90	23.1%	£213.48
Total	£525.90	£103.23	£115.77	22.0%	£221.70

Source: the Borrower & Savills

We have assumed all rents will converge to our convergence rent in 9 years time. The annual rent increases have been limited to 5.0% per annum nominal.

In the long term, in order to maintain consistent levels of rent affordability, the maximum possible rate of rent growth will be growth in local household incomes which is currently predicted to be 3.16% pa over the next 10 years in this area. We have therefore assumed that after they have converged rents will increase at CPI + 1% per annum.

We have relied on the current and formula rents supplied by the Borrower in carrying out this valuation. We have not carried out any validation of or research into the rents supplied.

5.1.5. Affordable Rents

In certain circumstances, RPs are able to offer new assured tenancies at intermediate rents at up to 80% of the market rent – such rents are known as 'Affordable' as opposed to 'Social' rents. The ability to charge the higher rents is dependent upon the RP having a Development Framework contract with the Regulator of Social Housing or a Short Form Agreement where they are not in the Development Framework.

There are currently 446 Affordable Rent units within the stock. The current average rent for these units is £142.97 per week. This is about 38% higher than the target rents on the same properties. These units have been included in our valuation at their current Affordable Rent levels.

Under the Rent Standard the rents payable for Affordable Rent tenancies increases annually by CPI plus 1% per annum. Rents are rebased to market rent upon the granting of a new tenancy. Although the rent reduction provisions in the Welfare Reform and Work Act 2016 also apply to Affordable Rent tenancies, the exemptions for mortgagees and successors allow us to assume growth outside the regulatory regime if appropriate. Thus we have assumed that a purchaser from a mortgagee would increase existing Affordable Rents in line with movements in market rents over the long term.

Market rents tend to increase in line with household incomes. Income growth forecasts for the area are currently 3.16% per annum. We have therefore assumed that rents will increase at CPI + 1% pa.

5.1.6. Sales Between Registered Providers – Transactional Evidence

Until recently evidence of sales between RPs was extremely limited – most transactions were simple transfers of engagements. However in recent years there has been a growing body of transactional evidence from competitive sales between RPs of tenanted stock. The evidence confirms RPs have a consistent tendency to pay a higher sums for some social housing portfolios than would be suggested by traditional, purely cashflow driven, EUV-SH valuations. We have been heavily involved in this emerging market and have a database of transactions covering circa 50,000 units.

Although the body of evidence is relatively small compared to the total RP stock in the UK and the market is still immature, we are able to derive a view of the prices achieved for certain kinds of stock and lot sizes. Assuming a sensible lotting of units in smaller batches of circa 100 units, bids between 5% to 30% above traditional EUV-SH levels are common for more modern stock in reasonable proximity to amenities.

In contrast it is apparent that for lots exceeding around 200 properties the prices achieved appear to be in line with the traditional, cashflow approach to EUV-SH.

In this case you have instructed us to value the Properties assuming a sale as a single lot and our valuations do not therefore reflect the higher bids that can be received for small portfolios.

5.2. Market Value Subject to Tenancies (MV-STT) - Valuation Approach

5.2.1. Valuation Methodology - MV-STT

We assess the MV-STT in two ways; firstly by applying a discount to Market Value with Vacant Possession ("MV-VP") and secondly by applying a yield to rental income.

The valuation of properties and portfolios subject to Assured and Secure tenancies is carried out with reference to comparable evidence from the sales of similar tenanted portfolios and individual units, and sold subject to Protected Tenancies or Assured Shorthold Tenancies. There is an established body of evidence from portfolios traded on the open market to which we can refer.

Investors tend to base their bid on their ability to "trade out" individual units at Market Value assuming vacant possession over time. In locations where there is a limited market or where a property is difficult to trade, owing to style or market conditions, investors will base their bid on rental return compared to capital cost.

The discount to MV-VP ranges from 10% for prime property to 50% where market conditions are difficult. Typical rates are around a 20% to 30% discount to MV-VP for properties subject to AST tenancies.

The yield applied to net income varies from 5% or less for prime property, to 7% or more for poorer locations. This equates to a yield on gross income (after deductions for management, maintenance & voids) of between 7% to 10% and possibly higher for Sheltered accommodation.

The discount and yield applied in our valuations has been adjusted to reflect the additional security of tenure RP tenants benefit from.

The Residential Investment market is currently active in these locations and having discussed the portfolio with agents active in the market we expect that the Properties would attract good demand if brought to the market.

The discount and yield applied in our valuations has been adjusted to reflect the additional security of tenure RP tenants benefit from.

5.2.2. Principal Assumptions – MV-STT

We have considered the above in arriving at our valuation. The yield and other principal assumptions adopted are set out below.

Table 13: MV-STT Assumptions

Variable	Variable	Amount
Gross Annual Rental Income*	£	£19,583,022
Voids	% of Rent Debit p.a.	5%
Management	% of Rent Debit p.a.	10%
Maintenance	% of Rent Debit p.a.	15%
Net Yield Applied	%	4.40%-5.70%

Source: Savills

*Note: market rent assumed

5.3. Shared Ownership - Valuation Approach

5.3.1. General

The Borrower has 439 properties subject to Shared Ownership leases within the Portfolio of Properties. They retain around 62% of the equity in their units, overall. Please see **Appendix 1** for details of such properties, shares held and rental income produced.

5.3.2. Valuation Approach

Shared Ownership property produces a rental income dependant on the percentage owned by the leaseholder and the percentage retained by the lessee. As leaseholders have a stake in the property, arrears and default are comparatively rare and landlords can retrieve management costs. Maintenance does not erode rental income as the leaseholder is responsible.

Shared Ownership property thus produces good quality, low risk rental income on the share retained. In addition capital receipts can arise on the occurrence of default or when the leaseholder decides to acquire the whole or a portion of the remaining equity. This usually happens when they decide to sell and move on.

We use a discounted cashflow model designed for the valuation of Shared Ownership property which projects future rent and outgoings to arrive at a net present value. This cashflow can be tested with a variety of staircasing and default scenarios.

In this case we have assumed that the Borrower recoups all service costs through service charges and that management income and the management charge equals the management expenditure. We have applied a discount rate of 4.75% real reflecting the very secure nature of Shared Ownership income.

5.3.3. Shared Ownership Valuations Principal DCF Assumptions

Our principal valuation assumptions are as follows:

Table 14: Shared Ownership Assumptions

Variable	Unit of Cost	Variable Amount
Discount rate	%	4.75%
Average rent	£	£78.67
Management cost	£	£150
MV-VP	£	£267,000

Source: Savills

6. Valuations

6.1. Valuations

6.2. Valuation of Freehold and Leasehold Property that may be disposed at MV-STT (£)

Properties that may be disposed of by a mortgagee in possession at MV-STT, that is on an unfettered basis (meaning subject to existing tenancies but otherwise with vacant possession and not subject to any security interest, option or other encumbrance or to any restriction preventing its sale to, or use by, any person for residential use) as referred to in paragraph 1.2 above.

Our opinion of value, in aggregate, of the 1,826 dwellings as mentioned at 1.2 above, on the basis of

- Market Value – Subject to Tenancies (MV-STT) is £290,813,000 (Two Hundred and Ninety Million, Eight Hundred and Thirteen Thousand Pounds)

Table 1: Valuation of Freehold and Leasehold Property that may be disposed at MV-STT (£)

Tenure Type	Number of Dwellings	Market Value – Subject to Tenancies (MV-STT) £	Equivalent Existing Use Value – Social Housing (EUV-SH) £
Freehold	1661	£265,692,000	£120,332,00
Leasehold	165	£25,121,000	£10,560,000

6.3. Valuation of Freehold and Leasehold Property that may be disposed at EUV-SH (£)

Our opinion of value, in aggregate, of the 1,124 rented dwellings and retained equity in shared ownership dwellings as mentioned at 1.3 above, on the basis of

- Existing Use for Social Housing is £88,852,000 (Eighty Eight Million, Eight Hundred and Fifty Two Thousand Pounds)

Table 2: Valuation of Freehold and Leasehold Property that may be only by disposed at EUV-SH

Tenure Type	Number of Dwellings	Existing Use Value – Social Housing (EUV-SH) £
Freehold	938	£74,482,000
Leasehold	186	£14,370,000

There are 113 properties which have been ascribed a nil value.

A full stock schedule with apportioned values is included at **Appendix 1**.

6.4. Lending Against MV-STT

With reference to **paragraph 3.4** on Title and Tenure, it is essential that before lending on MV-STT the lender confirms that the development or valuation group is capable of being let at a Market Rent, or disposed of free from restrictions, should the lender take possession. If there are enforceable "Housing Restrictions" in title, planning approval, s.106 agreements or by separate Nomination agreements, that, for example, limit disposal to RPs only or binding contractual nominations then the correct relevant valuation basis is EUV-SH and not MV-STT.

We must also stress that it is up to investors to assess the terms of the Bonds and the amount of lending based on the valuations herein. We have set out the current rental income at **Appendix 1** but make no warranty that the current income is sufficient to support lending against MV-STT either on individual valuation groups or against the whole portfolio.

It is up to investors to assess what level of lending against MV-STT is prudent based on an RP's asset and income cover. Savills makes no recommendation of the maximum level of borrowing the Issuer is capable of supporting globally based on MV-STT.

6.5. Lotting and Value Disaggregation

We have valued the Properties as a single lot. As a result we have not assessed individual valuations for each Property. We have, however, provided a disaggregation of the overall valuation figures by reference to the appropriate rent and these figures are shown on the property schedule at **Appendix 1**.

The lender must be aware that the per unit figures shown in the schedule should not be regarded as individual valuations of the Properties. They are provided as indicative figures for administrative purposes only.

7. Suitability and Verification

7.1. Suitability as Loan Security

7.1.1. Investor's Responsibility

It is usual for a valuer to be asked to express an opinion as to the suitability of a property as security for a loan, debenture, bond or mortgage. However, it is a matter for the investors to assess the risks involved and make their own assessment in fixing the terms of the bonds, such as the percentage of value to be advanced, the provision for repayment of the capital, and the yield.

In this Report we refer to all matters that are within our knowledge and which may assist you in your assessment of the risk.

We have made subjective adjustments during our valuation approach in arriving at our opinion and whilst we consider these to be both logical and appropriate they are not necessarily the same adjustments which would be made by a purchaser acquiring the Properties.

Where we have expressed any reservations about any Property we have reflected these in the valuation figure reported. However it may be that the purchasers in the market at the time the property is marketed might take a different view.

7.1.2. Suitability as Security

We have considered each of the principal risks associated with the Properties within the context of the wider property market and these risks are reflected in our valuation calculations and reported figures as appropriate.

Overall, we consider that the Properties provide good security for bonds secured upon it, which reflects the nature of the Properties, our reported opinions of value and the risks involved.

7.2. Verification

This Report contains many assumptions, some of a general and some of a specific nature. Our valuations are based upon certain information supplied to us by others. Some information we consider material may not have been provided to us. All of these matters are referred to in the relevant sections of this Report.

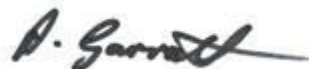
We hope the above is acceptable for your purposes, should you have any queries, please do not hesitate to contact us.

Yours faithfully

For and on behalf of Savills Advisory Services Limited

A handwritten signature in black ink, appearing to read "M. Sale", with a long horizontal stroke extending to the right.

Matthew Sale BSc (Hons) MRICS
Associate Director
RICS Registered Valuer

A handwritten signature in black ink, appearing to read "A. Garratt", with a long horizontal stroke extending to the right.

Andy Garratt BA MRICS FCIH
Director
RICS Registered Valuer