

## IMPORTANT NOTICE

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This prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Stonewater Funding plc, Stonewater Limited, Stonewater (2) Limited, Stonewater (5) Limited, TradeRisks Limited, The Bank of New York Mellon, or Prudential Trustee Company Limited or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version available to you on request from TradeRisks Limited.



## STONEWATER FUNDING PLC

(Incorporated in England and Wales with limited liability under the Companies Act 2006, registered number 8190978)

### £250,000,000 3.375 per cent. Secured Bonds due 2045

#### Issue Price: 100 per cent.

The £250,000,000 3.375 per cent. Secured Bonds due 2 November 2045 (the **Bonds**) are issued by Stonewater Funding plc (the **Issuer**). Application has been made to the Financial Conduct Authority in its capacity as competent authority (the **UK Listing Authority**) for the Bonds to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the 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 Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

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

£250,000,000 in nominal amount of the Bonds will be immediately purchased by or on behalf of the Issuer on the Issue Date (as defined below) (the **Retained Bonds**). Subject as set out below, the net proceeds of the sale of the Retained Bonds to a third party, will be advanced by the Issuer to Stonewater Limited (**Stonewater**), Stonewater (5) Limited (**Stonewater 5**) and Stonewater (2) Limited (**Stonewater 2**) and, together with Stonewater and Stonewater 5, the **Original Borrowers** and each an **Original Borrower** pursuant to a bond loan agreement between Stonewater and the Issuer dated 2 November 2017 (the **Stonewater Loan Agreement**), a bond loan agreement between Stonewater 5 and the Issuer dated 2 November 2017 (the **Stonewater 5 Loan Agreement**) and a bond loan agreement between Stonewater 2 and the Issuer dated 2 November 2017 (the **Stonewater 2 Loan Agreement** and, together with the Stonewater Loan Agreement and the Stonewater 5 Loan Agreement, the **Original Loan Agreements**) (and together with the Additional Loan Agreements (as defined below), the **Loan Agreements**), to be applied in accordance with the Borrowers' (as defined below) charitable objects.

The Aggregate Funded Commitment (as defined in the section "*Description of the Loan Agreements*") may be drawn prior to the initial Instalment Redemption Date (as defined below) in one or more drawings, each in a nominal amount up to an amount which corresponds to the Minimum Value of any Properties (as defined below) which have been charged in favour of the Issuer and the Security Trustee (the **Charged Properties**) less the nominal amount of all previous drawings in respect of the Commitments (as defined below). For so long as the value of the Issuer's Designated Security (as defined below) is insufficient to satisfy the Asset Cover Test (as defined below) immediately following the drawing of the Aggregate Funded Commitment (as defined below) in full, or the Borrowers have not otherwise drawn any part of the Aggregate Funded Commitment, the amount of the Aggregate Funded Commitment that remains undrawn shall 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**).

**On the Issue Date, no Borrower will charge any Properties in favour of the Security Trustee for the benefit of the Issuer (and the Bonds will not therefore benefit from underlying security comprising real property). Pursuant to the Loan Agreements, the Borrowers are required to ensure that sufficient Properties are charged as a condition for the first drawdown under any Loan Agreement. This Prospectus includes the valuation report (the Valuation Report) prepared by Jones Lang LaSalle Limited (the Valuer), which sets out details of certain Properties which Stonewater and Stonewater 2 may charge in favour of the Security Trustee for the benefit of the Issuer prior to the first drawdown under any Loan Agreement (the Provisional Portfolio). The Provisional Portfolio is indicative of the Properties that may be charged, and the Borrowers may, subject to satisfaction of certain conditions described in "*Description of the Loan Agreements-Facility*", charge Properties that do not form part of the Provisional Portfolio.**

Any net sale proceeds from a sale by the Issuer of 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 Original Borrowers and/or any other charitable Registered Providers of Social Housing of the Group that has acceded to the Security Trust Deed as a borrower in accordance with the terms thereto (together, the **Additional Borrowers** and each an **Additional Borrower** and, together with the Original Borrowers, the **Borrowers** and each a **Borrower**, in each case for so long as it is identified as a borrower under a Loan Agreement) at a later date pursuant to the Loan Agreements or an additional bond loan agreement between an Additional Borrower and the Issuer (each an **Additional Loan Agreement**), as applicable, to the extent that Properties of a corresponding value have been charged in favour 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 Bonds is payable semi-annually from the Issue Date in arrear on 2 May and 2 November in each year (each an **Interest Payment Date**) at the rate of 3.375 per cent. per annum on their Outstanding Principal Amount (as defined below), commencing on 2 May 2018, as described in Condition 7 (*Interest*). Payments of principal of, and interest on, the 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 prior to the Maturity Date (as defined below) upon the prepayment by a Borrower of its loan (each a **Loan**) in whole or in part in accordance with the terms of its Loan Agreement at the higher of their Outstanding 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 average maturity to that of the Bonds and (ii) 0.20 per cent, together with accrued interest (or, in respect of a prepayment of a Loan following an event of default thereunder, at their Outstanding Principal Amount, together with accrued interest). The Bonds will also be redeemed (a) at their Outstanding Principal Amount, plus accrued interest, in an aggregate Outstanding Principal Amount equal to the nominal amount of the relevant Loan in the event of (i) a prepayment of a Loan instructed by Bondholders by way of an Extraordinary Resolution following the relevant Borrower ceasing to be a Registered Provider of Social Housing for a period of 180 days, or (ii) a Loan becoming repayable as a result of a Borrower Default (as defined in each Loan Agreement) (unless the Issuer has increased the Commitment of another Borrower by the nominal amount of the relevant Loan to be repaid within 14 days of the date of such Borrower Default or the date on which the Bondholders passed the relevant Extraordinary Resolution, as the case may be) and (b) at their Outstanding Principal

Amount, plus accrued interest, in full in the event of 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 having 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 Outstanding Principal Amount in sixteen equal semi-annual instalments on each Interest Payment Date falling on 2 May and 2 November in each year from, and including, 2 May 2038 to, and including, 2 November 2045 (the **Maturity Date**) (each an **Instalment Redemption Date**).

The Bonds will not be rated on the Issue Date.

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

The Bonds will initially be represented by a temporary global bond (the **Temporary Global Bond**), without principal receipts or interest coupons, which will be deposited on or about 2 November 2017 (the **Closing Date**) with a common safekeeper for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**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, the **Global Bonds**), without principal receipts or interest coupons, on or after 12 December 2017 (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 Bonds and Summary of Provisions relating to the Bonds while in Global Form*".

***Arranger and Dealer***  
**TradeRisks Limited**

The date of this Prospectus is 31 October 2017.

This Prospectus comprises a prospectus for the purposes of Directive 2003/71/EC (the *Prospectus Directive*).

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

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The figures referred to in the Valuation Report of the Valuer in the section entitled "*Market Commentary*" were obtained from Land Registry, HM Revenue & Customs, Department for Communities and Local Government and RICS UK Residential Market Survey. 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 Land Registry, HM Revenue & Customs and Department for Communities and Local Government, as well as from RICS UK Residential Market Survey, no facts have been omitted which would render the reproduced figures inaccurate or misleading.

Each of the Original Borrowers accepts responsibility for the information contained in this Prospectus relating to it, including, without limitation, the information:

- (a) contained in the section "*Description of the Group and the Original Borrowers*" relating to it;
- (b) contained in the section "*Documents Incorporated by Reference*" relating to it;
- (c) contained under the heading "*Factors which may affect the Borrowers' ability to fulfil their obligations under the Loan Agreements*" in the section "*Risk Factors*"; and
- (d) relating to it under the headings "*Material or Significant Change*" and "*Litigation*" in the section "*General Information*",

and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. Each Original Borrower also accepts responsibility for the information contained in this Prospectus relating to the security created by such Original Borrower pursuant to the Security Agreement(s) (as defined below) entered into by it and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Valuer accepts responsibility for the information contained in the section "*Valuation Report*" and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information. With the exception of the 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, the Borrower, the Arranger, the Dealer and/ or the Bond Trustee.

Save for the Issuer, the Original Borrowers and the Valuer, no other person has independently verified any information contained herein. No representation, warranty or undertaking, express

or implied, is made and no responsibility or liability is accepted by TradeRisks Limited (the *Arranger* and the *Dealer*) or Prudential Trustee Company Limited (the *Bond Trustee*) as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the offering of the Bonds. None of the Arranger, the Dealer or the Bond Trustee accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the issue of the Bonds.

No person is or has been authorised by the Issuer, the Arranger, the Dealer 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 Bonds and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Arranger, the Dealer or the Bond Trustee.

To the fullest extent permitted by law, none of the Arranger, the Dealer or the Bond Trustee accepts 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 Borrowers or the issue and offering of the Bonds. Each of the Arranger, the Dealer and 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 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 Arranger, the Dealer or the Bond Trustee that any recipient of this Prospectus or any other information supplied in connection with the Bonds should purchase any Bonds. Each investor contemplating purchasing any 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 Borrowers. Neither this Prospectus nor any other information supplied in connection with the Bonds constitutes an offer or invitation by or on behalf of the Issuer, the Arranger, the Dealer or the Bond Trustee to any person to subscribe for or to purchase the Bonds.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Bonds shall in any circumstances imply that the information contained herein concerning the Issuer or the Borrowers is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Bonds is correct as of any time subsequent to the date indicated in the document containing the same. The Arranger, the Dealer and the Bond Trustee do not undertake to review the financial condition or affairs of the Issuer or the Borrowers during the life of the Bonds or to advise any investor in the Bonds or 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 Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any 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 the Bonds may be restricted by law in certain jurisdictions. The Issuer, the Arranger, the Dealer and the Bond Trustee do not represent that this Prospectus may be lawfully distributed, or that the 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 Arranger, the Dealer or the Bond Trustee which is intended to permit a public offering of the Bonds or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no 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 Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Bonds in the United States and the United Kingdom (see "*Subscription and Sale*").

Prospective purchasers of the Bonds should ensure that they understand the nature of the Bonds and the extent of their exposure to risk, that they have sufficient knowledge, experience and access to professional advisers to make their own legal, tax, accounting and financial evaluation of the merits and the risks of investment in the Bonds and that they consider the suitability of the Bonds as an investment in light of their own circumstances and financial condition.

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

Whilst references to ratings of Fitch, Moody's and S&P are contained in this document, there is no immediate intention on the part of the Issuer to obtain ratings from such rating agencies in respect of the Bonds. Each of Fitch Ratings Ltd (Fitch), Moody's Investors Service Limited (Moody's) and Standard & Poor's Ratings Services (S&P) is established in the European Union and is registered under Regulation (EC) No. 1060/2009, as amended, of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the CRA Regulation).

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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 Bonds should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in “*Form of the Bonds and Summary of Provisions relating to the Bonds while in Global Form*”, “*Terms and Conditions of the Bonds*” and “*Description of the Loan Agreements*” shall have the same meanings in this overview.

Issuer:	Stonewater Funding plc
Description of the Bonds:	£250,000,000 3.375 per cent. Secured Bonds due 2045 (the <b>Bonds</b> ) to be issued by the Issuer on 2 November 2017 (the <b>Issue Date</b> ). £250,000,000 in nominal amount of the Bonds will be immediately purchased by or on behalf of the Issuer on the Issue Date (the <b>Retained Bonds</b> ).
Issue Price:	100 per cent.  The Issue Price for the Bonds will, in accordance with the terms of the Subscription Agreement, be payable in full on the Issue Date.
Use of Proceeds:	The net proceeds of the sale of the Bonds to a third party (after deduction of expenses payable by the Issuer) following the Issue Date will be on-lent by the Issuer to the Original Borrowers or (to the extent any Original Borrower has reduced its respective Commitment) to an Additional Borrower.  Subject as described in “ <i>Initial Cash Security Account</i> ” below, the Issuer will lend such proceeds to the Original Borrowers and/or one or more Additional Borrowers pursuant to the relevant Loan Agreement to be applied in accordance with the charitable objects of such Original Borrower or such Additional Borrower, as the case may be.  The Issuer may from time to time invest the funds held in the Initial Cash Security Account and the Ongoing Cash Security Account in Permitted Investments (as defined below) until such time as such funds are on-lent, or returned, to the Original Borrower pursuant to the relevant Loan Agreement.
Form of Bonds:	The Bonds will be issued in bearer form as described in “ <i>Form of the Bonds and Summary of Provisions relating to the Bonds while in Global Form</i> ”.
Interest:	The Bonds will bear interest on their Outstanding Principal Amount at a fixed rate of 3.375 per cent. per annum payable semi-annually in arrear on 2 May and 2 November of each



year, from (and including) 2 May 2018 to (but excluding) 2 November 2045 (the **Maturity Date**), subject to adjustment in accordance with Condition 8.5 (*Payment Day*) (each, an **Interest Payment Date**).

**Instalment Redemption:** Unless previously redeemed or purchased and cancelled in accordance with Condition 9 (*Redemption and Purchase*), the Bonds will be redeemed in sixteen equal semi-annual instalments on each Interest Payment Date falling on 2 May and 2 November in each year from, and including, 2 May 2038 to, and including, the Maturity Date (each, an **Instalment Redemption Date**).

**Optional Early Redemption:** Subject as described in “*Early Redemption*” below, the Bonds may be redeemed upon the optional prepayment by a Borrower of its loan (each a **Loan**) at anytime prior to the Maturity Date in accordance with the terms of the relevant Loan Agreement at the higher of their Outstanding Principal Amount and an amount calculated by reference to the sum of (i) the yield on the relevant outstanding UK Government benchmark conventional gilt having the nearest average maturity to that of the Bonds and (ii) 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 Outstanding 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.

**Early Redemption:** The Bonds shall be redeemed at their Outstanding Principal Amount, plus accrued interest, in an aggregate Outstanding Principal Amount equal to the nominal amount of the relevant Loan upon the prepayment of a Loan instructed by Bondholders by way of an Extraordinary Resolution following the relevant Borrower ceasing to be a Registered Provider of Social Housing for a period of 180 days (unless the Issuer has increased the Commitment of another Borrower by the nominal amount of the relevant Loan to be repaid within 14 days of the date on which the Bondholders passed the relevant Extraordinary Resolution).

In addition, if a Loan becomes repayable as a result of a Borrower Default the Bonds shall be redeemed at their Outstanding Principal Amount, plus accrued interest, in an aggregate Outstanding Principal Amount equal to the nominal amount of the relevant Loan (unless the Issuer has increased the Commitment of another Borrower by the nominal amount of the relevant Loan to be repaid within 14 days of the date of

such Borrower Default).

A **Borrower Default** includes non-payment, breach of other obligations, cross-acceleration, winding-up, cessation of business, insolvency, unlawfulness, breach of the Asset Cover Test, in each case as set out in Clause 14 (*Borrower Default*) of the relevant Original Loan Agreement (or as will be set out in the corresponding clause of each Additional Loan Agreement) and described further in "*Description of the Loan Agreements*".

Purchase:

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

The Issuer and any Borrower may also purchase Bonds at any time in the open market or otherwise at any price.

Any Bonds so purchased by a Borrower may be surrendered to the Issuer for cancellation in consideration for an amount equal to the Outstanding Principal Amount of the Bonds being surrendered being deemed to be prepaid under the Loan Agreement specified by such Borrower or, to the extent that the relevant Loan is not then outstanding, an amount of the Undrawn Commitment (as defined below) in respect of such Loan Agreement equal to the Outstanding Principal Amount of the Bonds surrendered being deemed to be cancelled.

Retained Bonds:

Pursuant to the terms of the Retained Bond Custody Agreement, the Retained Bond Custodian will hold the Retained Bonds on the Issuer's behalf (see "*Description of the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement*" below), and the Issuer has instructed the Retained Bond Custodian to waive its rights to receive payments (of interest, principal or otherwise) on the Retained Bonds for so long as the Retained Bonds are held on the Issuer's behalf. Such waiver may not be revoked without the consent of the Bond Trustee.

Pursuant to the Loan Agreements, each Borrower must, following receipt of a notice from the Issuer stating that it intends to sell any Retained Bonds, supply to the Issuer and the Bond Trustee not later than three Business Days prior to a sale of any Retained Bonds by the Issuer, a compliance certificate signed by two Authorised Signatories of that Borrower confirming whether, immediately following such sale, the relevant Borrower will be in compliance with the Asset Cover Test (the "**Retained Bond Compliance Certificate**"), as described further in "*Description of the Loan Agreements*".

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 Outstanding Principal Amount of the Bonds then outstanding or if directed to do so by an Extraordinary Resolution of

Bondholders, shall (subject to it being secured and/or indemnified and/or pre-funded 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 a Loan Agreement), each Borrower is required to prepay its Loan in full together with accrued interest and commitment fee to and including the date of redemption. Each Borrower is also required to pay to the Issuer, within three Business Days of demand, its *pro rata* share of 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 as trustee for the other Secured Parties by the following (the **Issuer Security**):

- (a) by an assignment by way of security of the Issuer's rights, title and interest arising under the Bond Trust Deed, the Loan Agreements, the Security Trust Deed, the Agency Agreement, the Custody Agreement, the Retained Bond Custody Agreement and the Account 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 Ongoing Cash Security 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 the Paying Agents' obligations to repay all sums held from time to time by the Paying Agents for the payment of principal or interest in respect of the Bonds where the Bond, Receipt or Coupon becomes void pursuant to the Conditions.

Pursuant to the Bond Trust Deed, the Issuer has agreed that, contemporaneously with the entry into of a Security

Agreement it shall enter a supplemental deed to the Bond Trust Deed, pursuant to which it shall with full title guarantee for the payment and discharge of the Secured Obligations (as defined in the Bond Trust Deed) assign absolutely by way of security in favour of the Bond Trustee for itself and the Bondholders and as trustee for the other Secured Parties, all of its rights, title and interest arising under the relevant Security Agreement.

Initial Cash Security Account:

For so long as the value of the Designated Security (as defined in the Security Trust Deed) created in respect of the Borrowers' obligations under the Loan Agreements (the **Issuer's Designated Security**) is insufficient to satisfy the Asset Cover Test immediately following the drawing of the Aggregate Funded Commitment in full, or the Borrowers have not otherwise drawn any part of one or more of the Aggregate Funded Commitment, the amount of the Aggregate Funded Commitment that remains undrawn shall 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**).

Any Retained Proceeds shall be advanced to one or more Borrowers at a later date pursuant to the relevant Loan Agreement to the extent that Properties of a corresponding value have been charged in favour of the Issuer and, if applicable, subject to the sale by the Issuer of Retained 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 the rates set by the Account Bank in its deposit terms and conditions as may be issued by the Account Bank from time to time, subject to the terms of the Account Agreement or (b) be invested in Permitted Investments in accordance with the Custody Agreement. See "*Permitted Investments*" below.

Pursuant to the Loan Agreements, each Borrower shall pay to the Issuer a commitment fee in respect of its Undrawn Commitment on each Loan Payment Date in an amount equal to its *pro rata* share of (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) amount of interest received from the Borrowers under the Loan Agreements on such Loan Payment Date and (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).

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

Ongoing Cash Security Account:

Pursuant to the Loan Agreements, each Borrower is (or will

be) required to procure that the Asset Cover Test is maintained (see "*Description of the Loan Agreements*" below). In the event that the value of any Charged Property is insufficient to maintain the Asset Cover Test, the Borrowers may deposit moneys into the Ongoing Cash Security 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 Ongoing Cash Security Account may: (a) be held on deposit, in which case they shall accrue interest at the rates set by the Account Bank in its deposit terms and conditions as may be issued by the Account Bank from time to time, subject to the terms of 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 Ongoing Cash Security Account may be withdrawn from the Ongoing Cash Security Account (a) to be applied by the relevant Borrower in the acquisition of Property to be charged in favour of the Security Trustee for the benefit of the Issuer or (b) otherwise to the extent that the Asset Cover Test would not be breached immediately after such withdrawal.

Permitted Investments:

Permitted Investments shall consist of:

- (a) deposits with any bank or building society incorporated in the United Kingdom subject to such bank or building society having long-term senior unsecured debt credit ratings of not less than "A" from S&P, "A" from Fitch and "A2" from Moody's;
- (b) deposits with any non-United Kingdom incorporated bank subject to such bank having long-term senior unsecured debt credit ratings of not less than "AA" from S&P and "Aa2" from Moody's;
- (c) full recourse debt instruments with a maturity no later than the earlier of (i) the date falling two years after the date of purchase, and (ii) the Maturity Date, that are issued by EU credit institutions having long-term senior unsecured debt credit ratings of not less than "AAA" from S&P and "Aaa" from Moody's that are fully secured or "covered" by a pool of on-balance sheet collateral;
- (d) debt securities with a maturity no later than the earlier of (i) the date falling two years after the date of purchase, and (ii) the Maturity Date, that are issued by supranational agencies having long-term senior unsecured debt credit ratings of not less than

“AAA” from S&P and “Aaa” from Moody’s;

- (e) money market funds having long-term senior unsecured debt credit ratings of not less than “AAAm” from S&P, “Aaa-mf” from Moody’s or “AAAmmf” from Fitch; and
- (f) direct obligations of the United Kingdom or of any agency or instrumentality of the United Kingdom which are guaranteed by the United Kingdom with a maturity no later than the earlier of (i) the date falling two years after the date of purchase, and (ii) the Maturity Date,

provided that (i) in all cases, such investment shall be an investment which is denominated in Sterling and is non-index linked, and (ii) in the case of (a) to (e) above, no more than £20,000,000 shall be deposited with any one institution or invested in any one security.

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

In the event that any Permitted Investments are sold to fund an advance to a Borrower pursuant to a 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 such Borrower at the nominal amount requested and shall make a loan or a gift aid payment to a charitable member of the Group which is connected with the Original 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 each Loan Agreement) and shall, in the same accounting period, make a loan or a gift aid payment to any Charitable Group Member in an amount equal to the Accounting Profit.

See “*Description of the Loan Agreements – Facility*”.

Account Agreement, Custody

The Issuer has appointed The Bank of New York Mellon,

Agreement and Retained Bond  
Custody Agreement:

London Branch as its Account Bank pursuant to the Account Agreement, its Custodian pursuant to the Custody Agreement and its Retained Bond Custodian in respect of the Retained Bonds pursuant to the Retained Bond 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 Ongoing Cash Security Account. Pursuant to the Account Agreement and the Bond Trust Deed, the Issuer has entered into certain covenants in respect of the monies which may be credited to and debited from each Account.

Pursuant to the Custody Agreement, the Custodian has opened the Custody Account (consisting of the Ongoing Cash Security Custody Sub-Account, the Initial Cash Security Custody Sub-Account, the Ongoing Cash Security 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.

Pursuant to the Retained Bond Custody Agreement, the Retained Bond Custodian has opened the Retained Bond Custody Account (consisting of the Retained Bond Custody Sub-Account and the Retained Bond Cash Sub-Account). The Retained Bond Custodian has agreed not to effect a transfer of any Retained Bonds except with the prior written consent of the Bond Trustee, and the Issuer has authorised the Retained Bond Custodian to make other payments and delivery out of the Retained Bond Custody Account only as set out therein.

See “*Description of the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement*” below.

Guarantee and Indemnity:

Pursuant to the Loan Agreements, each Original Borrower has (and each Additional Borrower will have) irrevocably and unconditionally:

- (a) guaranteed to the Issuer the punctual performance by each other Borrower of all such Borrowers’ obligations under, *inter alia*, their respective Loan Agreements, the Security Trust Deed and their respective Security Agreements, other than each other Borrowers’ obligations to repay principal and any prepayment premium thereon pursuant to their respective Loan Agreements (such amounts being, the **Guaranteed Interest and Fee Amounts**);
- (b) undertaken with the Issuer that, whenever any other Borrower does not pay any Guaranteed Interest and Fee Amounts when due under its respective Loan Agreement, the Security Trust

Deed or its respective Security Agreement(s), it must, immediately on demand by the Security Trustee and/or the Issuer, pay the Guaranteed Interest and Fee Amounts as if it were the principal obligor;

- (c) undertaken with the Issuer that, to the extent that the proceeds of the enforcement of the Underlying Security are insufficient to satisfy the Borrowers' obligations under their respective Loan Agreements in full (the shortfall being, the **Guaranteed Principal Amount**), it must, immediately on demand by the Security Trustee and/or the Issuer, pay the Guaranteed Principal Amount as if it were the principal obligor; and
- (d) agreed to indemnify the Issuer immediately on demand against any loss or liability suffered by the Issuer if any obligation guaranteed by it is or becomes illegal or invalid.

Underlying Security:

Pursuant to the Security Agreements and the Security Trust Deed, each Borrower will create the following security in favour of the Security Trustee for the benefit of itself and the Issuer:

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

and has (or will have) also covenanted that it will, following an Enforcement Event (as defined in the Security Trust Deed) which has occurred and is continuing unremedied or unwaived and has not been remedied within any applicable grace period, assign or procure the assignment to the Security Trustee for the benefit of itself and the Issuer, all of the rights, title and interest in and to certain agreements and covenants held by such Borrower as more particularly described in the Security Agreements, 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 Security Agreements and the Security Trust Deed*” below.

Addition, substitution and release of Charged Properties:

Pursuant to the Security Trust Deed, on or prior to entering into a Security Agreement in respect of any Property for the benefit of the Issuer (such Properties being the **Charged Properties**), the relevant Borrower must, in respect of such security, provide the conditions precedent documents specified therein. In addition, pursuant to the Loan Agreements, the Borrowers must provide: a completed Charged Property Certificate confirming that, *inter alia*, the proposed Charged Properties are social housing or affordable rent properties; a Full Valuation Report in respect of each Charged Property; and a Certificate of Title in respect of each tranche of Charged Properties charged.

At the request and expense of a Borrower, the Security Trustee shall (subject to receiving an amended Security Certificate from the Borrowers and the Issuer in accordance with the Security Trust Deed) release from the relevant Security Documents (and/or 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 such Borrower, provided that such Borrower satisfies the conditions precedent specified in the Loan Agreements 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 social housing or affordable rent property and that, immediately following such release (and/or reallocation, if applicable), the Asset Cover Test will not be breached as a result of the substitution of the relevant Charged Properties and that no Borrower Default has occurred and is continuing; a Full Valuation Report in respect of each Substitute Property; and a Certificate of Title in respect of the Substitute Properties.

At the request and expense of a Borrower, the Security Trustee shall release (subject to receiving an amended Security Certificate from the Borrowers and the Issuer in accordance with the Security Trust Deed) from the relevant Security Documents (and/or reallocate, if applicable) such Charged Properties as may be selected by such Borrower provided that such Borrower delivers to the Issuer and the Security Trustee a completed Property Release Certificate, certifying that, immediately following such release (and/or reallocation, if applicable), the Asset Cover Test will not be breached as a result of the release (and/or reallocation, if applicable) of such part of the security and that no Borrower Default has occurred and is continuing.

Notwithstanding the above, where any disposal is a Statutory Disposal a Borrower shall have the right to withdraw such

Property from the Issuer's Designated Security. In such circumstances such Borrower is obliged to deliver (or procure the delivery), 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 Ongoing Cash Security Account, in accordance with the Loan Agreements, 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 enforceable and/or declare the relevant Loan immediately repayable. Pursuant to 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 Agreements 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 Security Agreements 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 Security Agreements 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 and/or pre-funded to its satisfaction.

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

Priorities of Payments:

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, costs, charges, expenses, indemnity payments and liabilities owing to the Paying Agents by the Issuer under the Agency Agreement, the Account Bank under the Account Agreement, the Custodian under the Custody Agreement and the Retained Bond Custodian under the Retained Bond 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, on a *pro rata* and *pari passu* basis, to the Borrowers of any amounts due and payable under the terms of the Loan Agreements; and
- (h) eighth, in payment of any Permitted Investment Profit, Accounting Profit or Retained Bond Premium Amount, as the case may be, to any Charitable Group Member.

Following the enforcement of the Issuer Security, all monies standing to the credit of the Transaction Account, the Ongoing Cash Security 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, the Custodian under the Custody Agreement and the Retained Bond Custodian under the Retained Bond 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 on a *pro rata* and *pari passu* basis, to the Borrowers of any amounts due and payable under the terms of the Loan Agreements; and
- (g) seventh, in payment of any Permitted Investment Profit, Accounting Profit or Retained Bond Premium Amount, as the case may be, to any Charitable Group Member.

Status of the Bonds:

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

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 Borrowers 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 Certificates received from the Borrowers pursuant to the terms of the Loan Agreements and a copy of the consolidated annual reports of Stonewater 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 Group.

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 Agreements, the Security Agreements 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 a tax 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 Outstanding Principal Amount, together with any accrued interest, in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*).

Meetings of Bondholders:

The Terms and 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:

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Bonds. These are set out under "*Risk Factors*" below and include factors which may affect the Issuer's and/or a Borrower's ability to fulfil their obligations under the Bonds, the Loan Agreements and/or Security Agreements, 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.

See "*Risk Factors*" below.

Rating:

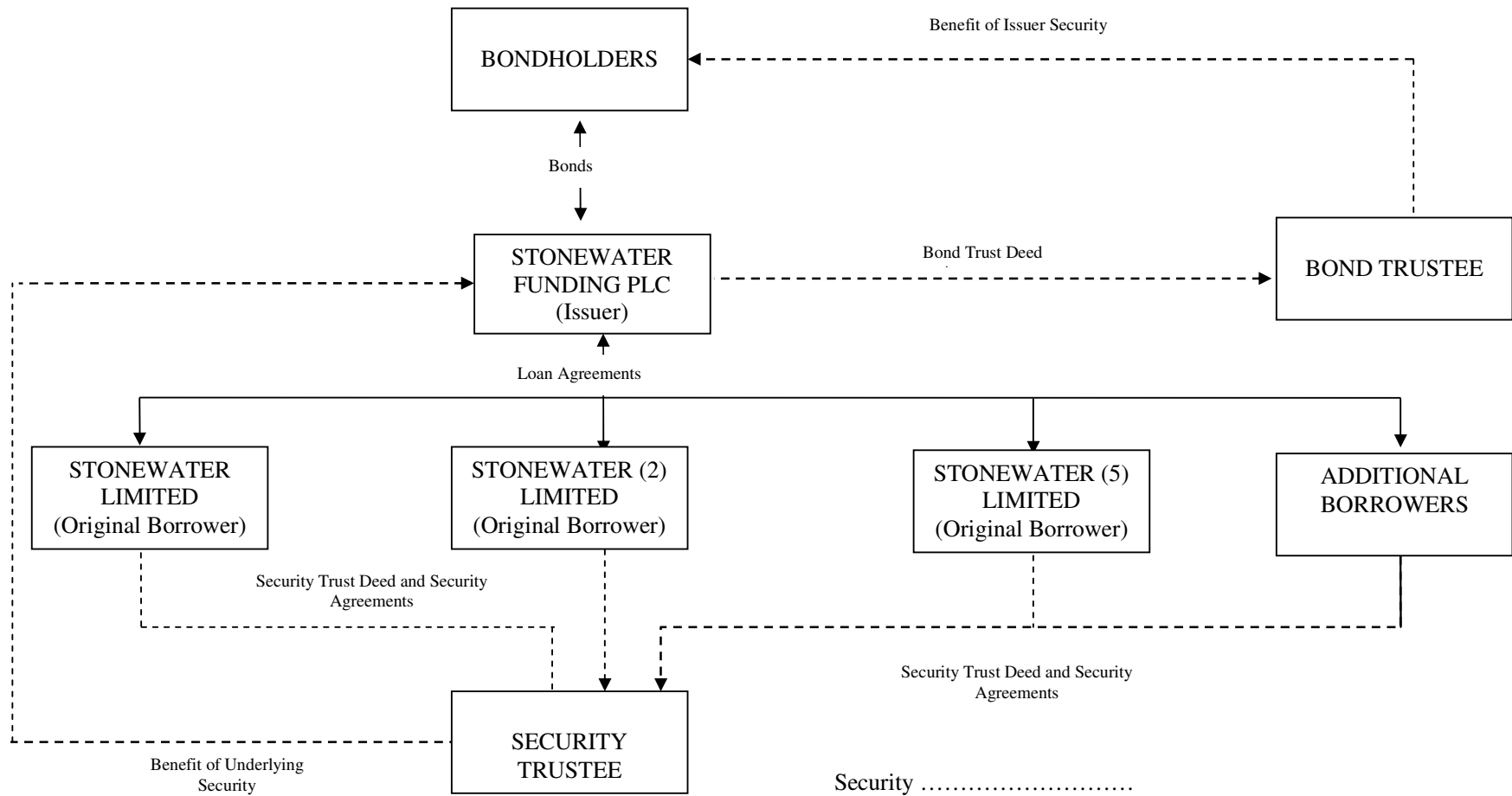
The Bonds will not be rated on the Issue Date.

Listing and admission to trading:

Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on the

	London Stock Exchange's regulated market.
Arranger:	TradeRisks Limited
Dealer:	TradeRisks Limited
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
Retained Bond Custodian:	The Bank of New York Mellon, London Branch
Bond Trustee:	Prudential Trustee Company Limited
Security Trustee:	Prudential Trustee Company Limited
Original Borrowers:	Stonewater Limited; Stonewater (2) Limited; and Stonewater (5) Limited
Borrowers:	The Original Borrowers and any Additional Borrower, in each case for so long as it is identified as a Borrower under a Loan Agreement.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Bonds in the United States and the United Kingdom, see " <i>Subscription and Sale</i> ".
Governing Law:	The Bonds, the Transaction Documents 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 Borrowers to fulfil their obligations under the Loan Agreements) may affect its ability to fulfil its obligations under the Bonds. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.*

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

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. This section is not intended to be exhaustive and prospective investors should also read the detailed information set out elsewhere in this 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 Borrowers' 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 incurrance of financial indebtedness, including the issuance of the Bonds, and the on-lending of such indebtedness to the Borrowers. As such the Issuer is entirely dependent upon receipt of funds received from the Borrowers in order to fulfil its obligations under the Bonds, including the payment of interest and principal to Bondholders.

***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 Borrowers. 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 Borrowers in respect of the Loan Agreements. Delays in the receipt of payments due from the Borrowers under the Loan Agreements could adversely affect the ability of the Issuer to fulfil its payment obligations under the Bonds. For a discussion of the factors which may affect the Borrowers' ability to fulfil their obligations under the Loan Agreements, please see "*Factors which may affect the Borrowers' ability to fulfil their obligations under the Loan Agreements*" below.

***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 Loans will be adequate to ensure fulfilment of the Issuer's obligations to the Bondholders in respect of the Bonds on each Interest Payment Date or any Instalment Redemption Date (including the Maturity Date). In addition, a default under a 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 Borrowers resulting in a shortfall in funds available to repay the Bonds.

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

***Welfare Reform Risk:*** The Original Borrowers receive a proportion of their rental income from housing benefit payable by local authorities. If there is a reduction or termination by the Government of housing benefit, then this may accordingly have an adverse impact on the payment of rent, as the tenants would have to pay a higher proportion of the rent themselves.



In the 2015 Summer Budget, the Government announced a series of welfare reforms which have been achieved through new legislation, the Welfare Reform and Work Act 2016 (the **WRW Act**), which came into force on 1 April, 2016. The WRW Act makes provision on social housing rents, the household benefit cap and social security and tax credits that expose the Original Borrowers to the risk of a reduction in rental income and an increase in arrears. In the year ended 31 March 2017, the Original Borrowers helped secure £42.7m in housing benefit, discretionary housing payments and other sources of financial support on behalf of customers. The Summer Budget 2015 also confirmed that the benefit cap would, in Autumn 2016, be reduced from £26,000 per year (or £18,200 per year for single people) to £23,000 (or £15,410) in Greater London and £20,000 (or £13,400) outside Greater London.

The Original Borrowers operate in the South East, South West, Midlands and East of England and estimate that, as of 27 March 2017, 200 residents will have been affected by the benefit cap.

New occupation size criteria have been applied to working age applicants' housing benefit claims relating to social housing since 1 April, 2013. The current 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 and (f) a non-resident overnight carer) to be entitled to one bedroom. Where a household has one extra bedroom, their housing benefit is reduced by 14 per cent. Where there are two or more extra rooms the reduction is 25 per cent. An estimated 660,000 claimants were expected to be affected by the new measure (known as the under occupation charge), with some households expected to go into arrears as a result of this reduction in housing benefit entitlement, which could have a knock-on effect on levels of rent arrears for Registered Providers of Social Housing. The Original Borrowers have estimated that as at 31 December 2016 only 2.5 per cent. or 440 of their current tenants are affected by reductions in benefit due to occupation size criteria.

Universal Credit is designed to simplify the benefits system for claimants and administrators and to improve work incentives by supporting people who are on a low income or out of work. Universal Credit will replace 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. Universal Credit is being introduced gradually and was originally scheduled to be completed in 2017. Full roll-out of Universal Credit is now forecast in March, 2022. As at 13 March 2017, the Original Borrowers had 155 Universal Credit claimants, and is available to new single jobseekers in every job centre across the United Kingdom.

Universal Credit is based on a single monthly payment, transferred directly into a household bank account of choice.

The Department of Work and Pensions (the **DWP**) set up a 'Direct Payment Demonstration Project', the final evaluation of which was published on 18 December, 2014 covering an 18-month period. The projects were carried out in six areas to identify key lessons from the direct payment of housing benefit to social housing sector tenants. The outstanding conclusion was that the predicted dramatic increase in rent arrears did not occur. Overall, tenants paid 95.5 per cent. of all rent owed compared to 99.1 per cent. for those not on direct payment.

Furthermore, the impact of direct payment lessened significantly over time: half of the total direct payment arrears were accrued in the first month (or four week period) following migration. In the fourth to sixth payment periods, the difference in payment rates had fallen to 2.8 percentage points, falling again in the seventh to ninth payment periods to 1.3 percentage points. By the eighteenth payment, tenants' average payment rate had risen to 99 per cent.

The proposed roll out of Universal Credit is likely to increase transaction costs and the receipt of rental payments by the Original Borrowers, as landlords, may be delayed by the failure of the tenant to apply for Universal Credit and/or regularly pay rent which is due in addition to the housing benefit and/or, in circumstances where the housing benefit is not paid directly to the landlord, a failure to pass on the housing benefit payments to the landlord. In such circumstances, non-payment, partial payment or any delay in payment of rent could increase rental income arrears and bad debts, and could adversely affect

the ability of a Borrower to meet its payment obligations under its Loan Agreement on a timely basis and therefore affect the ability of the Issuer to meet its payment obligations to the Bondholders in respect of the Bonds.

It is possible for tenants to consent to their housing benefit being paid directly to their landlord and furthermore, the DWP has agreed to safeguard landlords' income by putting in place protection mechanisms to allow for the payment of rent direct to landlords if tenants are vulnerable or fall into two months of arrears. The DWP has set up a support and exceptions working group to look at which vulnerable claimants will fall within the support group and will be assessing the results of the pilot projects to identify the approach to arrears, which could be based on the length of time during which arrears have been outstanding or the amount of arrears.

Whilst existing social tenancies and rent levels remain unchanged, the regulatory framework for social housing in England from April 2012 issued by the Homes and Communities Agency (the **HCA**) introduced a new category of social housing rent which allows Registered Providers of Social Housing to charge rents of up to a maximum of 80 per cent. of the market rent level on both newly developed stock and on new lettings of a proportion of existing stock as long as there is a development programme in place with the HCA. This rent and tenancy combination is known as Affordable Rent. As the rent is linked to market levels, this has the potential to increase cashflow volatility because rent will fluctuate as the market does. This volatility could affect the ability of a Borrower to meet its payment obligations under its Loan Agreement on a timely basis and therefore affect the ability of the Issuer to meet its payment obligations to the Bondholders in respect of the Bonds. As at 27 March 2017, there were 2236 affordable rent tenancies owned and managed by the Original Borrowers.

As a result of the reforms proposed by the Government, certain rating agencies published reports which comment on the effect of these reforms. The reports highlight that changes to the sector and proposed changes to the benefits system are significant. These changes may increase the risks associated with an investment in the Bonds. However, it should be noted in this respect that Moody's has, subsequent to the date of these reports, issued a credit rating of "A2" in respect of the Original Borrowers. Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such, Moody's is included in the list of credit rating agencies published by the ESMA on its website in accordance with such Regulation.

The Original Borrowers' total social housing rent and service charge arrears at 28 February 2017 were £6,911,139. The Original Borrowers each have a policy of providing a full provision against former tenant arrears and a phased percentage provision against current tenant arrears to a maximum of 50 per cent. for amounts outstanding for more than 26 weeks.

**Rental Income Risk:** The tenants of the Original Borrowers' 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 or housing credit compared to tenants eligible for housing benefit which under the current system is paid by the local authority direct to the landlord. If payment of housing benefit directly to tenants becomes the default position, the risk of non-payment by tenants increases as it is expected that not all tenants will pass on such housing benefit payments to their landlord. 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 relevant Borrower to meet its payment obligations on a timely basis under its Loan Agreement, which in turn would impact the Issuer's ability to fulfil its obligations under the Bonds.

Aside from the risks associated with Welfare Reform set out above (which may be mitigated to an extent by the DWP's protection mechanisms allowing for payments to be made directly to landlords if tenants are vulnerable or if they fall into two months of arrears), 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 a Borrower to meet its payment obligations under its Loan Agreement and therefore the ability of the Issuer to meet its payment obligations under the Bonds. As at

29 March 2017, 76 per cent. of the Original Borrowers' tenants were in receipt of part or full housing benefit.

**Social Housing Rents:** In 2002 the Government introduced a rent convergence policy under which, over a ten year period, rents in social housing (local authority and housing association owned stock) were to be aligned with the principal aim of ensuring that similar rents are paid for similar social rent properties. A Government rent setting "formula" was established, calculated on the relative value of a property, relative local income levels and the size of the property, to support rent convergence.

The Government also introduced a policy whereby annual changes in social rent levels were to be based on the Retail Price Index (**RPI**) at September of the previous year plus 0.5 percentage points annually, plus up to an additional £2 on properties where the rent was set below the formula level. In the 2010 spending review, the Government extended this policy for social rent increases to 2014-15 and also introduced "Affordable Rent".

In the 2013 Budget, the Government signalled its intention to set out, in the spending round, a rent policy to apply for ten years from 2015-16. This commitment was in recognition of the benefit of long-term certainty to landlords, in helping them to plan for future investment. The Government also set out its aim that those in social rented housing with high incomes (deemed to be where a social tenant household has an annual income of at least £60,000) should pay the full market rent.

As part of the 2013 spending round, the 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 percentage point annually, for ten years, whilst rent convergence (including the ability to charge an additional £2) would end in April 2015. The move from RPI to CPI followed the Office for National Statistics' announcement in January 2013 that the formula used to produce RPI does not meet international standards.

The relevant guidance for housing associations, published in April 2015, is contained within the Rent Standard and Rent Standard Guidance sections of the regulatory framework for social housing in England (the **Regulatory Framework**) issued by the Regulator (as defined below).

In the 2015 Summer Budget, the Government announced that rents for social housing (as defined in Part 2 of the Housing and Regeneration Act 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 WRW Act.

As at 31 March 2017, the Original Borrowers had 20,288 social housing properties (general needs, affordable rents and supported housing tenures) that were expected to be impacted by the Government's imposed changes to the rent policy. For the year ended 31 March 2017, net rental income from these tenures was £139.2 million.

Each of the Original Borrowers adjusts its rents annually from 1 April each year and therefore the first 1 per cent. rent reduction took place on 1 April 2016 and this will continue annually up to and including 1 April 2019. On 4 October 2017, the Government announced that increases to social housing rents will be restored to the CPI plus 1 per cent. formula for five years from 2020.

The reduction in social rental income could have an adverse impact on the Original Borrowers which in turn could affect their ability to meet their payment obligations on a timely basis under the Loan Agreements. In turn, this could have an adverse impact on the ability of the Issuer to comply with its obligations under the Bonds.

**Social Housing Sales Risk:** The majority of the properties of the Original Borrowers 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 Original Borrowers' income.

However, the Original Borrowers have exposure to housing market downturn risk through their shared ownership first tranche sales and social housing sales through the group's asset management strategy.

Shared ownership income is generated on the initial sale of the property (known as the "first tranche") which is sold to the "shared owner"; on subsequent sales of further "tranches" or portions of the property to the shared owner (known as "staircasings"); and in the form of subsidised rent.

The Original Borrowers' revenue from first tranche sales is exposed to market risk, including both demand and pricing risks.

For the year ended 31 March 2017, first tranche sales for the Original Borrowers amounted to £12.7 million, which was 8 per cent. of turnover and the Original Borrowers had sold 131 shared ownership units between them.

The Original Borrowers have a strategy of proactive asset management. For the year ended 31 March 2017, disposals of assets in the form of right to buy, right to acquire, staircasing and final staircasing from shared ownership income have amounted to £6.7 million which is 4 per cent. of turnover. The surplus from these disposals is £2.9 million.

**Right to Buy Risk:** As part of the Government's election manifesto it announced an intention to extend the right to buy to assured tenants of Registered Providers of Social Housing. An announcement from the Secretary for Communities and Local Government on 24 September, 2015 confirmed a proposal made by the National Housing Federation to introduce the right to buy voluntarily.

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 with five associations is underway.

The proposals as to how the extension is introduced, whether voluntarily or through legislation, are still at an early stage and therefore it is difficult to determine with any certainty exactly how this proposal could impact on the Issuer and the Original Borrowers. The Stonewater Group has estimated that the change could generate significant cash receipts and operating surpluses. However, the policy could also have an adverse impact on the rental cash flow (and operating margin) of certain members of the Group such as the Original Borrowers which in turn could affect their ability to meet their payment obligations under their Loan Agreements. In turn, this could have an adverse impact on the ability of the Issuer to comply with its obligations under the Bonds.

**Housing Grant Risk:** The Original Borrowers receive grant funding from a variety of sources, including the HCA. 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 there is a risk that the HCA may revise the terms of a grant and reduce entitlement, 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 of the HCA, 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, withdrawal of, repayment or re-use of grant funding could adversely impact the future development of the Original Borrowers and could affect the ability of an Original Borrower to meet its payment obligations under its Loan Agreement and therefore the ability of the Issuer to meet its payment obligations under the Bonds.

Under the 2011-2015 Affordable Home Programme, the level of UK Government grant has been reduced significantly. To compensate for this, Registered Providers of Social Housing are able to charge affordable rents which are capped at 80 per cent. of market rents and, as such, are generally higher than existing target social housing rents. This additional rental income can be used to service additional funding requirements as a result of the reduced grant levels. The consequence of this for Registered Providers of Social Housing is an increase in debt and gearing levels, the scale of which varies depending on the areas of operation.

The 2015-2018 Affordable Homes Programme (the **2015 - 2018 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 2015 - 2018 Framework is that all of the available funding is not be allocated from the outset. The 2015 - 2018 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. The Original Borrowers have a development plan of approximately 450 units per annum over the next five years.

The reduction in levels of grant, increased competition and the increased need for bidders to provide evidence regarding timescale compliance could result in a reduced overall amount of grant funding being allocated to Registered Providers of Social Housing. The reduced amount of grant available in the sector overall means that the Original Borrowers will have an increased exposure to rental income and housing benefit risk.

Under the 2015-2018 Framework, the Original Borrowers have received a £9,893,046 grant to deliver 466 affordable rent homes and 134 shared ownership homes.

Under the 2016 – 2021 Shared Ownership and Affordable Homes Programme, the Original Borrowers have received a £10,613,516 grant to deliver 274 affordable rent homes, 133 shared ownership homes and 15 specialist rent homes.

**Care and Support Risk:** 8.9 per cent. of the Original Borrowers' total owned and managed stock of 24,332 units is made up of sheltered and supported housing. Income from the supported housing element was £4.5 million for the year ended 31 March 2017 which was 3 per cent. of the Original Borrowers' turnover. In the event that this income is not received by the relevant Borrower in full on a timely basis in the future, this could affect the ability of the relevant Borrower to meet its payment obligations on a timely basis under its Loan Agreement, which in turn would impact the Issuer's ability to fulfil its payment obligations under the Bonds.

**Commercial Development and Market Risk:** Residential property is subject to varying degrees of market and development risk. Market risks include the economic environment, the risk of changes to the UK Government regulation, including, but not limited to, regulation relating to planning, taxation, landlords and tenants and welfare benefits which could affect positively and negatively tenant trends in the United Kingdom. Development of existing sites and acquisition of additional sites may be subject to economic and political conditions, the availability of finance facilities and the cost of facilities where interest rates and inflation may also have an effect.

While the Original Borrowers are primarily providers of affordable housing, they are subject to commercial pressures and therefore undertake diversified activities where income is subject to such commercial pressure. For the year ended 31 March 2017, there was no income from these activities.

The number of social housing units developed by the Group in the year ended 31 March 2017 was 719. The Original Borrowers are therefore exposed, to a limited extent, to market risk in relation to housing for sale, including both demand and pricing risks..

**Operational Risk:** Operational risks may result from major systems failure or breaches in systems security (although, in the case of the Original Borrowers, there are prepared business continuity plans in order to mitigate against this, as they are dependent upon technology in order to deliver business processes) and the consequences of theft, fraud, health and safety and environmental issues, natural disaster and acts of terrorism.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that the Issuer will be unable to comply with its obligations as an entity with securities admitted to the Official List and admitted to trading on the London Stock Exchange's regulated market.

**Regulatory Risk:** The regulation of Registered Providers of Social Housing has recently undergone significant change. The Housing and Regeneration Act 2008, as amended by the Localism Act 2011 (the **Act**), makes provision for the regulation of social housing provision in England.

Pursuant to the Act, the HCA acts as the regulator of Registered Providers of Social Housing in England (the **Regulator**), including the Original Borrowers. The HCA exercises its functions as Regulator acting through a separate committee established to undertake this regulatory role (the **Regulation Committee**). The Regulator continues to provide economic regulation for Registered Providers of Social Housing in order to ensure they are financially viable and well governed and to support the confidence of private lenders to provide funds at competitive rates.

The Regulator regulates Registered Providers of Social Housing in accordance with the Regulatory Framework, which sets out the standards that apply to Registered Providers of Social Housing. The standards cover: governance and financial viability; value for money; rent; quality of accommodation; repairs and maintenance; allocations, mutual exchanges and tenure; neighbourhood management, local area co-operation and anti-social behaviour; and tenant involvement and empowerment. 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 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 the sector can continue to attract the necessary finance to build new homes. The Regulator's intention is to strengthen its expectations of Registered Providers of Social Housing in relation to risk management and planning for adverse events.

On 9 December 2016, the Regulator published a Regulatory Judgement for Stonewater Limited, including each of the Original Borrowers, which concluded that both the viability and governance standards were met and graded Stonewater Limited (along with the other social housing entities in the Group) as "G1" for governance and "V1" for viability. Further detail on the Group's recent history relating to its governance rating is provided in the section headed "*Description of the Group and the Original Borrowers*" below.

On 30 October 2015, the Office for National Statistics (**ONS**) announced that Registered Providers of Social Housing would be reclassified as public corporations. The judgement resulted from measures brought in by the Housing and Regeneration Act 2008 and effectively meant that Registered Providers of Social Housing, and their estimated £60 billion of debt, were now part of the public sector. The Government quickly made a commitment to deregulation of the sector to reverse the classification: in a speech on 5 November 2015 the Secretary of State said that the ONS decision was a technical matter and that the Government intended to restore the classification outside the public sector.

The changes announced, which are now part of the Housing and Planning Act 2016 and which came into force on 6 April 2017, include:

- removal of all requirements for Regulator consents to disposals of land;
- removal of the requirement for consents for constitutional changes, restructurings and mergers;
- removal of certain consent requirements relating to dissolution or winding up;
- removal of the Disposal Proceeds Fund for future accruals, with a transitional regime for funds currently held within the fund; and
- restrictions upon the power to appoint board members to a board to circumstances where that would be required to ensure compliance with legal requirements.

The consent requirements have been replaced by new notification requirements in relation to the disposals of social housing dwellings, changes to governing documents, changes of name and address, certain restructures, dissolution and company arrangement and reconstructions.

Any breach of new or existing regulations could lead to the exercise of the Regulator's statutory powers. The Regulator publishes guidance on how it regulates. It adopts a proportionate approach with an emphasis on self-regulation and co-regulation. In practice, use of statutory powers is rare. Serious non-compliance with the economic standard is more likely to 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 any Original Borrower may affect the ability of a Borrower to meet its payment obligations under its Loan Agreement and therefore the ability of the Issuer to meet its payment obligations under the Bonds.

**Capital Resources and Treasury Risk:** To mitigate liquidity risk and augment its capital resources, the Original Borrowers currently rely on financing through committed lines of credit from major banks and building societies and through secured term and revolving credit facilities. As at 31 March 2017, the Original Borrowers had total debt of £655,670,848. This comprises £389,538,874 for Stonewater, £31,051,799 for Stonewater 5 and £235,080,175 for Stonewater 2. The Original Borrowers (and any Additional Borrower) could find themselves unable to access sources of financing if bank or building society lines become unavailable to such Borrowers (for example, if banks and building societies are unable to provide new facilities, or extend existing facilities, or are unable to meet commitments to provide funds under existing committed lines) or if a reduction in its credit rating makes the cost of accessing the public and private debt markets prohibitive. This may affect its ability to meet its payment obligations under its Loan Agreement and therefore the ability of the Issuer to meet its payment obligations under the Bonds.

The Original Borrowers are also subject to interest rate risk in respect of their variable rate borrowing although the Original Borrowers' hedging strategy seeks to reduce interest rate risk volatility and uncertainty by allowing for a balance of fixed, floating and inflation-linked debt. As at 31 March 2017, the Original Borrowers' total fixed rate of debt was 4.2 per cent. Fixing instruments are both embedded and stand-alone.

**Pensions Risk:** The Original Borrowers (except Stonewater 5) participate in the following pension schemes:

- The Social Housing Pension Scheme administered by the Pensions Trust (**SHPS**); and
- The Local Government Pension Scheme administered by Dorset County Council, the Dorset County Pension Fund (**DCPF**).

## **Stonewater**

### SHPS

SHPS is an industry wide, multi-employer, multi-benefit structure pension scheme. Stonewater participates in the 1/60th final salary structure (closed to new members), 1/70th final salary structure (closed to new members) and the defined contribution (**DC**) structure.

As at 6th February 2017 Stonewater had 38 active members in SHPS 1/60th, 20 active members in 1/70th and 192 active members in SHPS DC. It is intended that Stonewater will close SHPS 1/60<sup>th</sup> and 1/70<sup>th</sup> final salary structures to existing members in March 2019 and from that date future accrual will be in SHPS DC only.

The valuation results at 30th September, 2014 were completed in 2015. The market value of the scheme's assets at the valuation date was £3,123 million. The valuation revealed a shortfall of assets compared with the value of liabilities of £1,323 million.

Following the 2014 Valuation SHPS has implemented a new recovery plan (Tier 4 deficit contributions). These Tier 4 contributions are in addition to Tiers 1-3 deficit contributions which were introduced at the previous valuation in 2011. This new Tier 4 Recovery Plan is on a "share of liabilities" basis and will cover a 12 year period from the 30th September, 2014 valuation date (together referred to as **the Recovery Plans**)

Under the Recovery Plans, in addition to employer contributions to fund future service, from 1 April 2016 Stonewater pays an annual deficit contribution in monthly instalments of £82,275.85.

The total employer contributions of Stonewater to SHPS in the period from 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017 were a total of £1,318,753. This figure includes the deficit contributions payable during this period.

The SHPS amount shown as creditors in Stonewater's financial statement as at 31<sup>st</sup> March 2017 was £18.455 million

### DCPF

As at 6 February 2017 Stonewater has 2 active members participating in the DCPF. It is closed to new members.

The employer contributions paid to DCPF by Stonewater in the period 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017 were £28,333.44. For the same period, Stonewater has been required to pay an additional deficit contribution, which is paid in monthly instalments of £8,833.33, which is paid on top of its employer contributions to the DCPF.

The deficit of Stonewater in the DCPF assessed on an FRS102 basis was £4,377,000 in the financial year ended 31 March 2017.

On the date the last active member leaves Stonewater, or if earlier DCPF, unless otherwise agreed with DCPF, the liabilities of Stonewater to the DCPF would be assessed on the basis that Stonewater have exited the DCPF under Regulation 64 of the Local Government Pension Scheme Regulations 2013 and will be immediately payable. The cessation debt, and the cessation basis of calculation, and actuarial assumptions applied, will be determined by the actuary to the DCPF as at the actual date of cessation.

Financial provision has been made to repay the FRS102 liability which at 31 March 2017 stood at £4,377,000 in the Financial Statement.

### **Stonewater 2**

Stonewater 2 participates in SHPS.

Stonewater 2 participates in the 1/60th final salary structure (closed to new members), the 1/80th CARE (closed to new members), CARE (New) 1/80th (closed to new members) and the defined contribution (DC) structure which is open to new members.

As at 6 February 2017 Stonewater 2 had 70 active members in SHPS 1/60th, 2 active members in the 1/80th CARE, 13 active members in CARE (New) 1/80th and 69 active members in SHPS DC.

Under the Recovery Plans, in addition to employer contributions to fund future service, from 1 April 2016 Stonewater 2 pays an annual deficit contribution in monthly instalments of £102,476.44.

The total employer contributions of Stonewater 2 to SHPS in the period from 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2017 were a total of £1,476,804. This figure includes the deficit contributions payable during this period.

The SHPS amount shown as creditors in Stonewater 2's financial statements as at 31 March 2017 was £9.606 million.



## Stonewater 5

Stonewater 5 does not currently employ any employees and does not participate in any pensions schemes.

### General points

There may be certain circumstances in which the sponsoring employers of the pension arrangements listed above are required to make good the funding deficit in short order. Certain forms of re-structuring of the Original Borrowers may result in circumstances in which a funding deficit has to be met. For example, a transfer of a transfer of engagements or a transfer under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006/246) could lead to a crystallisation of a net pension liability. However, the Original Borrowers always carefully consider the pension implications of restructuring proposals and wherever possible ensures that such restructurings are organised to avoid pension liabilities crystallising.

There is also a risk that the Original Borrowers 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 regulator of pensions (known as the Pensions Regulator) may require certain parties to make contributions to certain pension schemes that have a deficit. A financial support direction could be served on any of the Original Borrowers if they are connected to/associated with a defined benefit scheme (which could include SHPS and Growth Plan) which is insufficiently resourced.

If a contribution notice or financial support direction were to be served on an Original Borrower this could have an adverse impact on the cashflows of the Original Borrowers. If the amount payable under a contribution notice or support direction was material, this could adversely affect their ability to meet their payment obligations on a timely basis under their financing arrangements. In turn, in respect of the Original Borrowers to whom proceeds of the Bond have been lent, this could have an adverse impact on the ability of the Issuer to comply with its obligations under the Bond.

**Legal and Compliance Risk:** The Original Borrowers know the significance to their operations of, and are focused on, adhering to all legal and compliance legislation. The Original Borrowers are 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 Original Borrowers’ results or operations and, in turn, their ability to meet their payment obligations under the Loan Agreements and therefore the ability of the Issuer to meet its payment obligations under the Bonds.

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

Furthermore, the Original Borrowers have the benefit of insurance for, among others, employer's liability, public liability and directors' and officers' liability at levels which the management of each of the Original Borrowers considers to be prudent for the type of business in which the Original Borrowers are engaged and commensurate with Registered Providers of Social Housing of a similar size.

**Permitted Reorganisations:** The Original Loan Agreements permit, and each Additional Loan Agreement will permit, the Borrowers to undertake Permitted Reorganisations. In such circumstances, the resulting entity's credit risk may change.

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

***Liability under the Bonds:*** The Bonds are obligations of the Issuer only and do not establish any liability or other obligation of any other person mentioned in this Prospectus (including, but not limited to, the Borrowers). The Bonds will constitute direct, general, secured obligations of the Issuer and will rank *pari passu* among themselves. Accordingly, a holder of the Bonds will not have recourse to the Borrowers in the event that the Issuer defaults in respect of the Bonds.

***Interest rate risks:*** 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 a Loan becoming repayable as a result of a Borrower Default 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 Outstanding 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 Terms and 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 Terms and Conditions of the Bonds and the Bond Trust Deed also provide that the Bond Trustee may, without the consent of Bondholders (i) 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 (to which it is a party) or (ii) determine without the consent of the Bondholders that any Potential Event of Default or Event of Default shall not be treated as such or (iii) 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 Terms and Conditions, provided, in each case, that the Bond Trustee is of the opinion that to do so would not be materially prejudicial to the interest 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:*** 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, and has due regard to the expected tax treatment of all relevant entities under United Kingdom tax law and the published practice of HM Revenue & Customs in force or applied in the United Kingdom as at the date of this Prospectus. No assurance can be given as to the impact of any possible change to English law, regulatory or administrative practice in the United Kingdom, or to United Kingdom tax law, or the interpretation or administration thereof, or to the published practice of HM Revenue & Customs as applied in the United Kingdom after the date of this Prospectus.

**Potential Conflicts of Interest:** Each of the Transaction Parties (other than the Issuer) and their affiliates in the course of each of their respective businesses may provide services to other Transaction Parties and to third parties and in the course of the provision of such services it is possible that conflicts of interest may arise between such Transaction Parties and their affiliates or between such Transaction Parties and their affiliates and such third parties. Each of the Transaction Parties (other than the Issuer) and their affiliates may provide such services and enter into arrangements with any person without regard to or constraint as a result of any such conflicts of interest arising as a result of it being a Transaction Party.

**Taxation:** Under the Terms and 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.

Each Original Loan Agreement requires, and each Additional Loan Agreement will require, that if any withholding or deduction is required by law to be made by the relevant Borrower thereunder, the amount of the payment due from such 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*".

**Withdrawal from the European Union:** On 23 June, 2016 the UK held a referendum to decide on the UK's membership of the European Union. This referendum resulted in a vote to leave the European Union. There are a number of uncertainties in connection with the future of the UK and its relationship with the European Union. The negotiation of the UK's exit terms is likely to take a number of years. Until the terms and timing of the UK's exit from the European Union are clearer, it is not possible to determine the impact that the referendum, the UK's departure from the European Union and/or any related matters may have on the Issuer. As such, no assurance can be given that such matters would not adversely affect the market value and/or the liquidity of the Bonds in the secondary market.

**Exchange rate risks and exchange controls:** The Issuer 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 (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds.

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.

***Legal investment considerations may restrict certain investments:*** The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the 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.

### **Risks Relating to the Security of the Bonds**

***Considerations relating to the Issuer Security and the Underlying Security:*** The Bonds will be secured by the Issuer Security granted in favour of the Bond Trustee for the benefit of itself, the Bondholders and the other Secured Parties. Such Issuer Security will include security over the Loan Agreements, the Security Trust Deed and (once granted) the Security Agreements. The Underlying Security to be created pursuant to the Security Trust Deed and the Security Agreements will include first legal mortgages, first fixed charges and assignments over the property and rights set out in the relevant Security Agreement given by the Borrowers in favour of the Security Trustee for the benefit of itself and, *inter alios*, the Issuer.

The validity of any security given by the Borrowers in connection with additions and substitutions of Charged Properties may depend on the solvency of the relevant Borrower at the time of the grant.

***Environmental Considerations:*** Under relevant UK environmental legislation, liability for environmental matters can be imposed on the "owner" or "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 Borrowers 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 Borrowers to meet their payment obligations under their respective Loan Agreements.

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 Borrowers' ability to sell, lease or refinance the Charged Property. Any environmental liability imposed on the Borrowers could also affect the ability of the Borrowers to meet their payment obligations under their respective Loan Agreements.

***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 interruption 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 Borrowers' payment obligations under the Loan Agreements.

***Investment of Retained Proceeds in Permitted Investments:*** For so long as any part of the net sale proceeds of the Retained Bonds is not advanced to a Borrower pursuant to a Loan Agreement, the Issuer may invest such amounts in Permitted Investments in accordance with the Custody Agreement. The Issuer may also invest the Charged Cash in Permitted Investments in accordance with the Custody Agreement.

Although Permitted Investments are limited to highly rated securities which satisfy certain specified criteria (which, other than with respect to any investment in money market funds or deposits, includes a requirement that the investments have a maturity date which is no later than the earlier of (i) the date falling two years after the date of purchase, and (ii) the Maturity Date), the Issuer may be required to liquidate such Permitted Investments (a) prior to the enforcement of the Issuer Security, (in the case of the

Permitted Investments purchased with Retained Proceeds) to fund advances to a Borrower pursuant to a 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 Borrowers pursuant to the terms of the Loan Agreements 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) each 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 Borrowers' compliance with the Asset Cover Test, the value of such Permitted Investments will be the purchase price thereof and the Borrowers 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 any Charged Properties being charged, with an aggregate Minimum Value equal to the Outstanding Principal Amount of the Bonds, and/or at a time when the Permitted Investments have been acquired with the Charged Cash or otherwise charged by a 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.

***The Issuer's ability to meet its obligations under the Bonds after enforcement under a Loan:*** Following default by a Borrower, the Security Trustee shall be entitled to call for payments of any unpaid sums by such Borrower to be made by one or more of the other Borrowers (if any) under and in accordance with the guarantee given by such other Borrowers pursuant to their respective Loan Agreement (subject to the limitations of each guarantee). If there are no other Borrowers at such time or the other Borrowers do not make payment (or are not required to make payment as a result of the limitation of the relevant guarantee) of such amounts to the Issuer pursuant to their respective Loan Agreements, 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 a Borrower under a 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 Ongoing Cash Security 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.

***Claims of Creditors of the Issuer other than Secured Parties:*** Under English law, any creditor (who has not entered into non-petition clauses) would (save where an administrator has been appointed) be able to

commence insolvency or winding up proceedings against the Issuer in respect of any unpaid debt with a value in excess of £750.

***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. The consequence of being a mortgagee in possession would be that the Security Trustee may be obliged to account to a Borrower for the income obtained from the Charged Property, be liable for any damage to the Charged Property, have a limited liability to repair the Charged Property and, in certain circumstances, may be obliged to make improvements or incur financial liabilities in respect of the Charged Property. A mortgagee in possession may also be liable to a tenant for any mismanagement of the relevant property and may incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), the liabilities of a property owner. Pursuant to the Security Trust Deed the Issuer and the Borrowers are required to indemnify the Security Trustee against all liabilities and expenses suffered or incurred by it and, pursuant to the Loan Agreements, the Borrowers are (or will be) required to indemnify the Issuer and the Security Trustee on demand against any loss or liability incurred in connection with their respective Loan Agreement. The obligation to indemnify the Security Trustee may mean that there is a shortfall in funds available to pay all amounts due and owing under the Bonds and/or the Loan Agreements.

***Moratorium:*** In order to protect the interest of tenants and to preserve the housing stock of a Registered Provider of Social Housing within the social housing sector and within the regulatory regime, a 28 working day moratorium on the disposal of land (including the enforcement of any security) by an insolvent non-profit Registered Provider of Social Housing will apply, upon certain steps being taken in relation to that provider such as presenting a winding up petition or appointing an administrator. The Regulator will then seek to agree proposals about the future ownership and management of the provider's land with its secured creditors. The moratorium procedure may adversely affect the Issuer's ability to enforce its security over the Charged Properties, as the procedure stipulates actions that must be taken by a secured creditor prior to that secured creditor being able to enforce its security and gives powers to the Regulator in respect of certain secured assets. This, in turn, could affect the Bond Trustee's ability to enforce its security against the Issuer under the Bond Trust Deed.

Currently Registered Providers of Social Housing that are registered societies are exempt from administration. However, the Housing and Planning Act 2016 includes provisions introducing a special administration regime called housing administration. Housing administration is expected to be brought into force within the next 12 months by secondary legislation and will be available in addition to the existing 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 that is at risk of insolvency, following an application from the Secretary of State for Communities and Local Government, or the Regulator.

The housing administrator is to have two objectives. Objective 1 ('normal administration') consists of (a) the rescue of the registered Provider of Social Housing as a going concern, (b) achieving a better result for its creditors than would otherwise be possible on a winding-up if (a) is impracticable, or (c) realising property to distribute to more secured or preferential creditors if (a) and (b) are impracticable. Objective 2 ('keeping social housing in the regulated sector') is to keep the organisation's social housing under the ownership of a Registered Provider of Social Housing. Whilst the housing administrator is expected to work towards both these objectives, the first objective takes priority in the event of conflict. The Housing and Planning Act 2016 explicitly states that the housing administrator must not do anything in pursuit of Objective 2 which would result in a worse distribution to creditors than would be the case if he or she were not bound by Objective 2. This order of priority was changed during the bill's passage through Parliament in order to provide more comfort for lenders.

It is expected that 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 creditors from enforcing claims against it. However, secondary regulations are required to bring provisions of the new regime into force and a commencement date has not yet been confirmed.

Under the new regime, no steps may be taken by any person other than the Secretary of State for the winding up, entry into administration by or enforcement of security of a Registered Provider of Social Housing, unless 28 days' notice of that step has been given to the Regulator and elapsed, or the Regulator has waived the notice requirement. During that 28 day period the Secretary of State or the Regulator, with the consent of the Secretary of State, may apply for a housing administration order.

The new regime preserves a moratorium on disposals of land described above (though reduces the relevant period from 28 working days to 28 days). However, each housing administration order will last for 12 months (subject to certain exceptions), but may be extended, during which there will be restrictions on disposing of social housing assets.

The new housing administration regime may delay the disposal of social housing assets by any insolvent Registered Provider of Social Housing in the Stonewater Group. In turn, if they do not have sufficient cash resources, this may delay the ability of a Borrower to meet their payment obligations under their respective Loan Agreement. In turn, this could have an adverse impact on the ability of the Issuer to comply with its obligations under the Bonds.

### **Risks Relating to the Market Generally**

**Potential Limited Liquidity:** Following the initial sale of the Retained Bonds, there can be no assurance of a secondary market for the Bonds and no assurance that such market is or remains liquid. The development and/or continued liquidity of any secondary market for the Bonds will be affected by a number of factors such as the state of credit markets in general, the creditworthiness of the Borrowers and the price at which the Issuer sells the Retained Bonds, as well as other factors such as the time remaining to the maturity of the Bonds.

**Global economic disruption:** In addition, Bondholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Bonds, concerns over the liquidity of major banks and building societies and the consequent effects on the general economy and the housing market. The Issuer cannot predict when these circumstances will change and, if and when they do, whether conditions of general market illiquidity for the Bonds and instruments similar to the Bonds will be available in the future.

**Unsolicited ratings:** The Issuer has not sought a rating of the Bonds as at the Closing Date. However, rating agencies could seek to rate the Bonds. Any such “unsolicited ratings” assigned to the Bonds by the rating agencies could have an adverse effect on the market value of the Bonds if it differs to any credit assessments by any investors or potential investors in the Bonds.

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

### Form of the Bonds

#### *Form, Exchange and Payments*

The 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 issue date of the Bonds to a common safekeeper for Euroclear Bank S.A./N.V. (**Euroclear**) and/or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**).

The Bonds are intended to be held in a manner which will allow Eurosystem eligibility. This simply means that the Bonds are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the 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. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Whilst the Bonds are represented by the Temporary Global Bond, payments of principal, interest (if any) and any other amount payable in respect of the 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 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 Global Bonds will be exchangeable (free of charge), in whole but not in part, for definitive Bonds with principal receipts, interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in Condition 12 (*Events of Default and Enforcement*)) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Bond Trustee is available or (iii) 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 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 (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

#### ***Legend concerning United States persons***

The following legend will appear on all Bonds (other than the Temporary Global Bond) and on all principal receipts 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, principal receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of 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 second 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 nominal amount of such Bonds (the **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal 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 nominal amount of such Bonds for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Bonds, for which purpose the bearer of the relevant Global Bond shall be treated as the holder of such nominal 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 nominal 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*)).

### ***Instalment Redemption and Cancellation***

Reduction of the Outstanding Principal Amount of any Global Bond following its redemption in one or more instalments, and cancellation of any Bond represented by a Global Bond and required by the Conditions of the Bonds to be cancelled following its final 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 9.6 (*Notice of Early Redemption*) in the event that the Bonds are to be redeemed in part pursuant to Condition 9.2 (*Optional Early Redemption*) or Condition 9.4 (*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.

## TERMS AND CONDITIONS OF THE BONDS

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

The £250,000,000 3.375 per cent. Secured Bonds due 2045 (the **Bonds**) of Stonewater Funding plc (the **Issuer**) are constituted by a Bond Trust Deed (as modified and/or supplemented and/or restated from time to time, the **Bond Trust Deed**) dated 2 November 2017 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**), the holders of principal receipts appertaining to the Bonds (the **Receiptholders** and **Receipts** respectively) 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 Bonds have the benefit of an Agency Agreement dated 2 November 2017, (as 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, London Branch as principal paying agent (the **Principal Paying Agent**, having its specified office at One Canada Square, London E14 5AL, 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 Agreements, the Security Agreements 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 Bonds at Laurence Pountney Hill, London EC4R 0HH and at the specified office of each of the Paying Agents. The Bondholders, the Receiptholders 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, and the Agency Agreement.

### 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 2 November 2017 and made between the Issuer, the Bond Trustee and the Account Bank, as 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 Agreements;

**Additional Borrower** means any entity which (i) is a subsidiary of Stonewater Limited (or any successor body that subsequently becomes the parent of the Group); (ii) is a charity; (iii) is a Registered Provider of Social Housing; and (iv) has acceded to the Security Trust Deed as a borrower;

**Additional Loan Agreement** means a loan agreement between the Issuer, an Additional Borrower and the Security Trustee, in relation to which the proceeds have been raised by the Issuer under the Bonds or any bonds issued by the Issuer in accordance with Condition 19 (*Further Issues*);

**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;

**Asset Cover Test** has the meaning given to it in the Loan Agreements;

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

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Bond, Receipt or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Bond, Receipt or Coupon; or
- (b) 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, Receipt or Coupon to another Paying Agent in a Member State of the European Union; or
- (c) 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 Default** has the meaning given to it in the Loan Agreements;

**Borrowers** means the Original Borrowers and any Additional Borrower, in each case for so long as it is identified as a borrower under a Loan Agreement;

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

**Cash Sub-Account** means each of the Ongoing Cash Security Cash Sub-Account and the Initial Cash Security Cash Sub-Account (as such terms are defined in Section 1.2 of the Custody Agreement).

**Charged Cash** means, at any time, the aggregate of all amounts (whether representing proceeds of disposal or other moneys) standing to the credit of the Ongoing Cash Security 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 compliance of the Borrowers with the Asset Cover Test, the value to be attributed to such Permitted Investments shall be the purchase price thereof;

**Charitable Group Member** means a charitable member of the Group which is connected with Stonewater Limited for the purposes of section 939G of the Corporation Tax Act 2010;

**Commitment** has the meaning given to it in the Loan Agreements;

**Compliance Certificate** has the meaning given to it in the Loan Agreements;

**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 Cash Sub-Accounts and the Custody Sub-Accounts;

**Custody Agreement** means the Custody Agreement dated 2 November 2017 and made between the Issuer, the Bond Trustee and the Custodian, as amended and/or supplemented and/or restated from time to time;

**Custody Sub-Account** means each of the Ongoing Cash Security Custody Sub-Account and the Initial Cash Security Custody Sub-Account (as such terms are defined in Section 1.2 of the Custody Agreement).

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

**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;

**Instalment Redemption Date** has the meaning given to it in Condition 9.1 (*Redemption in Instalments*);

**Issue Date** means the issue date of the Bonds, being 2 November 2017;

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

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

**Loan Agreement** means the Original Loan Agreements and the Additional Loan Agreements.

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

**Loans** means the nominal amount of each Commitment which has been advanced to each Borrower pursuant to the terms of each Loan Agreement or the outstanding balance thereof for the time being (ignoring, for these purposes, any Actual Advance Amount or Retained Bond Actual Advance Amount (as defined in the relevant Loan Agreement));

**Maturity Date** means 2 November 2045, being the final Instalment Redemption Date;

**Original Loan Agreements** means:

- (a) the loan agreement dated the Issue Date between the Issuer, Stonewater and the Security Trustee (the **Stonewater Loan Agreement**);
- (b) the loan agreement dated the Issue Date between the Issuer, Stonewater (5) Limited and the Security Trustee (the **Stonewater 5 Loan Agreement**); and
- (c) the loan agreement dated the Issue Date between the Issuer, Stonewater (2) Limited and the Security Trustee (the **Stonewater 2 Loan Agreement**).

**Ongoing Cash Security Account** means the account of the Issuer set up with the Account Bank in respect of the Charged Cash in accordance with the Account Agreement;

**Original Borrowers** means Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited;

**outstanding** means in relation to the Bonds all the Bonds issued other than:

- (a) those Bonds which have been redeemed pursuant to the Bond Trust Deed;
- (b) those Bonds in respect of which the date for redemption in accordance with the Conditions has occurred and the redemption moneys (including all interest payable thereon) have been duly paid to the Bond Trustee or to the Principal Paying Agent, as applicable, in the manner provided in the Agency Agreement (and where appropriate notice to that effect has been given to the Bondholders in accordance with Condition 15 (*Notices*)) and remain available for payment against presentation of the relevant Bonds and/or Receipts and/or Coupons;
- (c) those Bonds which have been purchased and surrendered for cancellation in accordance with Condition 9.7 (*Purchase of Bonds by a Borrower*) and those Retained Bonds which have been cancelled by the Issuer in accordance with Condition 9.9 (*Cancellation of purchased or redeemed Bonds*);
- (d) those Bonds which have become void under Condition 11 (*Prescription*);
- (e) those mutilated or defaced Bonds which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 13 (*Replacement of Bonds, Receipts, Coupons and Talons*);
- (f) (for the purpose only of ascertaining the nominal amount of the Bonds outstanding and without prejudice to the status for any other purpose of the relevant Bonds) those Bonds which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 13 (*Replacement of Bonds, Receipts, Coupons and Talons*); and
- (g) any Global Bond to the extent that it shall have been exchanged for another Global Bond in respect of the Bonds or for the Bonds in definitive form pursuant to its provisions;

PROVIDED THAT for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the Bondholders, an Extraordinary Resolution in writing or an Extraordinary Resolution by way of electronic consents given through the relevant Clearing System(s) as envisaged by paragraph 1 of Schedule 3 (*Provisions for Meetings of Bondholders*) of the Bond Trust Deed and any direction or request by the holders of the Bonds;
- (ii) the determination of how many and which Bonds are for the time being outstanding for the purposes of Clause 9.1 of the Bond Trust Deed, Conditions 12 (*Events of Default and Enforcement*) and 17 (*Meetings of Bondholders, Modification and Waiver*) and paragraphs 4, 6 and 8 of Schedule 3 (*Provisions for Meetings of Bondholders*) of the Bond Trust Deed;
- (iii) any discretion, power or authority (whether contained in the Bond Trust Deed or vested by operation of law) which the Bond Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of the Bondholders or any of them; and
- (iv) the determination by the Bond Trustee whether any event, circumstance, matter or thing is, in its opinion, materially prejudicial to the interests of the Bondholders or any of them, those Bonds (if any) which are for the time being held by or on behalf of or for the benefit of the Issuer (including, for the avoidance of doubt, the Retained Bonds for so long as they are held by or on behalf of the Issuer), a Borrower, or any other member of

the Stonewater Group in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except in the case of the Issuer where all of the Bonds are held by or on behalf of or for the benefit of the Issuer (including, for the avoidance of doubt, the Retained Bonds for so long as they are held by or on behalf of the Issuer), in which case the Bonds shall be deemed to remain outstanding;

**Outstanding Principal Amount** means, in respect of each Bond, its paid up nominal amount as reduced from time to time pursuant to Condition 9;

**Permitted Investments** has the meaning given to it in the Loan Agreements;

**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 Agreements;

**Potential Event of Default** means any act, event or circumstance which with the expiry of a grace period, the giving of notice, determination of materiality or other determination would constitute an Event of Default;

**Registered Provider of Social Housing** means 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;

**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, Receipts or Coupons;

**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 nominal amount of such Retained Bonds (if any);

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

**Retained Bond Custody Agreement** means the custody agreement relating to the Retained Bonds dated 2 November 2017 and made between the Issuer, the Bond Trustee and the Retained Bond Custodian, as amended and/or supplemented and/or restated from time to time;

**Retained Bonds** means £250,000,000 in nominal amount of the Bonds purchased by the Issuer on the Issue Date;

**Retained Proceeds** means, at any time, an amount of the net sale proceeds of the Retained Bonds (less any Retained Bond Premium Amount) which are not advanced to a Borrower pursuant to a Loan Agreement immediately following receipt thereof by the Issuer and have not subsequently been advanced to a Borrower (if any);

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

**Security Agreements** means any security agreement entered into between a Borrower and the Security Trustee substantially in the form set out in the Security Trust Deed, pursuant to which such Borrower provides security in respect of certain obligations under the Loan Agreements.

**Security Trust Deed** means the Security Trust Deed dated 20 September 2012 between, *inter alios*, the Stonewater Limited (formerly Raglan Housing Association Limited) 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 Subscription Agreement, the Loan Agreements, the Bond Trust Deed, the Security Trust Deed, the Security Agreements, the Agency Agreement, the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement;

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

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

**Undrawn Commitment** has the meaning given to it in the Loan Agreements;

**Valuation** has the meaning given to it in the Loan Agreements; and

**Valuer** has the meaning given to it in the Loan Agreements.

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

The Bonds are in bearer form, serially numbered, in the denomination of £100,000 and integral multiples of £1000 in excess thereof up to and including £199,000, with Receipts, Coupons and Talons attached on issue. No Bonds will be issued with a denomination above £199,000.

Title to the Bonds, Receipts 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, Receipt or Coupon as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes.

## **3. STATUS**

The Bonds, Receipts 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 as trustee for 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 Bond Trust Deed, the Loan Agreements, the Security Trust Deed, the Agency Agreement, the Custody Agreement, the Retained Bond 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 Ongoing Cash Security 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 the Paying Agents' obligations to repay all sums held from time to time by the Paying Agents for the payment of principal or interest in respect of the Bonds where the Bond, Receipt or Coupon becomes void pursuant to the Conditions.

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**.

Pursuant to the Bond Trust Deed, the Issuer has agreed that, contemporaneously with the entry into of a Security Agreement it shall enter a supplemental deed to the Bond Trust Deed, pursuant to which it shall with full title guarantee for the payment and discharge of the Secured Obligations (as defined in the Bond Trust Deed) assign absolutely by way of security in favour of the Bond Trustee for itself and the Bondholders and as trustee for the other Secured Parties, all of its rights, title and interest arising under the relevant Security Agreement.

#### 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, costs, charges, expenses, indemnity payments and liabilities owing to the Paying Agents by the Issuer under the Agency Agreement, the Account Bank under the Account Agreement, the Custodian under the Custody Agreement and the Retained Bond Custodian under the Retained Bond 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, on a *pro rata* and *pari passu* basis, to the Borrowers of any amounts due and payable under the terms of the Loan Agreements; and
- (h) eighth, in payment of any Permitted Investment Profit, Accounting Profit or Retained Bond Premium Amount, as the case may be, to any Charitable Group Member.

## 5.2 Post-enforcement

Following the enforcement of the Issuer Security, all monies standing to the credit of the Transaction Account, the Ongoing Cash Security 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, the Custodian under the Custody Agreement and the Retained Bond Custodian under the Retained Bond 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, on a *pro rata* and *pari passu* basis, to the Borrowers of any amounts due and payable under the terms of the Loan Agreements; and
- (g) seventh, in payment of any Permitted Investment Profit, Accounting Profit or Retained Bond Premium Amount, as the case may be, to any Charitable Group Member.

## 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 Borrowers (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 assets secured by 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 Certificates (and, subject to the consent of the relevant Valuer(s), the Valuation(s) delivered for the purpose of preparing such Compliance Certificates) promptly upon receipt of the same from the Borrowers pursuant to the terms of their respective Loan Agreements;
- (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 Original Borrowers promptly upon publication of the same by the Original Borrowers; and
- (c) at the request of Bondholders holding not less than 33 per cent. in nominal 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 Group. 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 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 Agreements, Security Agreements 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 Agreements, the Security Agreements 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 Bonds bear interest on the Outstanding Principal Amount from (and including) the Issue Date at the rate of 3.375 per cent. per annum, payable semi-annually in arrear on 2 May and 2 November in each year (each, an **Interest Payment Date**), commencing on 2 May 2018.

## **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. Interest will accrue from and including one Interest Payment Date (or, the Issue Date, as the case may be) to (but excluding) the next Interest Payment Date.

## **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 Outstanding Principal Amount of the Bonds.

## **8. PAYMENTS**

### **8.1 Payments in respect of Bonds, Receipts and Coupons**

Subject as follows, 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.

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.

Payments of instalments of principal on an Instalment Redemption Date (other than the Instalment Redemption Date falling on the Maturity Date) will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Receipt, in each case at the specified office outside the United States of any of the Paying Agents. Each Receipt must be presented for payment together with the Bond to which it appertains. Receipts presented without the Bond to which they appertain do not constitute valid obligations of the Issuer.

### **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 Receipts or Coupons**

Each Bond should be presented for payment together with all relative unmatured Receipts or 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 Receipt or Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Receipt or 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 Receipt or Coupon at any time before the expiry of 10 years after the Relevant Date) in respect of the relevant Bond (whether or not the Receipt or Coupon would otherwise have become void pursuant to Condition

11 (*Prescription*)) or, if later, five years after the date on which the Receipt or 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, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay.

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

- (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, Receipt 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; and
- (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.

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, Receiptholders 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 in Instalments

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed in sixteen equal semi-annual instalments (each a **Redemption Instalment**) of £62.50 per £1,000 in original nominal amount on each Interest Payment Date from, and including, 2 May 2038 to, and including, the Maturity Date (each an **Instalment Redemption Date**).

### 9.2 Optional Early Redemption

Subject to Condition 9.4 (*Early Redemption*) below, if in accordance with a Loan Agreement, a Borrower elects to prepay its Loan in whole or in part prior to the repayment date specified in the relevant Loan Agreement or the relevant Loan otherwise becomes prepayable in whole or in part prior to the repayment date specified in the relevant Loan Agreement (other than as a result of the Bonds becoming due and repayable), then, (if no replacement Commitment is put in place with another Borrower), the Issuer shall redeem the Bonds in whole or, in respect of a prepayment in part, in an aggregate Outstanding Principal Amount equal to the nominal amount of the relevant Loan to be repaid on the date which is two Business Days after that on which payment is made by the relevant Borrower under the relevant 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) their Outstanding Principal Amount; 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 Outstanding Principal Amount of the Bonds to be redeemed multiplied by the price (expressed as a percentage and calculated by the Nominated Financial Adviser) (rounded to three decimal places (0.0005 being rounded upwards)) at which the Gross Redemption Yield on the 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 UKT 4 ½ 12/07/42 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 benchmark conventional UK Government Gilt having the nearest average maturity to that of the Bonds;

**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 Outstanding 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 Early Redemption

If a Loan:

(i) becomes repayable as a result of a Borrower Default; or

(ii) is required to be repaid by the Issuer, acting on the instructions of Bondholders passed by way of an Extraordinary Resolution, following a Borrower ceasing to be a Registered Provider of Social Housing for a period of 180 days,

then (unless the Issuer has increased the Commitment of another Borrower by the nominal amount of the relevant Loan to be repaid within 14 days of the date of such Borrower Default or the date on which the Bondholders passed the relevant Extraordinary Resolution, as the case may be) the Issuer shall redeem the Bonds in an aggregate Outstanding Principal Amount equal to the nominal amount of the relevant Loan at their Outstanding Principal Amount, plus accrued interest to (but excluding) the date on which the Bonds are redeemed, no later than 14 days following the date of such Borrower Default or the date on which the Bondholders passed the relevant Extraordinary Resolution, as the case may be.

## **9.5 Notice of Early Redemption**

Notice of any early redemption in accordance with Condition 9.2 (*Optional Early Redemption*), Condition 9.3 (*Early Redemption for Tax Reasons*) or Condition 9.4 (*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 Outstanding 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 Outstanding 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 a Borrower**

A Borrower may at any time purchase Bonds in the open market or otherwise at any price. Following any such purchase or following any purchase of any Bonds, such Borrower may (but is not obliged to) surrender the Bonds to the Issuer for cancellation. An amount equal to the Outstanding Principal Amount of the Bonds being surrendered shall be deemed to be prepaid under the Loan Agreement specified by such Borrower (but, for the avoidance of doubt, without triggering a redemption under Condition 9.2 (*Optional Early Redemption*)) or (to the extent that sufficient Loan is not then outstanding) an amount of the Undrawn Commitment of the Borrower specified by the Borrower which is equal to the Outstanding Principal Amount of the Bonds surrendered shall be deemed to be cancelled for the purposes of such Loan Agreement. An amount of Retained Proceeds equal to the Cancelled Retained Proceeds shall be paid by the Issuer to such Borrower.

## **9.8 Purchase of Bonds by the Issuer**

The Issuer (a) will purchase the Retained Bonds on the Issue Date and (b) may at any time purchase Bonds in the open market or otherwise at any price.

## **9.9 Cancellation of purchased or redeemed Bonds**

All Bonds redeemed by the Issuer pursuant to Condition 9.2 (*Optional Early Redemption*), Condition 9.3 (*Early Redemption for Tax Reasons*) or Condition 9.4 (*Early Redemption*) or surrendered to the Issuer for cancellation pursuant to Condition 9.7 (*Purchase of Bonds by a Borrower*) 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 a Borrower, pursuant to a Loan Agreement, to cancel a corresponding amount of such Borrower's Undrawn Commitment; (b) shall cancel all Retained Bonds held by or on behalf of the Issuer (i) immediately prior to such Retained Bonds being redeemed on the Maturity Date 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*) or Condition 12 (*Events of Default and Enforcement*); (c) shall, forthwith upon notice that the Bonds are to be redeemed in full or in part in accordance with Condition 9.2 (*Optional Early Redemption*) or Condition 9.4 (*Early Redemption*), cancel Retained Bonds held by or on behalf of the Issuer in an aggregate Outstanding Principal Amount equal to the nominal amount of the Undrawn Commitment (if any) of the relevant Borrower whose Loan has become repayable; and (d) may cancel any Bonds (other than Retained Bonds) held by it or on its behalf at any time at its discretion.

## **10. TAXATION**

### **10.1 Payments without withholding**

All payments of principal and interest in respect of the Bonds, Receipts 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, Receiptholders 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, Receipts 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*).

## **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 Outstanding 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 and/or pre-funded to its satisfaction), (but in the case of the happening of any of the events described in

paragraphs 12.1(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 Outstanding 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 any 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 Receipts, 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 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 Outstanding Principal Amount of the Bonds then outstanding and (ii) it shall have been secured and/or indemnified and/or pre-funded to its satisfaction.

The Bond Trustee may refrain from taking any action in any jurisdiction if the taking of such action in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction, be contrary to any law of that jurisdiction. Furthermore, the Bond Trustee may also refrain from taking such action if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

No Bondholder, Receiptholder, 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 Receipts, 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, RECEIPTS, COUPONS AND TALONS**

Should any Bond, Receipt, 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, Receipts, 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**

Notices to the Bondholders shall be valid if published in (a) a leading daily newspaper having general circulation in London (which is expected to be The Financial Times) for so long as the rules of the Stock Exchange so require or (b) on a page of the Reuters screen, Bloomberg or any other medium for electronic display of data as may be previously approved in writing by the Trustee and notified to the Bondholders (in each case a “**Relevant Screen**”). Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers or on the Relevant Screen).

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 and Receiptholders 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, Receiptholders 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 Receipts, 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 Receiptholders, 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 Outstanding 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 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. of the Outstanding 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 Outstanding Principal Amount of the Bonds so held or represented, except that at any meeting the business of which includes any matter defined in the Trust Deed as a Basic Terms Modification, including, *inter alia*, modifying any date for

payment of principal or 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, the Receipts or the Coupons, the quorum shall be one or more persons holding or representing in aggregate not less than 75 per cent. in Outstanding 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 Outstanding 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 Outstanding 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 Outstanding 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 Receiptholders and Couponholders.

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

The Bond Trustee may agree, without the consent of the Bondholders, Receiptholders, 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 Security Agreement 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 Receiptholders, 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 (excluding the Issuer, for so long as it holds any Retained Bonds) as a class (but shall not have regard to any interests arising from circumstances particular to individual Bondholders, Receiptholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders, Receiptholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee shall not be entitled to require, nor shall any Bondholder, Receiptholder 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, Receiptholders or Couponholders.

**18. INDEMNIFICATION AND PROTECTION 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 and liability towards the Issuer, the Bondholders, the Receiptholders and the Couponholders, including (i) provisions relieving it from taking action unless secured and/or indemnified and/or pre-funded to its satisfaction and (ii) provisions limiting or excluding its liability in certain circumstances. 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 and/or pre-funded 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 Borrowers or any of the other parties to the Security Agreements and the Security Trust Deed of their obligations under the Security Agreements, 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, the Receiptholders 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 Bonds, the Receipts 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.

## 22. SUBMISSION TO JURISDICTION

The Issuer has, in the Bond Trust Deed, irrevocably agreed for the benefit of the Bond Trustee, the Bondholders, the Receiptholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bond Trust Deed, the Bonds, the Receipts or the Coupons (including a dispute relating to non-contractual obligations arising out of or in connection with the Bond Trust Deed, the Bonds, the Receipts or the Coupons) and accordingly has submitted to the exclusive jurisdiction of the English courts.

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

## USE OF PROCEEDS

Subject as set out below, the net proceeds of the sale of the Retained Bonds to a third party (after deduction of expenses payable by the Issuer) following the Issue Date will be advanced by the Issuer to one or more Borrowers pursuant to the Loan Agreements to be applied in the achievement of such Borrower's charitable objects (including, for the avoidance of doubt, the repayment of any existing indebtedness of such Borrower and any other amounts due and payable thereunder).

For so long as the value of the Issuer's Designated Security is insufficient to satisfy the Asset Cover Test immediately following the drawing of the Aggregate Funded Commitment in full, the Retained Proceeds shall be retained in the Initial Cash Security Account in accordance with the terms of the Account Agreement and the Custody Agreement (and may be invested in Permitted Investments). Any Retained Proceeds shall be advanced to the Borrowers at a later date pursuant to the Loan Agreements to the extent that Properties of a corresponding value have been charged in favour of the Issuer. In addition, in the event that any losses are made in respect of any Retained Proceeds which have been invested in Permitted Investments, each drawing to be made by the Issuer to a Borrower pursuant to a Loan Agreement shall be advanced at a discount in an amount equal to the Actual Advance Amount (as defined in the Loan Agreements).



## DESCRIPTION OF THE LOAN AGREEMENTS

*The following description of the Loan Agreements consists of a summary of certain provisions of the Loan Agreements and is subject to the detailed provisions thereof. The Loan Agreements 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 Loan Agreements.*

### Facility

The Issuer has, at the date of this Prospectus, entered into:

- (a) a loan agreement dated on or around the Issue Date between the Issuer, Stonewater and the Security Trustee (the **Stonewater Loan Agreement**);
- (b) a loan agreement dated on or around the Issue Date between the Issuer, Stonewater 5 and the Security Trustee (the **Stonewater 5 Loan Agreement**); and
- (d) a loan agreement dated on or around the Issue Date between the Issuer, Stonewater 2 and the Security Trustee (the **Stonewater 2 Loan Agreement** and, together with the Stonewater Loan Agreement and the Stonewater 5 Loan Agreement, the **Original Loan Agreements** and each an **Original Loan Agreement**).

Subject to the provisions of the Stonewater Loan Agreement, the Issuer commits to make a loan to Stonewater in the nominal amount of £100,000,000 (the **Original Stonewater Commitment** and together with any further commitments to Stonewater, the **Stonewater Commitment**).

Subject to the provisions of the Stonewater 5 Loan Agreement, the Issuer commits to make a loan to Stonewater 5 in the nominal amount of £40,000,000 (the **Original Stonewater 5 Commitment**, and together with any further commitments to Stonewater 5, the **Stonewater 5 Commitment**).

Subject to the provisions of the Stonewater 2 Loan Agreement, the Issuer shall commit to make a loan to Stonewater 2 in the nominal amount of £60,000,000 (the **Original Stonewater 2 Commitment**, and together with any further commitments to Stonewater 2, the **Stonewater 2 Commitment**); and, together with the Original Stonewater Commitment and the Original Stonewater 5 Commitment, the **Original Borrower Commitments**, and each an **Original Borrower Commitment**).

The Loan, in respect of each Original Loan Agreement, is the nominal amount of the relevant Original Borrower Commitment that has been advanced to the relevant Original Borrower or the outstanding balance thereof.

Upon the sale by the Issuer of Retained Bonds or the issue by the Issuer of any further Bonds pursuant to Condition 19 (*Further Issues*), the Issuer may commit (subject, with respect to sale proceeds of the Retained Bonds, to one or more of the Original Borrower Commitments being reduced accordingly by an Original Borrower) to making a loan to the Original Borrowers and/or one or more other charitable Registered Providers of Social Housing of the Group (together, the **Additional Borrowers** and each an **Additional Borrower** and, together with the Original Borrowers, the **Borrowers**, in each case for so long as it is identified as a Borrower under a Loan Agreement) in a nominal amount which reflects such sale or issue proceeds or reduced Original Borrower Commitment (each a **Commitment** and, together with the Original Borrower Commitments, the **Commitments**, pursuant to the Original Loan Agreements or to one or more additional bond loan agreements (each an **Additional Loan Agreement** and, together with the Original Loan Agreements, the **Loan Agreements**)). The **Loan**, in respect of each Additional Loan Agreement, is the nominal amount of the Commitment that has been advanced to the relevant Additional Borrower or the outstanding balance thereof.

Each Commitment may be drawn in one or more drawings at any time prior to the date falling four Business Days prior to the initial Instalment Redemption Date, and the maximum nominal amount of each drawing shall be an amount which corresponds to the then Minimum Value of the Charged 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 the aggregate amount of all Commitments which have previously been drawn. Any amount of each Commitment which has not been drawn prior to the date falling four Business Days prior to the initial Instalment Redemption Date shall be cancelled and will no longer be capable of drawing.

No Commitment may be drawn until the relevant Borrower has satisfied the conditions set out in Clause 2(c) (*Facility*) of its Original Loan Agreement (or any such corresponding clause in any Additional Loan Agreement, as applicable) in respect of the first drawing in respect of a Loan Agreement, and the conditions set out in Clause 11.1 (*Additional Properties*) of its Original Loan Agreement (or such corresponding clause in any Additional Loan Agreement, as applicable). In order to satisfy the drawdown conditions under the relevant Loan Agreement, the relevant Borrower is required to enter into a Security Agreement in relation to the Properties to be charged pursuant to that Loan Agreement. Further, no Commitment may be drawn unless the Security Trustee is satisfied that the value of the Issuer's Designated Security (based solely on the relevant confirmation from the Original Borrowers and each Additional 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 (as defined in the Loan Agreements) is satisfied immediately following such drawing and, in respect of any part of a Commitment which is to be funded by the Issuer by a sale of Retained Bonds and/or an issue of further Bonds, the receipt by the Issuer of such net sale proceeds or issue proceeds thereof.

Each Original Borrower has acknowledged (and each Additional Borrower will be required to acknowledge) 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 nominal amount of such Bonds, the amount of Retained Proceeds held by the Issuer, at the time of any drawdown request, may be less than would otherwise have been due to be advanced. In such circumstances, each drawing of a Commitment to be funded from the Retained Proceeds shall be advanced in an amount equal to the Actual Advance Amount (which may be at a discount to the nominal amount required).

For this purpose, **Actual Advance Amount** means, in respect of each drawing funded from Retained Proceeds, the nominal amount of such drawing multiplied by the result of dividing (i) the amount of 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 (ii) the Undrawn Commitment which is to be funded from such Retained Proceeds.

For the avoidance of doubt:

- (a) no Borrower shall be required to monitor the market value of any Permitted Investments;
- (b) any difference between the nominal amount of a drawing and the relevant Actual Advance Amount shall be ignored in determining the amount of the relevant 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 each Original Borrower have agreed (and each Additional Borrower shall agree) that:

- (a) where the Issuer is required to sell any Permitted Investments to fund a drawing under a Loan Agreement and such sale results in a Permitted Investment Profit, the Issuer shall make a loan or 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 in an amount equal to 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 Issuer 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.

The Issuer and each Original Borrower have also agreed (and each Additional Borrower shall agree, to the extent that any Retained Bonds are held by the Issuer upon the date of its accession as a Borrower) that, upon a sale (if any) of the Retained Bonds by the Issuer:

- (c) in the event that such sale produces a Retained Bond Premium Amount, the Issuer shall make a loan or a gift aid payment to a Charitable Group Member in an amount equal to the Retained Bond Premium Amount and, for the avoidance of doubt, where the Issuer is required to sell such Retained Bonds to directly fund a drawing under a Loan Agreement, such drawing shall be advanced at the Retained Bond Actual Advance Amount; and
- (d) where the Issuer is required to sell any Retained Bonds to directly fund a drawing under a Loan Agreement and such sale is made at a discount to the nominal amount of such Retained Bonds, such drawing shall be advanced at a discount in an amount equal to the Retained Bond Actual Advance Amount.

For this purpose, **Retained Bond Actual Advance Amount** means, in relation to each drawing under a Loan Agreement which is funded directly by a sale of Retained Bonds, the nominal amount of such drawing multiplied by the result of dividing (i) the net proceeds of sale of such Retained Bonds (excluding, for this purpose, the Retained Bond Premium Amount) by (ii) the nominal amount of such Retained Bonds.

For the avoidance of doubt:

- (a) no Borrower shall be required to monitor the market value of any Retained Bonds; and
- (b) any difference between the nominal amount of a drawing and the relevant Retained Bond Actual Advance Amount shall be ignored in determining the amount of the relevant Loan and, *inter alia*, the calculation of interest, principal and premium payments payable in respect thereon.

The Borrowers have each agreed (and each Additional Borrower shall agree, to the extent that any Retained Bonds are held by the Issuer upon the date of its accession as a Borrower) 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, a Borrower may request that an amount of its Commitment be cancelled (provided that such amount does not exceed the nominal 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 relevant Commitment shall take effect upon the cancellation of such Retained Bonds.

Subject to the conditions precedent set out in Clause 4 of the Original Loan Agreements and any corresponding clause in any Additional Loan Agreement, the Issuer may make further commitments to each Borrower, each in an amount to be agreed between the Issuer, the relevant Borrower and the Security Trustee, following the issuance of further bonds pursuant to Condition 19 (*Further Issues*).

## **Purpose**

The proceeds of each Loan may only be used by a Borrower in accordance with such Borrower's charitable objects, as permitted by its Rules including, for the avoidance of doubt, the repayment of any existing indebtedness of such Borrower and any other amounts due and payable thereunder.

## **Interest**

### ***Rate of Interest***

Following its advance, each Loan will carry interest from (and including) the date of its initial advance at the rate of 3.375 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 on each Loan from (and including) an Interest Payment Date (or, in the case of the first interest period of a Loan, the date of its initial advance) to (but excluding) the immediately following Interest Payment Date (each, a **Loan Interest Period**).

### ***Commitment Fee***

Each Borrower shall pay to the Issuer a commitment fee in respect of its Undrawn Commitment on each Loan Payment Date in an amount equal to its *pro rata* share (based on the aggregate amount of all Undrawn Commitments of all Borrowers) of the aggregate of the interest payable by the Issuer under the Bonds on the following Interest Payment Date less (a) the aggregate of the interest received from the Borrowers under all Loan Agreements on such Loan Payment Date and (b) the 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). The commitment fee shall accrue on a daily basis.

## **Repayment, Purchase and Prepayment**

### ***Repayment***

Each Borrower must repay its Loan in an amount equal to the relevant Instalment Repayment Amount four Business Days prior to each Instalment Redemption Date (each a **Loan Instalment Repayment Date**).

**Instalment Repayment Amount** means, in respect of each Loan and each Loan Instalment Repayment Date, an amount equal to (a) the outstanding balance of the Loan as at such Loan Instalment Repayment Date multiplied by (b) the aggregate Redemption Instalment to be paid by the Issuer on the Bonds on the immediately following Instalment Redemption Date divided by the aggregate Outstanding Principal Amount of the Bonds as at such Loan Instalment Repayment Date.

### ***Bond Purchase***

Each Borrower 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, such Borrower may (but is not obliged to) surrender the Bonds to the Issuer to be cancelled. An amount of the outstanding balance of the relevant Loan equal to the Outstanding Principal Amount 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 Principal Amount of the Bonds surrendered shall be deemed to be cancelled for the purposes of the relevant Loan Agreement and a corresponding portion of the Retained Proceeds shall be paid by the Issuer to the relevant Borrower).

Each Original Borrower has acknowledged (and each Additional Borrower shall acknowledge) 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*, a Borrower 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 Agreements and the corresponding clause in any Additional Loan Agreement, each 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 its 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 such Borrower by the Issuer as being the price determined under the Bond Trust Deed for the redemption of a corresponding nominal amount of the Bonds over the Outstanding Principal Amount and otherwise zero).

Upon any such prepayment, the Issuer may enter into a replacement Commitment with another Borrower. If no replacement Commitment is entered into, the Issuer shall use the prepayment proceeds to redeem Bonds in accordance with Condition 9.2 (*Optional Early Redemption*).

### ***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 a Loan Agreement, each 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.

### ***Early Repayment – Change of Status***

Pursuant to Clause 5.7 (*Early Repayment – Change of Status*) of each Original Loan Agreement or the corresponding clause in any Additional Loan Agreement, as applicable, each Borrower shall promptly notify the Issuer and the Security Trustee if it ceases to be a Registered Provider of Social Housing.

180 days after such notification, unless such Borrower has regained its status as a Registered Provider of Social Housing, the Issuer shall promptly convene a Bondholders' meeting to enable the Bondholders to consider directing the Issuer to instruct the relevant Borrower to prepay the whole of the outstanding balance of the relevant Loan, together with any interest thereon and commitment fee accrued up to and including the date of prepayment.

If directed to do so by an Extraordinary Resolution of the Bondholders, the Issuer shall promptly instruct the relevant Borrower to prepay the whole of the outstanding balance of the relevant Loan, together with any interest thereon and commitment fee accrued up to and including the date of prepayment, such prepayment shall become due and repayable immediately.

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

In the event that a Borrower elects to, or is otherwise required to, prepay the whole of the outstanding balance of its Loan and the Issuer is required to notify such Borrower of the price determined under the Conditions for the redemption of a corresponding Outstanding Principal Amount of the Bonds, then the Issuer shall be entitled to also take account of the redemption of such Outstanding Principal Amount of the Bonds (if no Commitment is put in place with another Borrower) 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 such Borrower shall be increased accordingly.

### **Warranties and Covenants**

Each Borrower makes (or will make) various warranties and covenants pursuant to, in the case of the Original Borrowers, Clause 8 of its Original Loan Agreement and, in the case of any Additional Borrower, the corresponding clause in its Additional Loan Agreement. These warranties and covenants include (or will include, as the case may be), *inter alia*, the following:

#### ***Information Covenants***

Each Borrower must supply to the Issuer and the Security Trustee not later than 180 days after the end of each relevant financial year (i) a copy of the consolidated audited financial statements of Stonewater for such financial year and (ii) a certificate setting out, among other things, a calculation in respect of the Asset Cover Test substantially in the form set out in the Loan Agreement (the **Compliance Certificate**) signed by two Authorised Signatories of such Borrower.

Each Borrower must, following receipt of a notice from the Issuer stating that it intends to sell any Retained Bonds, supply to the Issuer and the Bond Trustee not later than three Business Days prior to the date of such sale, a certificate setting out, among other things, a calculation in respect of the Asset Cover Test substantially in the form set out in Schedule 3 to the Loan Agreement (the **Retained Bond Compliance Certificate**) signed by two Authorised Signatories of the Borrower confirming whether, immediately following such sale, the Borrower will be in compliance with the Asset Cover Test.

**Authorised Signatory** means, in relation to a Borrower, any person who is duly authorised to act on behalf of such Borrower and certified as such by such Borrower to the Security Trustee.

#### ***Negative Pledge***

No Borrower shall create or allow to exist any Security Interest on any assets which are Security Assets, except as set out in, in the case of the Original Borrowers, Clause 8.2 (*General Covenants*) of the Original Loan Agreements and, in the case of any Additional Borrower, the corresponding clause in its Loan Agreement, which includes (or will include, as the case may be) the Security Interests created pursuant to, *inter alia*, the Security Trust Deed and the Security Agreements and any Security Interests created with the prior written consent of the Issuer or by operation of law.

#### ***Charged Properties***

Each 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***

Each Borrower shall, unless the Security Trustee otherwise agrees in writing, comply in all material respects with any covenants or restrictive covenants relating to a Charged Property which are binding on it.

## **Guarantee and Indemnity**

Pursuant to Clause 9 (*Guarantee and Indemnity*) of each Original Loan Agreement and the corresponding clause in each Additional Loan Agreement, each Borrower has (or will have) irrevocably and unconditionally:

- (a) guaranteed to the Issuer the punctual performance by each other Borrower of all such Borrowers' obligations under, *inter alia*, their respective Loan Agreements, the Security Trust Deed and their respective Security Agreements, other than each other Borrowers' obligations to repay principal and any prepayment premium thereon pursuant to their respective Loan Agreements (such amounts being, the **Guaranteed Interest and Fee Amounts**);
- (b) undertaken with the Issuer that, whenever any other Borrower does not pay any Guaranteed Interest and Fee Amounts when due under its respective Loan Agreement, the Security Trust Deed or its respective Security Agreement(s), it must, immediately on demand by the Security Trustee and/or the Issuer, pay the Guaranteed Interest and Fee Amounts as if it were the principal obligor;
- (c) undertaken with the Issuer that, to the extent that the proceeds of the enforcement of the Underlying Security are insufficient to satisfy the Borrowers' obligations under their respective Loan Agreements in full (the shortfall being, the **Guaranteed Principal Amount**), it must, immediately on demand by the Security Trustee and/or the Issuer, pay the Guaranteed Principal Amount as if it were the principal obligor; and
- (d) agreed to indemnify the Issuer immediately on demand against any loss or liability suffered by the Issuer if any obligation guaranteed by it is or becomes illegal or invalid.

## **Asset Cover Test**

Pursuant to Clause 10 (*Asset Cover Test*) of the Original Loan Agreements or the corresponding clause in any Additional Loan Agreement, as applicable, each Borrower shall procure that at all times the sum of:

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

will not be less than the Aggregate Funded Commitment, provided, however, that for the purpose of determining the Borrower's compliance with the Asset Cover Test, the Retained Proceeds Par Amount shall be deemed to be zero unless the Issuer has sold Retained Bonds in the prior six months, in which case the Retained Proceeds Par Amount shall be deemed to be, in respect of each such sale of Retained Bonds, the lower of (X) the net sale proceeds and (Y) the nominal amount of such Retained Bonds sold, in each case in proportion to the extent that the Aggregate Funded Commitment funded by that sale is undrawn (and where any such undrawn sale proceeds are invested in Permitted Investments, the amount of these proceeds shall be taken to be the purchase price of those Permitted Investments).

## ***Interpretation***

For these purposes:

**Aggregate Funded Commitment** means the aggregate amount of the Commitments under all Loan Agreements, less the aggregate nominal amount of Retained Bonds held by or on behalf of the Issuer;

**Charged Properties** means any Properties which have been charged in favour of the Security Trustee, for the benefit of the Issuer and in respect of the obligations contained in the Loan Agreements, for the purpose of providing underlying security for the Bonds;

**Designated Security** means the assets, rights and property mortgaged or charged or assigned or the subject of any security created pursuant to any Security Document, the proceeds of which are allocated in the reduction of all monies, liabilities and obligations owing by the Borrowers to the Issuer under the Loan Agreements;

**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,

provided that, for the purposes of “A” and “B”, the Value ascribed to any portion of Charged Properties that are Shared Ownership Properties in excess of the Shared Ownership Limit shall be nil.

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 an Approved Valuer in respect of any such Property and the Approved Valuer has confirmed that it has reviewed a Certificate of Title (or a supplement thereto) in respect of such Property certifying that it may be disposed of by the relevant 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 a 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 nominal amount of such Retained Bonds;



**Shared Ownership Limit** means that, at any time, not more than 15 per cent. of the Issuer's Designated Security (by reference to the Value of the Issuer's Designated Security) shall be Shared Ownership Properties;

**Shared Ownership Property** means any Property acquired by a Borrower then being occupied on shared ownership terms or in respect of which a Borrower grants a lease on shared ownership terms so that such Borrower holds, or is intending to hold upon disposal on shared ownership terms, less than 100 per cent. of the beneficial (or heritable) interest in that Property and the purchaser of the balance of that beneficial (or heritable) interest has the right to acquire a further portion of the Borrower's retained beneficial (or heritable) interest; and

**Value** means, at any time and in relation to the Charged Properties, the value of those properties as shown in the then latest Full Valuation Report, Desk Top Valuation Report or Rolling Valuation Report 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 a Borrower, the Security Trustee shall (subject to receiving instructions to do so and an amended Security Certificate from the Borrowers and the Issuer in accordance with the Security Trust Deed) release from the relevant Security Documents (and/or 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 such Borrower, provided that such Borrower satisfies the conditions precedent specified in the applicable 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 social housing or affordable rent property and that, immediately following such release (and/or reallocation, if applicable), the Asset Cover Test will not be breached as a result of the substitution of the relevant Charged Properties and that no Borrower Default has occurred and is continuing, a Full Valuation Report in respect of each Substitute Property and a Certificate of Title in respect of the Substitute Properties.

#### ***Cash Security***

Pending the acquisition of any proposed Substitute Property by the relevant Borrower, such Borrower may deposit the proceeds of disposal of the relevant Charged Properties which are released from charge under the Security Trust Deed into the Ongoing Cash Security Account of the Issuer for the purpose of maintaining the Asset Cover Test (for the avoidance of doubt, no Borrower shall be required to monitor the market value of any Permitted Investments). The Charged Cash may be withdrawn from the Ongoing Cash Security Account (a) to be applied by the relevant Borrower (provided, for the avoidance of doubt, that such 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, any Borrower may, at any time, deposit, or arrange for the deposit of, any other money into the Ongoing Cash Security Account for the purposes of satisfying the Asset Cover Test.

Each Original Borrower has acknowledged (and each Additional Borrower will be required to acknowledge) that the money standing to the credit of the Ongoing Cash Security Account shall be charged in favour of the Bond Trustee pursuant to the terms of the Bond Trust Deed.

Each Original Borrower has also acknowledged (and each Additional Borrower will be required to acknowledge) that the Issuer may invest all or any part of the Charged Cash 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 Ongoing Cash Security Account), the amount of such Charged Cash may be greater or less than the amount deposited in the Ongoing Cash Security Account by such Borrower. Each Original Borrower has acknowledged (and each Additional Borrower will be required to acknowledge) that it shall not have any recourse to the Issuer in respect of any losses realised by the Issuer in respect of the Charged Cash 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 Ongoing Cash Security Account to the relevant Borrowers, 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 a Borrower, the Security Trustee shall release (subject to receiving instructions to do so and an amended Security Certificate from the Borrowers and the Issuer in accordance with the Security Trust Deed) from the relevant Security Documents (and/or reallocate, if applicable) such Properties forming part of the Lender's Designated Security as may be selected by such Borrower provided that such Borrower delivers to the Issuer and the Security Trustee a completed Property Release Certificate, certifying that, immediately following such release (and/or reallocation, if applicable), the Asset Cover Test will not be breached as a result of the release (and/or reallocation, if applicable) of such part of the Lender's Designated Security and that no Borrower Default has occurred and is continuing.

### ***Statutory Disposals***

Each Borrower shall have the right to withdraw Property from the Issuer's Designated Security pursuant to any Statutory Disposal and the relevant 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.

### ***Charged Properties***

Pursuant to Clause 2 (*Designation of Security Assets*) of the Security Trust Deed (see "*Additional Security*" below), on or prior to creating a Security Agreement in respect of any Property for the benefit of the Issuer, the relevant Borrower must, in respect of such security, provide the conditions precedent documents specified in the Security Trust Deed. In addition, pursuant to the Loan Agreement, the relevant Borrower must provide a completed Charged Property Certificate confirming that, *inter alia*, the proposed Charged Properties are social housing or affordable rent properties, as well as attaching Full Valuation Reports in respect of each Charged Property and a Certificate of Title in respect of each tranche of Charged Properties charged.

## **Valuations**

### **Full Valuations and Desk Top Valuations**

In accordance with Clause 12.1 (*Full Valuations and Desk Top Valuations*) of each Original Loan Agreement and the corresponding clause in any Additional Loan Agreement, each Borrower shall deliver, or procure the delivery, to the Issuer and the Security Trustee of:

- (a) a Full Valuation Report prepared by an Approved Valuer which values all Charged Properties on a full valuation basis at least once in every period of five calendar years. The first such Full Valuation Report must be delivered in the period between 31 March 2023 and the date falling 120 days thereafter (or, at the option of the Borrowers acting together, within the same period

in any prior calendar year) and unless the Issuer and each Borrower agree otherwise, thereafter within 120 days of each consecutive fifth anniversary of the date on which the Full Valuation Report was previously provided; and

- (b) a Desk Top Valuation Report prepared by an Approved Valuer which values all the Charged Properties on a "desk-top" basis in the period between 31st March and the date falling 120 days thereafter in each year other than a year in respect of which such Charged Properties have been valued on a full valuation basis through the delivery of a Full Valuation Report.

### **Rolling Valuations**

Notwithstanding Clause 12.1 (*Full Valuations and Desk Top Valuations*) of each Original Loan Agreement and the corresponding clause in any Additional Loan Agreement, in accordance with Clause 12.2 (*Rolling Valuations*) of each Original Loan Agreement and the corresponding clause in any Additional Loan Agreement, the Borrowers may elect collectively, but not individually, to deliver, or procure the delivery of, a Rolling Valuation Report prepared by an Approved Valuer, instead of a Full Valuation Report and Desk Top Valuation Report, to the Issuer and the Security Trustee in the period between 31st March and the date falling 120 days thereafter in each year commencing in a year immediately following a year when a Full Valuation Report has been delivered whereby the Approved Valuer values:

- (a) not less than 20 per cent. of the Charged Properties on a full valuation basis (such Charged Properties being Charged Properties which have not been the subject of a full valuation in either a Full Valuation Report (other than a Full Valuation Report prepared pursuant to Clause 12.1 (*Full Valuations and Desk Top Valuations*) of each Original Loan Agreement and the corresponding clause in any Additional Loan Agreement) or a Rolling Valuation Report prepared in the preceding two years and such that 100 per cent. of Charged Properties are valued on a full valuation basis in any five year period following the election by the Borrowers to deliver, or procure the delivery of, Rolling Valuation Reports taking into account any additions, substitutions and withdrawals of Charged Properties in accordance with Clause 11 (*Addition, Substitution and Release of Charged Properties*) of each Original Loan Agreement and the corresponding clause in any Additional Loan Agreement unless otherwise agreed between the Issuer, the Borrowers and the Security Trustee); and
- (b) the remaining Charged Properties on a "desk-top" basis,

(each such report, a **Rolling Valuation Report**).

For the avoidance of doubt, if the Borrowers elect to deliver, or procure the delivery of a Rolling Valuation Report in accordance with Clause 12.2 (*Rolling Valuations*) of each Original Loan Agreement and the corresponding clause in any Additional Loan Agreement, the Borrowers will not be required to deliver, or procure the delivery of, a Full Valuation Report every five years and a Desk Top Valuation Report in each year in which a Full Valuation Report is not produced.

For these purposes **Approved Valuer** means any of Countrywide plc, Jones Lang LaSalle Limited, Mazars Property Consultancy Limited or Savills (L&P) Ltd, or any subsidiary of any of them or such other reputable firm of surveyors which is a member of the Royal Institute of Chartered Surveyors as may be selected by any Borrower and approved by the Security Trustee from time to time.

### **Loan Events of Default and Enforcement**

#### ***Borrower Default***

Each of the following (which is set out in more detail in Clause 14 (*Borrower Default*) of each Original Loan Agreement and will be set out in more detail in the corresponding clause in any Additional 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 fourteen 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) and (k) 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 relevant 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 (A), (B) or (C) above 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 Finance 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, or as a result 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, or as a result 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 14.9 (*Insolvency*) or Clause 14.10 (*Insolvency Proceedings*), respectively (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 to which they are, respectively, a party.
- (j) **Breach of Asset Cover Test:** The Borrower fails to perform its obligations under Clause 10 (*Asset Cover Test*) of its Original Loan Agreement (or the corresponding clause in the relevant Additional Loan Agreement, as applicable) 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 any amalgamation, merger, consolidation or transfer of engagements (whether entering into or acceptance thereof) of the whole of any 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 such 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 certificate executed by two Authorised Signatories of Party A or Party B confirming the above is provided to the Bond Trustee.

#### ***Obligation to Notify the Issuer and the Security Trustee***

Each 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 in respect of its Loan Agreement 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 relevant Borrower) including, but not limited to, the non-payment by a Borrower of any amounts owing to the Issuer under its 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 relevant Borrower either:

- (a) that the security for the relevant Loan has become, whereupon the security for the relevant 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 14.14 (*Borrower Default Notice*) of an Original Loan Agreement (or the corresponding clause in any Additional Loan Agreement), then the Security Trustee or any Receiver (where appropriate) shall hold the monies 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 relevant 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 relevant Loan; and
- (d) fourth, in or towards payment to the Issuer of all other amounts then due and remaining unpaid under the relevant Loan Agreement.

## **Taxes**

Each Borrower must make all payments to be made by it to the Issuer under, *inter alia*, its Loan Agreement, the Security Agreements 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 such Borrower, the amount of the payment due from such 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), it shall notify each Borrower of the same. Each Borrower may (but, for the avoidance of doubt, shall not be obliged to), in its sole discretion, pay to the Issuer its *pro rata* share of 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. Each Borrower shall continue to pay such additional amounts to the Issuer unless and until such 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.

In the event that one or more Borrowers does not choose to make such additional payments (or indicates that it intends to cease to make such additional payments), the remaining Borrowers may (but, for the avoidance of doubt, shall not be obliged to), in their sole discretion, pay to the Issuer such increased amount 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. If the remaining Borrowers (either collectively or individually) do not choose to make such payments and as a result the Issuer will not have sufficient funds to pay the additional amounts in respect of the Bonds, the Issuer shall not opt to pay such additional amounts (or, having so opted, will notify the Bond Trustee and the Bondholders of its intention to cease paying such additional amounts) and the Bonds shall be redeemed in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*), whereupon each Borrower shall be required to prepay the outstanding balance of its Loan, together with accrued interest and accrued commitment fee thereon up to and including the date of redemption.

**Governing Law**

Each 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 SECURITY AGREEMENTS 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 Security Agreements and the Security Trust Deed.

*The following description of the Security Agreements and the Security Trust Deed consists of a summary of certain provisions of the Security Agreements and the Security Trust Deed and is qualified by reference to the detailed provisions thereof. The Security Agreements 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 Security Agreements and/or the Security Trust Deed.*

### SECURITY AGREEMENTS

No Borrower shall enter into a Security Agreement on the Issue Date.

Each Borrower shall, in relation to any properties to be charged as underlying security for the Bonds, enter into a Security Agreement substantially in the form set out in the Security Trust Deed.

#### Fixed Legal Mortgage and Charge

Pursuant to the Security Agreements, a Borrower will charge as security for the payment and discharge of all Secured Liabilities 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 such Borrower and any moneys paid or payable in respect of such covenants; and
- (b) by way of first fixed charge:
  - (i) all plant and machinery then or in the then future owned by such Borrower and its interest in any plant and machinery in its possession which form part of or are operated by such Borrower on the Mortgaged Property;
  - (ii) all then benefits in respect of the Insurances and all claims and returns of premiums in respect of the Mortgaged Property;
  - (iii) the then benefit of all present and future licences, consents and authorisations (statutory or otherwise) held in connection with its business so far as it relates to the Security Assets or 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 Security Agreements, a Borrower will covenant as security for payment and discharge of the Secured Liabilities, to assign to the Security Trustee for the benefit of itself and, *inter alios*, the Issuer all of its then 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 (as defined in the Security Agreements) and by all guarantors and all security held by such Borrower 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 such Borrower or which may become due and owing to such Borrower at any time in the future in connection therewith);
- (b) all agreements then or from time to time entered into or to be entered into 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 such Borrower or which may become due and owing to such 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 such Borrower to perfect its rights under the Security Agreement or any such agreement, contract, deed, licence, undertaking, guarantee, covenant, warranty, representation or other documents) then or thereafter entered into by or given to such Borrower in respect of the Mortgaged Properties and all claims, remedies, awards or judgments paid or payable to such Borrower (including, without limitation, all liquidated and ascertained damages payable to such Borrower under the above) in each case relating to the Mortgaged Properties;
- (d) all licences held then or in the then 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 such Borrower in relation to the relevant Mortgaged Property;
- (e) all rights and claims to which such Borrower is then or may thereafter 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 then or thereafter 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,

provided always that, until an Enforcement Event has occurred and is outstanding (but subject to the terms of the Finance Documents), such Borrower shall be entitled to exercise all their rights and claims under or in connection with the agreements and covenants referred to in paragraphs (a) to (g) above.

## Representations, Warranties and Undertakings

Each Borrower will make various representations in respect of the Mortgaged Property including as to ownership, planning permission, covenants and security interests. In addition, each Borrower shall undertake 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 Security Agreement will provide that at any time after an Enforcement Event has occurred and is continuing, the security created by or pursuant to such Security Agreement will be immediately enforceable and the Security Trustee may enforce all or any part of such security.

The Security Agreements shall 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 in good faith of any of the powers, authorities or discretions vested in them pursuant to the Security Agreements.

## **Governing Law**

The Security Agreements, and any non-contractual obligations or matters arising from or connected with them will be governed by and construed in accordance with English law.

## **SECURITY TRUST DEED**

The benefit of the security created by the Borrowers pursuant to the Security Agreements 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 Assets***

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

### ***Additional Security***

Pursuant to Clause 2.3 (*Additional Charged Properties*), on or prior to a Borrower entering into a Security Agreement in respect of any Property for the benefit of the Issuer, such 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 Borrowers 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 Security Certificate signed by each 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 relevant Borrower, the Security Trustee shall release the benefit of any encumbrance, rights or obligations held by it over the Undesignated Security provided that such 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 Agreements (see "*Description of the Loan Agreements*" 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 payment of all Relevant Trustee Costs (as defined below);
  - (ii) second, in satisfaction when due of the Secured Liabilities (other than Relevant Trustee Costs) owed to the Relevant Beneficiary (as defined in the Security Documents) arising under or in connection with the Loan Agreement relating to such Designated Security in the order of priority set out therein;
  - (iii) third, to the extent not recovered under (i) above, in or towards payment of all Trustee Costs (as defined below);
  - (iv) fourth, in satisfaction when due of the Secured Liabilities owed to each Other Beneficiary arising under or in connection with the Additional Loan Agreements; and
  - (v) fifth, in payment of any surplus to the relevant Borrower.
- (b) Any moneys received by the Security Trustee or by any Receiver appointed by it pursuant to any Security Document in respect of any Undesignated Security (together with the Related Security Assets) shall be applied by the Security Trustee in the following order:
  - (i) first, to the extent not recovered under paragraphs (a) above, in or towards payment of all Trustee Costs;
  - (ii) second, to the extent not recovered under paragraph (a) above, in or towards payment of the Secured Liabilities owed to each Beneficiary arising under or in connection with its respective Loan Agreement; and
  - (iii) third, in payment of any surplus to the relevant Borrower.

For the purposes of the foregoing:

- (a) **Relevant Trustee Costs** shall mean in relation to a Relevant Beneficiary:
  - (i) in respect of any Designated Security all Trustee Costs which relate exclusively to that Designated Security and to other Designated Security of the Relevant Beneficiary;
  - (ii) all amounts due to the Security Trustee from the Relevant Beneficiary under Clause 6 (*Remuneration and Indemnification of Security Trustee*) in the Security Trust Deed; and
  - (iii) the Relevant Beneficiary's Relevant Proportion of all amounts due and payable under Clause 6 (*Remuneration and Indemnification of Security Trustee*) in the Security Trust Deed, but which remain unpaid.
- (b) **Trustee Costs** shall mean all costs, fees, charges, expenses and liabilities (and all interest thereon as provided in the relevant Security Documents) incurred by or on behalf of the Security Trustee and any Appointee in connection with carrying out its duties and exercising its powers and discretions under the relevant Security Documents and the remuneration of the

Security Trustee and every Receiver under the relevant Security Documents in respect of acting in relation to the relevant Security Assets.

### **Enforcement of Security**

Pursuant to Clause 4 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 Agreements if so instructed by the Issuer (and then only if it has been indemnified and/or secured and/or pre-funded 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 Security Agreements 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 Security Agreements 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 and/or pre-funded to its satisfaction.

### **Governing Law**

The Security Trust Deed, 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 ACCOUNT AGREEMENT, THE CUSTODY AGREEMENT AND THE RETAINED BOND CUSTODY AGREEMENT**

The Issuer has appointed The Bank of New York Mellon, London Branch, as its Account Bank pursuant to the Account Agreement, its Custodian pursuant to the Custody Agreement and its Retained Bond Custodian pursuant to the Retained Bond Custody Agreement in relation to the issue of the Bonds.

The Bank of New York Mellon, London Branch is 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 at One Wall Street, New York, NY 10286, USA and having a branch registered in England and Wales with FC Number 005522 and BR Number 000818 with its principal office in the United Kingdom 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 \$29.9 trillion in assets under custody and administration and more than \$1.6 trillion in assets under management. Additional information is available at [www.bnymellon.com](http://www.bnymellon.com).

*The following description of the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement consists of a summary of certain provisions of the Account Agreement, the Custody Agreement and the Retained Bond Custody Agreement and is qualified by reference to the detailed provisions thereof. The Account Agreement, the Custody Agreement and the Retained Bond 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, the Custody Agreement and the Retained Bond 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 Ongoing Cash Security Account.

#### **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 a Borrower pursuant to, and in accordance with, a Loan Agreement; and
- (b) credit the Transaction Account with the Retained Bond Premium Amount (if any), pending application in accordance with the Conditions to the extent that such amount is not paid to or lent directly to a Charitable Group Member as envisaged by the Loan Agreements.

## **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 Commitments pursuant to, and in accordance with the terms of, the Loan Agreements;
  - (ii) payment to a Borrower in respect of any Bonds surrendered for cancellation in accordance with the Loan Agreements;
  - (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 Ongoing Cash Security Account shall only be made to a Borrower pursuant to, and in accordance with the terms of, the relevant Loan Agreement or to purchase Permitted Investments in accordance with 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 monies standing to the credit of the Transaction Account, the Initial Cash Security Account and/or the Ongoing Cash Security Account may: (a) be held on deposit, in which case they shall accrue interest at the rates set by the Account Bank in its deposit terms and conditions as may be issued by the Account Bank from time to time, subject to the terms of the Account Agreement or (b) be invested in Permitted Investments in accordance with the Custody Agreement. See "*Permitted Investments*".

## **Change of Account Bank**

The appointment of the Account Bank may, with the prior written approval of the Bond Trustee, be terminated upon at least 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 shall 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 and/or the Ongoing Cash Security Account (subject to the Issuer using all reasonable endeavours to secure the appointment of a replacement Account Bank within 30 days of notice to the Bond Trustee and Moody's of such termination)). If, by the tenth day before the expiration of such notice such replacement has not been duly appointed, such Account Bank, subject to the requirement of the Account Agreement, may itself, with the prior written consent of the Bond Trustee and at the cost of the Issuer, appoint as its replacement any reputable and experienced financial institution or petition the court for such replacement.

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 it must have a short-term senior, unsecured and unguaranteed indebtedness rating from Moody's of no less than "P-1".

### **Governing Law**

The Account 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.

### **CUSTODY AGREEMENT**

#### **Custody Account**

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

#### **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 purchased by or on behalf of 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 agreed to give Instructions to the Custodian, forthwith upon receipt by the Custodian of any Distributions, to transfer:

- (a) all Distributions credited to the Ongoing Cash Security Cash Sub-Account to the Ongoing Cash Security 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**

Any monies standing to the credit of the Ongoing Cash Security Cash Sub-Account and the Initial Cash Security Cash Sub-Account will earn interest at the rate(s) set by the Custodian in its deposit terms and conditions, as may be issued by it from time to time, subject to the terms of the Custody Agreement.

## **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 shall 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 it must have a short-term senior, unsecured and unguaranteed indebtedness rating from Moody's of no less than "P-1".

## **Governing Law**

The Custody 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.

## **RETAINED BOND CUSTODY AGREEMENT**

### **Retained Bond Custody Account**

Pursuant to the Retained Bond Custody Agreement, the Retained Bond Custodian has opened, in the name of the Issuer, the Retained Bond Custody Sub-Account and the Retained Bond Cash Sub-Account (together with the Retained Bond Custody Sub-Account, the **Retained Bond Custody Account**).

### **Payments and Delivery**

The Issuer has authorised the Retained Bond Custodian to make payments and delivery out of the Retained Bond Custody Account only as provided below.

Pursuant to the Retained Bond Custody Agreement, the Retained Bond Custodian shall not effect a transfer of any Retained Bonds except with the prior written consent of the Bond Trustee in the form of a Retained Bond Consent Letter which has been countersigned on behalf of the Bond Trustee.

Pursuant to the Retained Bond Custody Agreement, unless otherwise instructed pursuant to Instructions to make a payment out of any Sale Proceeds (other than any Retained Bond Premium Amount) to a Borrower in satisfaction of the Issuer's obligation to make an advance pursuant to its Loan Agreement, the Issuer shall give Instructions to the Retained Bond Custodian, forthwith upon receipt by the Retained Bond Custodian of any Sale Proceeds to transfer:

- (a) all Sale Proceeds (other than any Retained Bond Premium Amount) to the Initial Cash Security Account, and



- (b) all Retained Bond Premium Amounts to the Transaction Account to the extent that such amount is not paid to or lent directly to a Charitable Group Member as envisaged by the Loan Agreements,

in each case, subject to any withholding as required by applicable tax laws.

### **Payment Waiver**

Notwithstanding any other provision of the Retained Bond Custody Agreement to the contrary and subject to the following paragraph, the Issuer has, pursuant to Clause 1.3 of the Retained Bond Custody Agreement, unconditionally and irrevocably:

- (a) waived its rights to receive payments of interest, principal or otherwise in respect of the Retained Bonds and, for the avoidance of doubt, such waiver by the Issuer of such rights will continue to be effective following the occurrence of an Event of Default or Potential Event of Default (each as defined in the Retained Bond Custody Agreement);
- (b) authorised the Retained Bond Custodian to disclose the waiver referred to in (a) above in respect of the Retained Bonds (and the Retained Bonds position with the Retained Bond Custodian) to the Principal Paying Agent and any applicable international clearing system for the Retained Bonds to ensure that the waiver of the right to receive payments of interest, principal or otherwise in respect of the Retained Bonds is effected; and
- (c) directed the Retained Bond Custodian, in respect of each Retained Bond held by the Retained Bond Custodian on behalf of the Issuer in the Retained Bond Custody Sub-Account in definitive certificated form, to (i) on each Interest Payment Date, surrender the interest coupon for such Retained Bond corresponding to such Interest Payment Date to the Principal Paying Agent for cancellation, (ii) on each Instalment Redemption Date, surrender the principal receipt for such Retained Bond corresponding to such Instalment Redemption Date to the Principal Paying Agent for cancellation and (iii) surrender the definitive certificate representing such Retained Bond to the Principal Paying Agent for cancellation on any date on which the Retained Bonds are to be redeemed in full.

The Retained Bond Custodian and the Issuer have each acknowledged and agreed that the waiver, authorisation and direction provided by the Issuer as described above are irrevocable except with the prior written consent of the Bond Trustee in the form of a Retained Bond Consent Letter which has been countersigned on behalf of the Bond Trustee.

### **Interest**

Any monies standing to the credit of the Retained Bond Cash Sub-Account will earn interest at the rate(s) set by the Retained Bond Custodian in its deposit terms and conditions, as may be issued by it from time to time, subject to the terms of the Retained Bond Custody Agreement.

### **Termination of Retained Bond Custody Agreement**

Either of the Issuer or the Retained Bond Custodian may terminate the Retained Bond Custody Agreement by giving to at least 90 days' written notice to the other party.

Either of the Issuer or the Retained Bond Custodian may further terminate the Retained Bond Custody Agreement immediately upon notice to the other party upon the dissolution of that other party, or upon the commencement of any action or proceedings seeking liquidation (or equivalent) of that other party.

Pursuant to the Retained Bond Custody Agreement, the Issuer has covenanted for the benefit of the Bond Trustee that, in the event that the Retained Bond Custody Agreement is terminated, it shall appoint a successor custodian to hold the Retained Bonds on substantially the same terms as the Retained Bond

Custody Agreement, in particular, but without limitation to, the payment waiver and transfer restrictions applicable to the Retained Bonds, as described above.

**Governing Law**

The Retained Bond Custody 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 ISSUER

### Incorporation and Status

The Issuer is a public limited company incorporated in England and Wales with registered number 8190978 on 24th August, 2012 under the Companies Act 2006. It was originally incorporated under the name of Raglan Finance plc and changed its name to Stonewater Funding plc on 22nd December, 2014.

The registered address of the Issuer is Suite C, Lancaster House, Grange Business Park, Enderby Road, Whetstone, Leicester LE8 6EP. The telephone number of its registered address is 0800 011 6420.

The Issuer has no subsidiaries.

### Principal Activities of the Issuer

The Issuer is a special purpose vehicle established for the purpose of issuing asset backed securities, namely the Bonds, and incurring other indebtedness (including other secured indebtedness but subject to the covenant set out in Condition 6.1 (General Covenants)) and, in either case, lending the proceeds thereof to the Borrowers to be applied in the achievement of each Borrower's charitable objects.

### Directors

The directors of the Issuer and their principal activities outside the Issuer are as follows:

<b>Name</b>	<b>Other Principal Activities</b>
George Blunden	Chair of Charity Bank Senior Independent Director, Beazley Plc Non-Executive Director, Beazley Furlonge Ltd Board Member, Stonewater, Stonewater 2 and Stonewater 5
Nicholas Harris	Chief Executive, Stonewater Board Member, Stonewater, Stonewater 2 and Stonewater 5
Peter Hammond	Director, Housing Securities Limited, Housing Securities 2 plc, Housing Securities 2 Holdings Limited, Housing Securities (40) Limited, TIAA Limited, TIAA (HA) Limited and Peter Hammond Consulting Limited Company Secretary, HALOS Limited and Funding for Homes Company Secretary, Aspect Building Communities Ltd (on behalf of TIAA) Company Secretary & Manager, Woodside Avenue Developments LLP (on behalf of TIAA) Company Secretary & Manager, Stoneham LLP (on behalf of TIAA)
John Weguelin	Councillor, Studland Parish Council Board Member, Stonewater, Stonewater 2, Stonewater 5 Chair of SPL
John Bruton	Executive Director of Finance, Stonewater Group Board Member, SPL and SCL

The business address of each of the above directors is Suite C, Lancaster House, Grange Business Park, Enderby Road, Whetstone, Leicester LE8 6EP.

The secretary of the Issuer is Anne Harling whose business address is Suite C, Lancaster House, Grange Business Park, Enderby Road, Whetstone, Leicester LE8 6EP.

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 other duties. George Blunden, Peter Hammond, Nicholas Harris and John Weguelin are directors of the Issuer and also board members of each Original Borrower. A conflict of interests could therefore arise if these directors are required to approve any transactions between the Issuer and an Original Borrower, such as an Original Loan Agreement. However, the Issuer's Articles of Association provide that, so long as directors disclose the nature and extent of such a conflict, they may nevertheless vote on behalf of the Issuer in respect of such transactions.

### **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.

Stonewater holds all of the shares of the Issuer.

Stonewater exercises control over the Issuer through its full ownership of the Issuer.

### **Operations**

Since the date of incorporation, the Issuer has issued bonds in the principal amount of £200,000,000, with £100,000,000 issued on 20 September 2012 and a further £100,000,000 issued on 25 March 2015. Of these, £75,000,000 were retained and have since been cancelled. It has produced financial statements for each of the financial years up to 2015-2016.

## DESCRIPTION OF THE GROUP AND THE ORIGINAL BORROWERS

Stonewater, Stonewater 2 and Stonewater 5 are each an Original Borrower and together the Original Borrowers.

### THE STONEWATER GROUP

Stonewater is the parent of the Stonewater group (the **Group**). The Group comprises Stonewater 2, Stonewater (3) Limited (formerly Jephson Housing Association Limited), Stonewater (4) Limited (formerly Marches Housing Association Limited) and Stonewater 5 (all charitable Registered Providers of Social Housing and registered societies), Stonewater Commercial Limited (formerly Raglan Developments Limited) (**SCL**) and Stonewater Procurement Limited (formerly Raglan Design and Build Limited) (**SPL**) (both private limited companies) and the Issuer (a public limited company).

The Group has around £170 million in turnover, £1.63 billion in assets, and manages around 30,000 homes across England.

SCL was incorporated to undertake the Group's build for sale operations. It is currently dormant and has been since incorporation. SPL is the value added tax efficient subsidiary through which new social housing development is procured. SPL's turnover was around £34.3 million for the financial year ended 31 March 2017.

### History

The roots of the Group date back to the 1960s when two voluntary groups, the Inskip League of Friendship and Poole and East Dorset Club for the Disabled, approached Poole Borough Council (now the Borough of Poole) to build housing for disabled people and formed the Inskip Housing Association. Around the same time St. Giles Housing Society, also a voluntary organisation and based in London, was providing homes for young disabled people near places of work. The two associations merged in February 1973 to form Inskip St Giles Housing Association, which was incorporated on 1st February, 1973 and which changed its name to Raglan Housing Association Limited on 12th March, 1976. With a new name came a new direction; whilst continuing to meet the original commitment to housing for disabled people, it began to address the differing needs of families, elderly people and young single people.

Following the merger of each of Dolphin Housing Association Limited and Astra Housing Association Limited in the 1990s, it addressed a variety of housing needs in city, urban and rural areas, maintaining its commitment to housing for disabled people and a range of supported housing schemes.

The founder members of the Jephson group were from Leamington Spa and therefore the first of Jephson's schemes were built in Warwickshire. Since then, and since becoming part of the Stonewater Group, it has developed over a wide geographical area, often on land provided by local authorities using subsidies also provided by them.

Jephson Housing Association was formed in 1969, followed by Jephson Homes Housing Association in 1970. The Jephson group reached 1,000 homes under management by 1975 and, in the following four years, offices were opened in Swindon, Halifax, Dudley and Sandwell. By 1981, there were 4,000 homes under the Jephson group's management. In 1996, Marches Housing Association (**Marches**) joined the Jephson group; Marches having acquired 1,832 houses, flats and ancillary properties from Leominster District Council in 1994.

At the end of December 2014, the Raglan group and the Jephson group merged to form the Group. Following this merger, Stonewater (formerly Raglan Housing Association Limited) became the parent of the new Group and each of Stonewater 2, Stonewater (3) Limited, Stonewater (4) Limited, Stonewater 5, SCL and SPL are now all part of the new Group and all subsidiaries of Stonewater.

## Principal Activities of the Group

The Group's principal activities are the provision of social housing and the provision and management of housing, in each case, for poor people or for the relief of aged, disabled or chronically sick people.

## Executive Directors

As detailed below, the Group is run by an executive management team which is common to each of the Original Borrowers. The management team is made up of 6 executive directors (the **Executive Directors**):

<b>Name</b>	<b>Title</b>
Mr Nicholas Harris	Chief Executive
Mr Scott Baxendale	Executive Director – Assets
Mr David Blower	Executive Director – Corporate Services
Mr John Bruton	Executive Director – Finance
Mrs Sue Shirt	Executive Director – Housing
Mr Jonathan Layzell	Executive Director - Development

## Board

Each of the Original Borrowers has a common board (the **Board**). The Board and their principal activities outside the Original Borrowers, where these are significant with respect to the Original Borrowers, are as follows:

<b>Name</b>	<b>Principal Activities outside the Original Borrowers</b>
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*Executive board members*

Mr Nicholas Harris	Director, the Issuer
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*Non-executive board members*

George Blunden	Director, the Issuer Chair, Charity Bank Senior Independent Director, Beazley Plc Non-Executive Director, Beazley Furlong Limited
Michael Collins	Director, Lesley and Page Services
Sheila Collins	Board member, University of Bournemouth
Anne Dokov	Director, Crista Consulting Limited Lay Member, Disciplinary Tribunal for Institute of Chartered Legal Executives

<b>Name</b>	<b>Principal Activities outside the Original Borrowers</b>
Peter Hammond	<p>Director, Housing Securities Limited, Housing Securities 2 plc, Housing Securities 2 Holdings Limited, Housing Securities (40) Limited, TIAA Limited, TIAA (HA) Limited and Peter Hammond Consulting Limited</p> <p>Company Secretary, HALOS Limited and Funding for Homes</p> <p>Company Secretary, Aspect Building Communities Ltd (on behalf of TIAA)</p> <p>Company Secretary &amp; Manager, Woodside Avenue Developments LLP (on behalf of TIAA)</p> <p>Company Secretary &amp; Manager, Stoneham LLP (on behalf of TIAA)</p> <p>Councillor, Studland Parish Council</p>
Brian Roebuck	<p>Director and Chair of the Issuer</p> <p>Chair, NHS Leeds South and East Clinical Commissioning Group Audit Committee</p> <p>Lay Member, Governing body of NHS Leeds South and East Clinical Commissioning Group</p> <p>Board member, Symphony Housing Group</p> <p>Member of the Governing Body and Chair of Audit Committee, NHS Barnsley Clinical Commissioning Group</p>
John Weguelin	<p>Chair of SPL</p>
Doug Wright	<p>Director of the Issuer</p> <p>Director of SPL</p> <p>Chair of SCL</p> <p>Board member, FUSE</p>
Patrick Symington	<p>None</p>
Juliana Crowe	<p>Director of Housing and Communities, Rooftop Housing</p> <p>Board member, Worcestershire Health Improvement Group, Worcestershire European Social Investment Funds Committee and Talensi Community Development Trust</p>

The business address of each of the above board members is Suite C, Lancaster House, Grange Business Park, Enderby Road, Whetstone, Leicester LE8 6EP.

The secretary of the Group is Anne Harling whose business address is Suite C, Lancaster House, Grange Business Park, Enderby Road, Whetstone, Leicester LE8 6EP.

Subject as follows, there are no potential conflicts of interest between any duties to each of the Original Borrowers of the board members of the Original Borrowers and their private interests and/or other duties. George Blunden, Peter Hammond, Nicholas Harris and John Weguelin are directors of the Issuer and also board members of each Original Borrower. A conflict of interests could therefore arise if they are required to approve any transactions between the Issuer and the Original Borrowers, such as the Original Loan Agreements. However, the rules of each Original Borrower provide that a board member shall not have an interest in any arrangement as a board member, director or officer of any other member of the Group.

### **Corporate Governance**

The Group has five functional committees comprising: Assets and Development; Finance; Governance and HR; Risk and Assurance; and Housing.

## **Recent Developments**

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

## **Corporate Rating**

The Group has been assigned a credit rating of "A2" by Moody's. Moody's is established in the European Union and is registered under Regulation (EC) No. 1060/2009 (as amended). As such, Moody's is included in the list of credit rating agencies published by the ESMA on its website in accordance with such Regulation.

## **THE BORROWERS**

### **Stonewater**

#### **Incorporation and Status**

Stonewater was incorporated on 1st February, 1973 and is registered in England as a charitable registered society under the Co-operative and Community Benefit Societies Act 2014 with registered number 20558R and is registered with the Regulation Committee of the Homes and Communities Agency under the Housing and Regeneration Act 2008, as amended by the Localism Act 2011, with registered number L1556.

The registered office of Stonewater is Suite C, Lancaster House, Grange Business Park, Enderby Road, Whetstone, Leicester LE8 6EP. The telephone number of its registered address is 0800 011 6420.

Following the merger of the Jephson and Raglan groups, Raglan Housing Association Limited changed its name to Stonewater Limited on 31 December 2014.

#### **Governance and Viability Rating**

On 11<sup>th</sup> November 2016, the Regulator issued a regulatory judgement which concluded that Stonewater met both the viability and governance standards and graded the Group as "G1" for governance and "V1" for viability. The regulatory judgement included Stonewater 2, Stonewater (3) Limited, Stonewater (4) Limited and Stonewater 5. This is a routine process of regulation which discusses an organisation's performance as outlined in the Regulator's Governance and Financial Viability standard. The "G1" rating means that Stonewater meets the requirements on governance set out in the Governance and Financial Viability standard. The "V1" rating means that Stonewater meets the requirements on viability set out in the Governance and Financial Viability standard and has the capacity to mitigate their exposures effectively. The "G1" and "V1" ratings were both confirmed following the In Depth Assessment on Stonewater (including Stonewater 2, Stonewater (3) Limited, Stonewater (4) Limited and Stonewater 5) carried out by the Regulator in March 2017.

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

The entire issued share capital of Stonewater is 17 shares of £1 each all of which are fully paid up. The shares have limited rights; they carry no entitlement to dividend; they are not repayable; and they do not participate in a winding up. The shares carry the following voting rights: to approve the financial statements, to appoint members to the board of Stonewater Limited and to appoint the auditors.



## **Stonewater 2**

### **Incorporation and Status**

Stonewater 2 was incorporated on 8<sup>th</sup> April 1970 and is registered in England as a charitable registered society under the Co-operative and Community Benefit Societies Act 2014 with registered number 19412R and is registered with the Regulation Committee of the Homes and Communities Agency under the Housing and Regeneration Act 2008, as amended by the Localism Act 2011, with registered number L0173.

The registered office of Stonewater 2 is Suite C, Lancaster House, Grange Business Park, Enderby Road, Whetstone, Leicester LE8 6EP. The telephone number of its registered address is 0800 011 6420.

Stonewater 2 was incorporated as Jephson Second Housing Association Limited, changing its name to Jephson Homes Housing Association Limited in 1988. Following the merger between the Jephson and Raglan groups, Jephson Homes Housing Association Limited became known as Stonewater (2) Limited on 31 December 2014.

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

Stonewater 2 has 12 shares in issue of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. Stonewater holds 1 share in Stonewater 2.

## **Stonewater 5**

### **Incorporation and Status**

Stonewater 5 was incorporated on 30th January 2012 and is registered in England as a charitable registered society under the Co-operative and Community Benefit Societies Act 2014 with registered number 31527R and is registered with the Regulation Committee of the Homes and Communities Agency under the Housing and Regeneration Act 2008, as amended by the Localism Act 2011, with registered number 4717.

The registered office of Stonewater 5 is Suite C Lancaster House Grange Business Park, Enderby Road, Whetstone, Leicester, LE8 6EP. The telephone number of its registered address is 0800 011 6420.

Stonewater 5 was incorporated under the name of Raglan Homes Limited. Following the merger between the Jephson and Raglan groups, Raglan Homes Limited became known as Stonewater (5) Limited on 31 December 2014.

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

Stonewater 5 has 11 shares in issue of £1 each which carry no rights to dividends or other income. Shares in issue are not capable of being repaid or transferred. Stonewater holds 1 share in Stonewater 5.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the Financial Conduct Authority shall be incorporated in, and form part of, this Prospectus:

- (a) the audited consolidated financial statements of Stonewater Limited in respect of the financial years ended 31 March 2016 and 31 March 2017, together with the auditor's reports prepared in connection therewith;
- (b) the audited financial statements of Stonewater (2) Limited in respect of the financial years ended 31 March 2016 and 31 March 2017, together with the auditor's reports prepared in connection therewith;
- (c) the audited financial statements of Stonewater (5) Limited in respect of the financial years ended 31 March 2016 and 31 March 2017, together with the auditor's reports prepared in connection therewith; and
- (d) the audited financial statements of Stonewater Funding plc in respect of the financial periods ended 31 March 2016 and 31 March 2017, together with the auditor's reports prepared in connection therewith.

Copies of the documents incorporated by reference in the Prospectus can be obtained from the registered office of the Issuer and the specified office of the Principal Paying Agent and can be viewed electronically free of charge on [www.morningstar.co.uk/uk/NSM](http://www.morningstar.co.uk/uk/NSM).

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

## VALUATION REPORT

The following valuation report (the **Valuation Report**) relates to the properties indicative of those which may be charged in favour of the Security Trustee for the benefit of the Issuer prior to the first drawdown under any Loan Agreement (such Properties, the **Provisional Portfolio**).

On the Issue Date, no Borrower will charge any Properties in favour of the Security Trustee for the benefit of the Issuer (and the Bonds will not therefore benefit from underlying security comprising real property). Pursuant to the Loan Agreements, the Borrowers are required to ensure that sufficient Properties are charged as a condition for the first drawdown under any Loan Agreement.

The Provisional Portfolio is indicative of the Properties that the Borrowers may charge, and may be adjusted subject to satisfaction of conditions set out in the relevant Loan Agreement, as described in “*Description of the Loan Agreements–Facility*”.

The Valuation Report was prepared by Jones Lang LaSalle Limited, Registered Chartered Surveyors, of 30 Warwick Street, London, W1B 5NH (the **Valuer**). The Valuation Report is included in this Prospectus, in the form and context in which it is included, with the consent of the Valuer and the Valuer has authorised the contents of this section.

The Valuer does not have a material interest in the Issuer, Stonewater, Stonewater 2 or Stonewater 5.

### Summary of valuations

A summary of the values of the Provisional Portfolio set out in the Valuation Report is set out below:

EUV-SH or, where appropriate, MV-ST			Total		
Units	EUV-SH appropriate	is	Units	MV-ST appropriate	is
No.	£		No.	£	£
98	£5,480,000		173	£18,340,000	£23,820,000



## *Valuation Advisory*

*Valuation of 271 Affordable Housing Units Owned by Stonewater Limited and Stonewater (2) Limited*

31 October 2017





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Your ref  
Our ref MB\RX  
Direct line 020 7087 5971  
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**Stonewater Limited** as an Original Borrower  
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Leicester  
LE8 6EP

**Stonewater (2) Limited** as an Original Borrower  
Suite C, Lancaster House  
Grange Business Park  
Enderby Road  
Whetstone  
Leicester  
LE8 6EP

**Stonewater Funding plc** as Issuer  
Suite C, Lancaster House  
Grange Business Park  
Enderby Road  
Whetstone  
Leicester  
LE8 6EP

31 October 2017

Dear Sirs

**Valuation of 271 Affordable Housing Units relating to the issue of 250,000,000 3.375 per cent. Secured Bonds due 2045 (the "Bonds") to be issued by Stonewater Funding plc (the "Issuer")**

We are pleased to attach our Report in connection with the above.

This Report is issued for the benefit and use of the Addressees and for inclusion in the Prospectus for the issue of the Bonds (the "**Prospectus**" and the "**Bond Issue**" respectively) and may only be used in connection with the Prospectus and the Bond Issue. We hereby give our consent to the publication of this Report within the Prospectus and accept responsibility for the information contained in this Report.





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[www.joneslanglasalle.co.uk](http://www.joneslanglasalle.co.uk)

To the best of our knowledge (having taken all reasonable care to ensure that such is the case) 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.

Before this Report or any part of it is reproduced or referred to in any document, circular or statement (other than the Prospectus in respect of the Bonds), our written approval as to the form and context of such publication must be obtained.

If you have any questions about this Report, or require further information, please contact Marc Burns.

Yours faithfully

**Richard Petty FRICS**  
**Director**  
**For and on behalf of**  
**Jones Lang LaSalle Limited**

**T** 020 7087 5971 (Direct)  
**M** 07767 413 631 (Mobile)  
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Yours faithfully

**Marc Burns**  
**Director**  
**For and on behalf of**  
**Jones Lang LaSalle Limited**

**T** 020 7087 5978 (Direct)  
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# Executive Summary

This summary should be read in conjunction with the main body of our Report. Section numbers are supplied where relevant.

## Introduction

The date of this Report is 31 October 2017.

Jones Lang LaSalle Limited has been instructed to value a portfolio of 271 properties for loan security purposes (the "Portfolio"). The Portfolio is broken down as follows (section 3):

- 51 general needs & sheltered units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 4);
- 173 general needs & sheltered units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 4);
- 25 supported units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 5); and
- 22 shared ownership units which have been valued on the basis of EUV-SH (section 6).

We have inspected the exterior of all units in the Portfolio, and have seen a representative sample of 10% of the Portfolio internally (section 3).

## Valuations

The date of this Report is 31 October 2017.

The valuation set out herein is effective as at the date of this Report.

Our valuation of all 98 properties being valued on the basis of EUV-SH, in aggregate (section 7), is:

**£5,480,000**  
**(five million, four hundred and eighty thousand pounds)**

Our valuation of all 173 properties being valued on the basis of MV-T, in aggregate, (section 7) is:

**£18,340,000**  
**(eighteen million, three hundred and forty thousand pounds)**

The following tables summarise our valuations:

### Freehold properties

Category	Unit Count	Basis of Valuation	EUV-SH	MV-T
General needs and Sheltered Restricted	51	EUV-SH	£3,530,000	-
General needs and Sheltered Unrestricted	173	MV-T	£12,590,000	£18,340,000
Shared Ownership	22	EUV-SH	£1,100,000	-
<b>Total</b>	<b>246</b>		<b>£17,220,000</b>	<b>£18,340,000</b>

### Leasehold properties

Category	Unit Count	Basis of Valuation	EUV-SH	MV-T
Supported	25	EUV-SH	£850,000	-
<b>Total</b>	<b>25</b>		<b>£850,000</b>	<b>-</b>

We confirm that, in our opinion, should the Security Trustee become a mortgagee in possession of the Portfolio, then it would be possible to achieve a sale of the residential properties either to another Registered Provider of Social Housing ("RP") that would be at a price at least equivalent to our valuation on the basis of EUV-SH, or, in principle, to a private purchaser at a price equivalent to our valuation on the basis of MV-T.

### Stock Count

The stock, excluding the nil value properties, is summarised as follows:

Property Type	Unit Count
1 bed flat	37
2 bed flat	30
1 bed house	17
2 bed house	95
3 bed house	62
4 bed house	5
Room with shared facilities	25
<b>Total</b>	<b>271</b>



We have been informed by the Borrowers that the gross annual rent receivable for the Portfolio is £1,357,249. We have relied on this information as being accurate, and have not verified the rent roll otherwise.

A summary of the range of our assumptions for the main cashflows is provided in the tables below and overleaf.

## Assumptions

### General Needs & Sheltered

Assumption	EUV-SH	MV-T
Discount rate (income)	6.00% - 6.25%	8.0%
Discount rate (sales)	N/A	10.0%
Sales rate (houses)	N/A	3.5%
Sales rate (flats)	N/A	8.0% - 25.0%
Management costs	£600	10% of Gross Income
Management cost growth inflator	0.5%	N/A
Total repairs costs (Year 1)	£1,297	£2,850
Repair cost growth inflator	1.0%	1.0%
Rental income growth - houses (Year 1)	1.0%	20.3%
Rental income growth - flats (Year 1)	1.0%	0.50% - 18.4%
Bad debts and voids (Year 1)	2.5%	8.0%

### Shared Ownership

Assumption	EUV-SH
Discount rate (income)	5.50%
Discount rate (sales)	8.25%
Management Costs	5% of Gross Income
Sales rate (yrs 0-1)	1 tranche sale p.a.
Sales rate (yrs 2-4)	2 tranche sales p.a.
Sales rate (yrs 5-14)	1 tranche sale p.a.
Sales rate (yrs 15-50)	0 tranche sales p.a.
Rental growth (all years)	0.5%

**Supported**

Assumption	EUV-SH
Discount rate (income)	6.0%
Management costs	£500
Management cost growth inflator	0.5%
Total repairs costs (Year 1)	£1,100
Repair cost growth inflator	1.0%
Rental income growth - flats (Year 1)	1.0%
Bad debts and voids (Year 1)	2.5%

**This summary should be read in conjunction with the remainder of the Report and must not be relied upon in isolation.**

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# Appendices

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# 1 Introduction

## 1.1 Background

1.1.1 Jones Lang LaSalle Limited (“JLL”) has been instructed to prepare a valuation of 271 properties (“the Portfolio”) owned by Stonewater Limited and Stonewater (2) Limited (the “Borrowers”).

## 1.2 Compliance

1.2.1 This Report has been prepared by Marc Burns, a Director of JLL under the supervision of Richard Petty FRICS (Valuer number: #0089005), Head of Affordable Housing and a Director of JLL.

1.2.2 Our valuations have been prepared in accordance with the current RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors and the RICS Valuation - Professional Standards UK, January 2014 (revised April 2015) (commonly known as the “Red Book”).

1.2.3 In accordance with PS 2.3 of the Red Book, we confirm that we have sufficient knowledge and skills to undertake this valuation competently.

1.2.4 The date of valuation is 31 October 2017.

1.2.5 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 Borrowers’ accounts. This Report has been prepared in accordance with the Red Book. The valuations are prepared on this basis so that we can determine the value recoverable if the charges over the properties were enforced at the date of this Report. We understand that values given in the Borrowers’ accounts are prepared on an historic cost basis which considers how much the properties have cost and will continue to cost the Borrowers. This is an entirely different basis of valuation from that used for loan security purposes.

## 1.3 Instructions

1.3.1 Our Report is prepared in accordance with the Borrowers’ formal instructions.

1.3.2 We have been instructed to prepare our valuations on the following bases:

- Existing Use Value for Social Housing (“EUV-SH”); and
- Market Value subject to existing Tenancies (“MV-T”).

1.3.3 Please note that the properties that have been valued on the basis of MV-T have also been valued on the basis of EUV-SH, for information purposes only.

## 1.4 Compliance

- 1.4.1 This valuation qualifies as a Regulated Purpose Valuation ("RPV") as defined by the Red Book. A RPV is a valuation which is intended for the information of third parties in addition to the Addressees. It is a requirement of UKVS 4.3 of the Red Book in relation to disclosures that we declare our prior involvement with the Borrowers, or the properties being valued, to ensure that there is no conflict of interest.
- 1.4.2 We confirm that the total fee income earned from the Borrowers is substantially less than 5% of the fee income earned by JLL in our last financial year (ending 31 December 2016) and that we do not anticipate this situation changing in the foreseeable future.

## 1.5 Status of Valuer

- 1.5.1 In preparing this Report, we confirm that JLL is acting as an external valuer as defined in the Red Book. We can also confirm that we consider ourselves to be independent for the purposes of this instruction.
- 1.5.2 In accordance with RICS guidance, and our own rotation policy, we recommend that a rotation of overall responsibility within JLL is considered no later than the end of 2023.

## 1.6 Portfolio

- 1.6.1 The Portfolio comprises the following properties as described in section 3, schedules of which form Appendix 1:
- 51 general needs & sheltered units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 4);
  - 173 general needs & sheltered units for which it has been confirmed that there are no title restrictions and these have been valued on the basis of MV-T (section 4);
  - 25 supported units for which it has been confirmed that affordable housing restrictions exist and these have been valued on the basis of EUV-SH (section 5); and
  - 22 shared ownership units which have been valued on the basis of EUV-SH (section 6).

## 1.7 Changes to Social Housing Rental Growth from March 2016

- 1.7.1 The Welfare Reform and Work Act 2016 ("the Act") has now passed through the House of Lords and been given Royal Assent. Under the Act, all Registered Providers are to be required to reduce their rents charged on social housing (as defined in the Housing and Regeneration Act 2008) by 1% each year, up to and including 1st April 2019. This period was originally for four years from 2016 and is set out in Section 23 of the Act.
- 1.7.2 Social housing as defined in the 2008 Act includes all forms of housing let at below market rents, however Shared Ownership and Low Cost Home Ownership is expressly excluded from the Act, together with other property in the ownership of RPs which is listed as exceptions in The Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations 2016 ("the Regulations"). These include, but are not limited to:

- intermediate rent accommodation (defined in the Regulations to include inter alia properties let on sub-market rents, let on Assured Shorthold Tenancies which have not previously been let at social rents and are not let at Affordable Rent);
- specialised supported housing (defined in the Regulations to include inter alia supported housing of bespoke design in which a high level of support is offered to tenants);
- temporary social housing (meaning low cost rental accommodation made available to a person who is homeless, within the meaning of the Housing Act 1996);
- student accommodation;
- accommodation where the rent registered under the Rent Act 1977 is lower than the social rent rate;
- care homes; and
- accommodation where the rent payable by the tenant was temporarily reduced or waived for any period during the previous relevant year.

1.7.3 Supported Housing was exempt from the first year of cuts but rents will be reduced by 1% for the years up to and including 2019.

1.7.4 Once the period of cuts has ended, in April 2020, we expect that Registered Providers will be allowed to continue to increase their rents by CPI plus 1%, in line with the rent regime introduced by the government in April 2015. This is based on informal indications from government. However, as will be evident from the recent shift in government policy, there can be no certainty as to what the government will decide to do in April 2020 and there is therefore a degree of risk around this assumption.

1.7.5 This heightened risk is reflected in the discount rate applied to this valuation. However, this component of risk is not new – there has always been an element of legislative or regulatory risk in social housing valuations, where gross and net rental incomes are assessed over a long period; and this risk has always been reflected in the discount rates applied to valuations.

1.7.6 However, the Act includes provisions for either a mortgagee in possession, or a receiver, and its successor in title (which could be either a Registered Provider or a non-regulated purchaser) to be exempt from the need to make future cuts after the date of acquisition. These exceptions are contained in Section 24 of the Act.

1.7.7 In our opinion, neither a mortgagee in possession (or receiver), nor any purchaser acquiring stock from the same, would choose to implement rent cuts over the period 2016-2019; and would actively use a legal right to avoid reducing the gross rental income from a housing portfolio. We have therefore prepared our valuation on the basis of EUV-SH on the express assumption that no further reductions in rent would be made after the hypothetical sale at the valuation date. This is consistent with our reading of the Act and with the interpretation of the Act by the HCA which would, in effect, be powerless to prevent even a Registered Provider from choosing not to reduce rents over this period.

1.7.8 It follows that, for a valuation given for loan security purposes only, with a date of valuation prior to 1 April 2018, no reductions in rent would need to be made; and there is therefore no adverse effect on value other than any effect attributable to the increased discount rate referred to above.



1.7.9 Our Report now follows and is divided into five main parts:

- Methodology;
- Commentaries;
- Valuation;
- Bases of Valuation; and
- Sources and Verification of Information.

## 2 Methodology

### 2.1 Valuation Model

- 2.1.1 We have undertaken our valuation of the housing stock using fully explicit discounted cashflow models, over a 50-year period, with the net income in the final year capitalised into perpetuity.
- 2.1.2 Against the income receivable for each portfolio, we have made allowances for voids and bad debts; the costs of management and administration; major repairs; cyclical maintenance; day-to-day repairs; and for future staircasing (where applicable). We have assumed an appropriate level of future growth in these costs (expenditure inflation).
- 2.1.3 We have then discounted the resulting net income stream at an appropriate rate which reflects our judgement of the overall level of risk associated with the long term income. A more detailed explanation of the discount rate is included in section 4.

### 2.2 Information Provided

- 2.2.1 The principal source of background data for the Portfolio has been the rent roll for each property provided by the Borrowers. This detailed the number and type of units, the rent payable, and equity retained by the association (where applicable).
- 2.2.2 This information was supplemented with our market research and other data we have gathered from similar instructions undertaken recently and involving comparable stock. From these sources we have collated information on the following:
- rents;
  - bad debts, voids and arrears;
  - cost of maintenance and repairs; and
  - management and administration expenses.

### 2.3 Inspections

- 2.3.1 We derived our inspections strategy by giving full regard to:
- the geographical spread of the stock;
  - the concentration (and thereby its exposure to risk); and
  - the property types.
- 2.3.2 We have satisfied ourselves as to the quality of location and the general condition and level of fixtures and fittings provided to the properties, and we have derived our valuation assumptions accordingly.

2.3.3 In accordance with our instructions, we have inspected all schemes externally and a representative sample of 10% of the stock was inspected internally. Our inspections were undertaken between 20 March 2017 and 24 March 2017.

2.3.4 A representative selection of photographs is provided as Appendix 3.

## 2.4 Market Research

2.4.1 In arriving at our valuation, we have undertaken a comprehensive programme of research to supplement our knowledge and understanding of the properties. This has included:

- researching local vacant possession values through conversations with local estate agents together with internet research and using RightmovePlus, a bespoke tool for comparable evidence;
- examining local benchmark affordable rents and comparing these with the Borrowers' rents; and
- analysing data provided by the Borrowers.

## 3 General Commentary

3.1.1 Schedules summarising the following data for each property within the Portfolio form Appendix 1 of this Report:

- address;
- unit type;
- equity retained; and
- gross weekly rent.

### 3.2 Locations

3.2.1 The Borrowers have provided us with a summary of the housing stock as at today's date, upon which we have based our valuations. The properties within the Portfolio are located across the West Midlands and South West of England, as summarised in the table below. A location plan is provided at Appendix 2.

Counties	Unit Count
Avon	60
Dorset	158
Somerset	36
West Midlands	4
Wiltshire	13
<b>Total</b>	<b>271</b>

### 3.3 Property Types

3.3.1 The Portfolio has been valued as rented properties as set out in this Report.

3.3.2 All of the properties provide self-contained accommodation (i.e. having independent kitchens, bathrooms, living-rooms and bedrooms), and are physically suitable for open market letting and sales, notwithstanding any use class restrictions.

3.3.3 The following table summarises the different property types within the Portfolio:

Property Type	Unit Count
1 bed flat	37
2 bed flat	30
1 bed house	17
2 bed house	95

Property Type	Unit Count
3 bed house	62
4 bed house	5
Room with shared facilities	25
<b>Total</b>	<b>271</b>

### 3.4 Condition

3.4.1 We have not carried out a condition survey, this being outside the scope of our instructions.

3.4.2 From the information collected during our inspections, the properties in the Portfolio are a mixture of ages as shown in the table below:

Age	Unit Count
Pre-1919	29
1950-1979	15
1980s	49
1990s	128
2000s	50
<b>Total</b>	<b>271</b>

3.4.3 Based on our inspections, we are satisfied that the properties we inspected internally, are being maintained to an acceptable social housing standard, in line with HCA regulatory requirements and commensurate with the likely demands of the target tenant group.

3.4.4 Overall we have assumed that each property has a useful economic life of at least 50 years provided that the properties continue to be properly maintained in the future.

### 3.5 Caveats and Disclaimers

3.5.1 In carrying out our valuations we have made assumptions relating to the following factors which are either beyond the remit of our instructions, or for which we have not received information:

- ground conditions;
- environmental considerations;
- planning;
- tenure;
- titles; and

- nomination agreements.

3.5.2 These factors are discussed in section 10.

## 4 General Needs and Sheltered Commentary

### 4.1 Introduction

4.1.1 There are 173 general needs and sheltered properties in the Portfolio that we have valued on the basis of EUV-SH and MV-T. We can confirm that these units are not subject to restrictions on the title which would prevent a successor in title from letting or selling the properties on the open market.

4.1.2 There are 51 general needs and sheltered properties in the Portfolio that are either subject to restrictions on the title that prohibit the use of the properties for any purpose other than affordable housing for any successors of the Borrowers or any successors of a mortgagee in possession, or where there are non-financial obligations outstanding. In light of this, we have restricted the value of these units to EUV-SH.

4.1.3 The 224 general needs and sheltered properties are summarised as follows:

Bedrooms	Houses/Bungalows	Flats	Total	%age
1	17	35	52	23.2%
2	93	15	108	48.2%
3	59	-	59	26.3%
4	5	-	5	2.2%
<b>Total</b>	<b>174</b>	<b>50</b>	<b>224</b>	<b>100.0%</b>
<b>%age</b>	<b>77.7%</b>	<b>22.3%</b>	<b>100.0%</b>	

### 4.2 Tenancies

4.2.1 The majority of the properties 220 are let on assured tenancies. We have assumed that these are 'standard' assured tenancies although we have not seen example tenancy agreements. The remaining 4 units are let on secure tenancies.

### 4.3 Rental Income

4.3.1 The total gross rent receivable from the general needs and sheltered properties in the Portfolio amounts to £1,241,365 per annum (based on a 52-week year). The average gross weekly rents are set out in the table overleaf.

4.3.2 We are unable to verify the accuracy of the rent roll provided to us by the Borrowers.

4.3.3 According to the Valuation Office, the Local Reference Rent (LRR) is the 30<sup>th</sup> centile point between what in the local Rent Officer's opinion are the highest and lowest non-exceptional rents in a given Broad Rental Market Area. This analysis looks at local properties and differentiates by bedroom number but not by property type (i.e. houses

and flats). These statistics are used as a reference for housing benefit and are a good indication of rent levels which are affordable in a given area.

4.3.4 The following table sets out a comparison of the Borrowers' average rents with the average LRRs in the Portfolio and also our opinion of Market Rents in the same areas (rents are shown on the basis of 52 weeks):

Bedrooms	The Borrowers' Properties	Average LRRs	Market Rent
1	£87.72	£95.17	£139.86
2	£107.00	£137.50	£186.38
3	£121.02	£168.82	£211.27
4	£122.99	£211.15	£213.00
<b>Average</b>	<b>£106.57</b>	<b>£137.57</b>	<b>£184.54</b>

4.3.5 The prevailing passing rents are approximately 57% lower than the LRRs for the properties.

4.3.6 In addition, we have looked at the passing rents as a proportion of local net weekly earnings as reported by the Office of National Statistics in its Annual Survey of Hours and Earnings. The table below sets out the average passing rent as a percentage of the average net weekly earnings for the West Midlands and South West of England. This, in our opinion, demonstrates that the rents being charged by the Borrowers are affordable.

Government Office Region	Average Weekly Passing Rent	Net Weekly Average Earnings	Average Net Rent as a % of Average Earnings
West Midlands	£93.59	£394.64	23.7%
South West	£106.81	£389.13	27.4%

#### 4.4 EUV-SH – Rental Growth

4.4.1 In accordance with section 1.7.7 we have assumed that a purchaser of the stock with the benefit of protection from the rent cuts set out in the Welfare Reform and Work Act would increase rents by CPI plus 1% into perpetuity and have modelled rental growth in our EUV-SH valuation models accordingly.

#### 4.5 MV-T – Rental Growth

4.5.1 Passing rents are currently below market levels, resulting in good prospects for future rental growth when considering the market value of the Portfolio.

4.5.2 We have assumed that it will take approximately 3 years for assured rents to increase to market levels and thereafter for rents to rise at 1% (real) per annum. The average increase we have modelled is 20.3% for houses and between 0.5% and 18.4% per year for flats.



## 4.6 Outgoings

4.6.1 In forming our opinion of the net rental income the Portfolio will generate we have considered the following outgoings:

- bad debts and voids;
- management costs; and
- repair and maintenance costs.

4.6.2 We emphasise that, under the definitions of the bases of valuation we have been instructed to adopt, we are not valuing the Borrowers' stewardship of the stock – rather we are assessing what a hypothetical purchaser in the market would pay for the stock, based on the market's judgement of the capabilities of the Portfolio.

4.6.3 The assumptions we have made in our appraisal reflect our opinion of the view the market would adopt on the future performance of the Portfolio. In forming our opinion, we have had regard to other recent valuations we have undertaken of comparable stock.

## 4.7 Bad Debts and Voids

4.7.1 We have incorporated into our valuation the potential for future voids and bad debts. The rate applied is similar to allowances used by other RPs providing a management and maintenance service in the areas where the properties are situated.

4.7.2 Any loss of income for void properties is reflected in a deduction made from the gross rental income. Similarly we have also made an allowance for bad debts.

4.7.3 In our EUV-SH valuation we have adopted an average rate for bad debts and voids of 2.5% of gross income for the Portfolio.

4.7.4 In our MV-T valuation, we have adopted an average rate of 8.0% of gross income for the first 3 years of our MV-T cashflow, 6.0% in years 4 and 5 and 5.0% in all years thereafter.

4.7.5 This is because we are assuming greater increases in rents than a social landlord would impose. In our opinion, these rent increases would inevitably be reflected in a higher level of voids and bad debts than would otherwise be the case. The associated risk has been factored into our MV-T discount rate.

## 4.8 Management Costs

4.8.1 We have adopted rates for management and administration, based on our experience of other RPs operating in similar areas to the Borrowers. Our rates are shown below and are subject to an annual inflator of 0.5% over inflation for the duration of the cashflow reflecting long-term earnings, growth predictions and potential management savings.

4.8.2 We have adopted an average rate of £600 per unit for management and administration in our valuation on the basis of EUV-SH.

4.8.3 We have assumed that a mortgagee in possession would expect to spend 10% of rental income on management and administration in our valuation on the basis of MV-T.

#### 4.9 Repairs and Maintenance

4.9.1 Although the majority of the properties are generally in a reasonable or good condition, renewal, day-to-day and cyclical maintenance will be required to keep the stock in its present condition.

4.9.2 The following table sets out the various assumptions we have made in our cashflows. Both of our appraisals assume that these costs will inflate at 1% (real) per annum.

Category of Expenditure	EUV-SH	MV-T
Major repairs and renewals – Year 1	£697	£2,250
Cyclical repairs – Year 1	£300	£300
Day-to-day repairs	£300	£300
<b>Total Average Costs</b>	<b>£1,297</b>	<b>£2,850</b>

4.9.3 We have adopted higher costs for major repairs in the first 2 years of our MV-T model as some of the properties will require refurbishment and redecoration in order to attract buyers or to be let on the open market. After this initial period, our costs settle to a lower level as shown below:

Years	Major Repairs Costs
Year 1	£2,250
Year 2	£2,250
Year 3	£701
Year 4	£701
Year 5	£701
Years 6-10	£726
Years 11-15	£751

#### 4.10 Relet and Sales Rates

4.10.1 Our EUV-SH model allows for a rate at which secure tenancies are relet as assured tenancies. We have adopted average rates of 3.0% (houses), 5.0% (flats) and 8.0% (sheltered) and have assumed that those properties will be relet at the prevailing average target rent. In addition, we have included an allowance for incidental voids as outlined in section 4.7.

4.10.2 Following announcements made in the Budget delivered on 8 July 2015 we anticipate that the tenants of some of the properties within the Portfolio may in future have either the Right to Buy (RTB) or the Right to Acquire (RTA). The National Housing Federation (NHF) put an offer to Government in September 2015 in which it proposed the implementation of an extended RTB on a voluntary basis (VRTB). This offer was described as a compromise with a view to securing the independence of housing associations and the best deal on compensation (for discounts) and flexibilities (the ability to refuse the RTB in relation to certain properties). In the Autumn Statement 2016 it was announced that the Government would fund a large-scale regional pilot of the RTB for housing association tenants. It is expected that over 3,000 tenants will be able to buy their own home with RTB discounts under this extended pilot scheme. The pilot scheme, which is expected to run for one year, is aimed at testing two aspects of the voluntary agreement that the original pilots did not cover, namely:

- one-for-one replacement; and
- portability of discounts.

4.10.3 However, the government is yet to announce the specific terms and locations of this pilot and, more broadly, the wider terms of the overall extension of RTB and therefore any consideration of the impact of RTB or RTA on valuations would be speculative. We consider it imprudent to reflect additional value from capital receipts and we have therefore assumed that neither RTB nor RTA will be available to exercise at the date of valuation.

4.10.4 In our MV-T cashflows we have assumed that some of the units which become void are sold on the open market and have included average sales rates of 3.5% per annum for houses and between 8.0% and 25.0% per annum for flats.

#### 4.11 Discount Rate

4.11.1 Our cashflow valuations are based on constant prices and therefore explicitly exclude inflation. The chosen discount rate reflects our judgement of the economic conditions at the time of the valuation and the level of risk involved in each cashflow, taking all factors and assumptions into account. To determine the risk involved we have looked at:

- the sustainability of the existing rental income;
- the likely rate of future rental growth;
- the condition of the Portfolio;
- the level of outgoings required to maintain the maximum income stream;
- the likely performance of the Portfolio in relation to its profile and location;
- the real cost of borrowing; and
- the long-term cost of borrowing.

4.11.2 For our EUV-SH valuation we have adopted average discount rates of between 6.00% and 6.25% on net rental income.

4.11.3 In our MV-T model we have adopted a higher rate on rental income to reflect additional risk resulting from the significant rental growth that we have assumed during the first 3 years. In addition, we have adopted a higher rate on income from sales to reflect the additional premium on the yield which an investor would expect from a sales income stream.

4.11.4 We have adopted average discount rates of 8.00% (rental income) and 10.00% (sales) for our MV-T cashflow.

#### 4.12 House Price Growth

4.12.1 We have assumed house prices will grow in real terms at 0% in the first 3 years of our cashflow models and in the long term at a rate of 1% per annum.

## 5 Shared Ownership Commentary

5.1.1 There are 22 shared ownership properties within the Portfolio. The Borrowers currently own 52.3% of the equity in the units and a rent is charged on this percentage.

### 5.2 Rental Levels

5.2.1 According to the information provided by the Borrowers, the average gross weekly rental level is £41.24 against the average retained equity. All rents are expressed on the basis of 52 rent weeks per year.

### 5.3 Rental Growth

5.3.1 The HCA's restriction on future rental growth through section 2.4.5 of the Capital Funding Guide allows a maximum of 0.5% real growth per annum only. The imposition of this formula effectively constrains the net present value of the cashflow to the basis of EUV-SH.

5.3.2 It should also be noted that although, in general, rents in the sector will be linked to CPI, the rents for shared ownership properties will grow as set out in the signed leases for each property. We have not had sight of these leases and assume that they have the standard rent review provisions (upwards only, indexed linked at RPI plus 0.5%) set out in the model shared ownership lease, published by the National Housing Federation.

5.3.3 We have grown rents at a rate of RPI plus 0.5% in line with this guidance and the terms of the existing leases.

### 5.4 Outgoings

5.4.1 In forming an opinion of the net rental income the Portfolio will generate, we have allowed 5.0% of gross rental income for management.

### 5.5 Voids and Bad Debts

5.5.1 We understand that all of the properties are now let and so we would not expect any voids going forward. We have allowed for the incidence of bad debts in the discount rate.

### 5.6 Repairs and Maintenance

5.6.1 We have assumed any repair obligations will lie with the leaseholders. We would expect that repair/renewal, day-to-day and cyclical maintenance would be required to keep the stock in its present condition. However, we have assumed that, where appropriate, service charge income fully covers expenditure.

### 5.7 Discount Rate

5.7.1 For our EUV-SH valuation we have adopted a discount rate of 5.50% on the rental income and 8.25% on sales.

## 5.8 Rate of Sales

5.8.1 We have adopted what we would expect to be a long-term sustainable rate of sales of further tranches over the 50 years of our cashflow model. We have assumed that equity is sold in 25% tranches.

5.8.2 The rates we have adopted in our cashflows are as follows:

Years	Tranche sales
Sales rate (yrs 0-1)	1 tranche sale p.a.
Sales rate (yrs 2-4)	2 tranche sales p.a.
Sales rate (yrs 5-14)	1 tranche sale p.a.
Sales rate (yrs 15-50)	0 tranche sales p.a.

5.8.3 It is difficult to judge when tenants will purchase additional tranches so the income from sales proceeds has been discounted at a higher rate, in line with section 5.7, to reflect the additional risk of realising the value. However, it should be noted that in our valuation, the majority of the value (circa 59.2%) is attributed to the rental income.

## 6 Supported Commentary

6.1.1 There are 25 supported properties in the Portfolio that are either subject to restrictions on the title that prohibit the use of the properties for any purpose other than affordable housing for any successors of the Borrowers or any successors of a mortgagee in possession, or where there are non-financial obligations outstanding. In light of this, we have restricted the value of these units to EUV-SH.

6.1.2 The supported properties are located within St George's House in central Bristol which provides supported housing for single young people, aged 16-21. It is a high support service, with 25 rooms and is staffed 24 hours.

6.1.3 The service provides emergency short-term housing, with support, for young people who are homeless or threatened with homelessness.

### 6.2 Tenancies

6.2.1 All of the properties are let on licenses. We have assumed that these are 'standard' licences although we have not seen example tenancy agreements.

### 6.3 Rental Income

6.3.1 The total gross rent receivable from the supported properties in the Portfolio amounts to £68,705 per annum (based on a 52-week year). The average gross weekly rents are set out in the table below.

6.3.2 We are unable to verify the accuracy of the rent roll provided to us by the Borrowers.

6.3.3 The following table sets out a comparison of the Borrowers' average rents with the average LRRs in the Portfolio in the same areas (rents are shown on the basis of 52 weeks):

Bedrooms	The Borrowers' Properties	Average LRRs
0	£52.85	£82.56

6.3.4 The prevailing passing rents are approximately 36.0% lower than the LRRs for the properties.

6.3.5 The table overleaf sets out the average passing rent as a percentage of the average net weekly earnings for the South West of England. This, in our opinion, demonstrates that the rents being charged by the Borrowers are affordable.

Government Office Region	Average Weekly Passing Rent	Net Weekly Average Earnings	Average Net Rent as a % of Average Earnings
South West	£52.85	£389.13	13.6%

## 6.4 EUV-SH – Rental Growth

6.4.1 In accordance with section 1.7.7 we have assumed that a purchaser of the stock with the benefit of protection from the rent cuts set out in the Welfare Reform and Work Act would increase rents by CPI plus 1% into perpetuity and have modelled rental growth in our EUV-SH valuation models accordingly.

## 6.5 Bad Debts and Voids

6.5.1 In our EUV-SH valuation we have adopted an average rate for bad debts and voids of 2.5% of gross income for the Portfolio.

## 6.6 Management Costs

6.6.1 We have adopted an average rate of £500 per unit for management and administration in our valuation on the basis of EUV-SH.

## 6.7 Repairs and Maintenance

6.7.1 The following table sets out the various assumptions we have made in our cashflows. Our appraisal assumes that these costs will inflate at 1% (real) per annum.

Category of Expenditure	EUV-SH
Major repairs and renewals – Year 1	£500
Cyclical repairs – Year 1	£300
Day-to-day repairs	£300
<b>Total Average Costs</b>	<b>£1,100</b>

## 6.8 Discount Rate

6.8.1 For our EUV-SH valuation we have adopted an average discount rate of 6.0% on net rental income.



# 7 Valuation

## 7.1 Background

7.1.1 We have prepared our valuations on the following bases:

- Existing Use Value for Social Housing (“EUV-SH”); and
- Market Value subject to existing Tenancies (“MV-T”).

7.1.2 Our valuations have been prepared in accordance with the RICS Red Book.

7.1.3 Apportionments of the valuations have been calculated and are included in the schedules at Appendix 1. These are not valuations of the individual properties, and should not be relied upon or treated as such.

7.1.4 The valuations below represent our opinion of the Portfolio as a whole. It is important to note that a prospective purchaser would seek a discount to reflect the quantity of the properties concerned. Conversely, there is also potential for additional value being added to the Portfolio if it were to be broken up and sold piecemeal. We stress that, in forming our opinion of the value of the Portfolio as a whole, we have neither applied a discount for quantum nor added a premium to reflect break-up potential.

7.1.5 The definitions of the bases of valuation are set out in full in section 8 of this Report.

## 7.2 Valuation

7.2.1 Our valuation of all 98 properties being valued on the basis of EUV-SH, in aggregate, as at the date of valuation, is:

**£5,480,000**  
**(five million, four hundred and eighty thousand pounds)**

7.2.2 Our valuation of all 173 properties being valued on the basis of MV-T, in aggregate, as at the date of valuation is:

**£18,340,000**  
**(eighteen million, three hundred and forty thousand pounds)**

## 7.3 Freehold Properties

7.3.1 Our valuation of the 73 freehold properties that have been valued on the basis of EUV-SH, in aggregate as at the date of valuation, is:

**£4,630,000**  
**(four million, six hundred and thirty thousand pounds)**

7.3.2 Our valuation of the 173 freehold properties that have been valued on the basis of MV-T, in aggregate as at the date of valuation, is:

**£18,340,000**  
(eighteen million, three hundred and forty thousand pounds)

## 7.4 Leasehold Properties

7.4.1 Our valuation of the 25 leasehold properties that have been valued on the basis of EUV-SH, in aggregate as at the date of valuation, is:

**£850,000**  
(eight hundred and fifty thousand pounds)

## 7.5 Summary Table

7.5.1 The following table summarises the valuations shown above by individual category:

Category	Unit Count	Basis of Valuation	EUV-SH	MV-T
General needs and sheltered restricted	51	EUV-SH	£3,530,000	-
General needs and sheltered unrestricted	173	MV-T	£12,590,000	£18,340,000
Shared ownership	22	EUV-SH	£1,100,000	-
Supported restricted	25	EUV-SH	£850,000	-
<b>Total</b>	<b>271</b>		<b>£18,070,000</b>	<b>£18,340,000</b>

## 7.6 Suitability as Security

7.6.1 The Borrowers' instructions require us to comment on whether the properties we have valued provide suitable security for the Bond Issue.

7.6.2 It is difficult for any valuer, without being asked to consider a specific credit or risk assessment policy, to make an absolute, unqualified statement that those assets will provide suitable security because our instructions do not explain what criteria is being applied in making this assessment.

7.6.3 However we confirm that, in our opinion, should the Security Trustee become a mortgagee in possession of the Portfolio, then it would be possible to achieve a sale to another RP that would be at a price at least equivalent to our valuation on the basis of EUV-SH or, in principle, to a private purchaser at a price equivalent to our valuation on the basis of MV-T as set out in our Report. However, the valuation assumes implicitly that a purchaser could obtain debt finance on commercially viable terms to facilitate a purchase of the Portfolio. Furthermore, we have identified the following attributes of the Portfolio which should assist the Security Trustee in its assessment:

- given the divergence between property prices and local average earnings, demand for these properties should be sustainable in the medium to long term;
- the level of rental income for all areas is broadly in line with other RPs in the respective areas;

- the level of rental income is, in aggregate, below the LRRs for each region;
- the EUV-SH and MV-T values per unit and percentage relationships to the Market Value subject to Vacant Possession, are at levels appropriate to the current climate, having regard to the Portfolio's location and composition; and
- we have made conservative assumptions with regard to the respective rent and sales contributions to the valuations of the shared ownership units and they are not overly dependent on proceeds from sales.

7.6.4 With the above factors in mind, and with specific regard to the continuing need for well-maintained social housing accommodation, we believe it reasonable to conclude an acceptable demand for a portfolio of this nature from commensurate social housing landlords and private institutional investment firms.

7.6.5 Subject to the information presented within this Report, and at the values formally reported, we are satisfied to recommend to the Security Trustee that this Portfolio is suitable for security purposes.

## 8 Bases of Valuation

8.1.1 Our valuations have been prepared in accordance with the RICS Red Book.

### 8.2 Existing Use Value for Social Housing

8.2.1 The basis of Existing Use Value for Social Housing is defined in UKVS 1.12 of the Red Book as follows:

*“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 willing seller;*
- *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 proper marketing of the interest for the agreement of the price and terms and for the completion of the sale;*
- *that the state of the market, level of values and other circumstances were on any earlier assumed date of exchange of contracts, the same as on the date of valuation;*
- *that no account is taken of any additional bid by a prospective purchaser with a special interest;*
- *that both parties to the transaction had acted knowledgeably, prudently and without compulsion;*
- *that the property will continue to be let by a body pursuant to delivery of a service for the existing use;*
- *that at the valuation date, any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor’s ability to dispose of the property to organisations intending to manage their housing stock in accordance with that regulatory body’s requirements;*
- *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*
- *that any subsequent sale would be subject to all the same assumptions above.”*

### 8.3 Market Value

8.3.1 The basis of Market Value is defined in VPS 4.1.2 of the Red Book as follows:

*“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.”*

8.3.2 Market Value subject to Tenancies is in accordance with the above definition, with the addition of the point below:

*“That the properties would be subject to any secure or assured tenancies that may prevail, together with any other conditions or restrictions to which property may be subject.”*

## 8.4 Expenses

8.4.1 No allowance is made in our valuations for any expenses of realisation.

## 8.5 Tax

8.5.1 No allowance is made in our valuations for any liability for payment of Corporation Tax, or for any liability for Capital Gains Tax, whether existing or which may arise in the future.

## 8.6 VAT

8.6.1 Our valuations are exclusive of VAT on disposal.

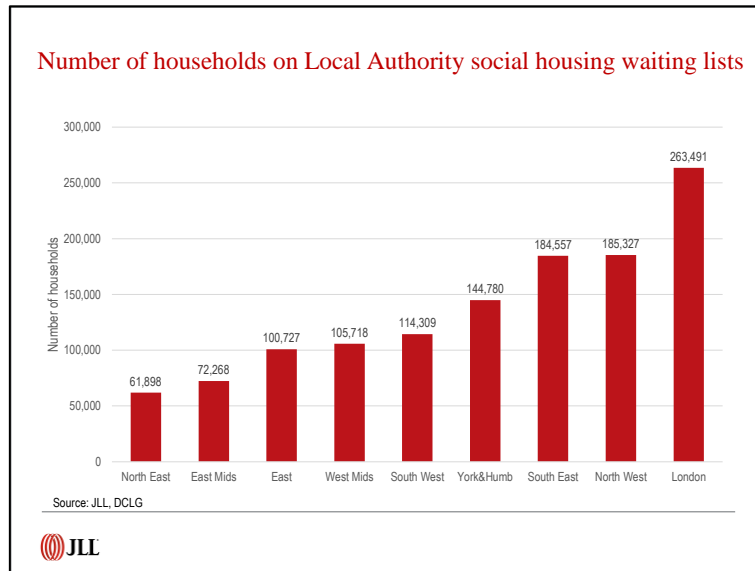
## 9 Market Commentary

### 9.1 The Effect of Brexit

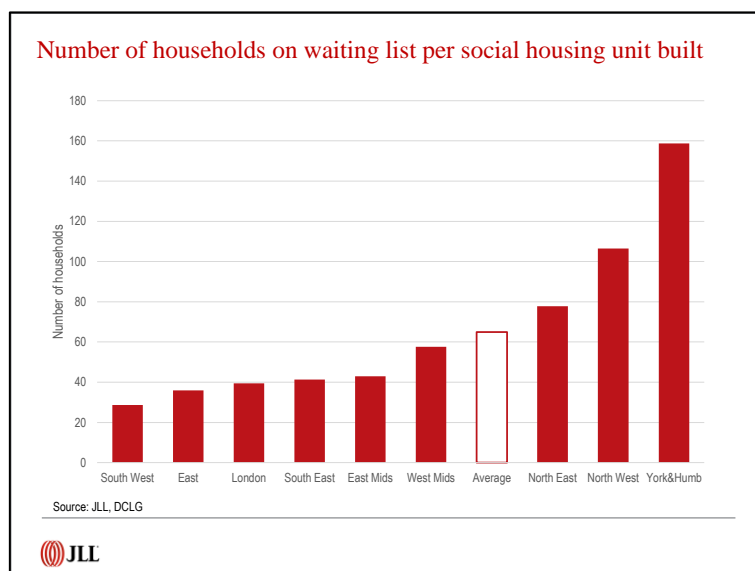
- 9.1.1 A Vote Leave result brings an unprecedented new dawn for Britain, with uncertainty over the likely impacts for the short term. This will bring both risks and opportunities.
- 9.1.2 On the downside, we expect an immediate slowdown in housing market transactions, while discretionary purchasers take stock and vendors delay on decisions to sell.
- 9.1.3 It is too early to assess the impact on house price growth as a result of Brexit. In terms of positives, there are still compelling reasons for companies to base their European operations in the UK. The significant advantages we enjoy, in terms of language, transparency, a robust legal framework, and access to talent will help protect the UK and London economy through this period of short-term uncertainty.
- 9.1.4 In addition, the mortgage market has benefitted from a record low Bank of England base rate for the past seven years and this is set to continue following the Monetary Policy Committee's decision to reduce the rate from 0.50% to 0.25%. This support will be welcome for many movers and will aid liquidity in the housing market during the next couple of years.
- 9.1.5 The London housing market has faced a series of policy and tax challenges over the last two years which has already resulted in falling volumes. The interconnected trading relationship between London and the rest of Europe means the implications of Brexit are more complex. However, paradoxically, investors may well identify opportunities in this market over the short-term, particularly international purchasers who can benefit from the currency arbitrage that has opened up by a weaker pound sterling, and this could give the market a welcome boost once there is more clarity around the economic outlook.
- 9.1.6 While the focus leading up to the Referendum was on the UK's international trading relationships, we are concerned that domestic politics will now be the primary risk to the housing market. Regardless of the Referendum outcome, addressing the imbalance in the supply of housing in the UK must be a critical priority and concerted attention from politicians to deliver credible, lasting solutions to the supply conundrum is desperately needed. Protracted infighting within the UK's political parties will only harm the UK economy and, with this, any chance of a timely recovery from the expected economic slowdown.
- 9.1.7 The Referendum has been an unwelcome diversion from vital domestic policy challenges. An expansion of housing supply, particularly for renters, first-time buyers and retirees, needs sustained policy support, alongside a clearer commitment to the delivery of affordable housing.
- 9.1.8 There is no shortage of critical housing market issues for the Government to turn its attention to; focus on solutions is needed now more than ever.

## 9.2 Housing Demand Levels

9.2.1 In order to ascertain the demand levels for social housing, we have looked at the Local Authority affordable housing waiting lists collated by the Department for Communities and Local Government (the DCLG). The latest figures state that there are over 1.23 million households in need of sub-market housing. The graph below offers a regional breakdown of this affordable housing demand, highlighting that all regions are in need of more affordable housing.

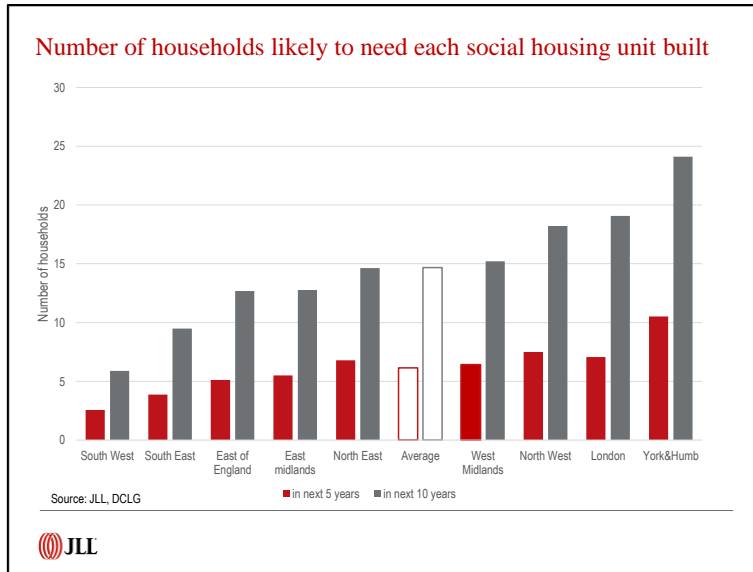


9.2.2 To put these waiting lists into context and better highlight the depth of demand for social housing units by region, the graph below compares these figures to the number of affordable housing completions. To offer a more accurate reflection of social housing construction rates, and to prevent large-scale regeneration projects skewing figures, a five-year average of the completion rate has been used. For every social housing unit built in Greater London and the South East, there are currently 40 households in need of housing assistance. This clearly highlights that there is a significant demand for social housing across Greater London and the South East. This is also a static representation of demand levels and not looking at any increase in number of households on the waiting list.



9.2.3 Even if you remove the waiting lists from the equation, there is still a vast need for more social housing development. Using statistics from Oxford Economics and the DCLG, we have been able to estimate the likely need for social housing over the medium term by calculating the proportion of current housing stock that is classified as affordable housing for each region and the likely number of households that will need social housing by looking at the growth in the quantum of households over the next five and ten years.

9.2.4 If construction rates remain constant over the medium term, and there is no significant shift within the economy from a macroeconomic perspective, there will continue to be substantial demand for social housing across Greater London, the South East and the rest of the UK.





### 9.3 UK Housing Market Overview

- 9.3.1 On the whole, the underlying fundamentals of the UK economy remain reasonably strong, particularly demonstrated by its enduring resilience during 2016. Several favourable economic indicators such as low inflation, very low interest rates, higher wages and record low unemployment levels continue to provide support to the UK economy despite rising inflation impacting disposable income and consumer spending. GDP forecasts indicate steady growth in the short-to-medium-term.
- 9.3.2 Inevitably though, the political and economic uncertainty surrounding Brexit will have some adverse impact on the economy, and potentially on the housing market. The short lead-in time to the general election is unlikely to have much economic impact.
- 9.3.3 In February 2017, the long-awaited housing white paper was released. The proposals aim to deliver a higher number of homes through a co-ordinated approach that tightens up the planning system. This will require local authorities and developers to do more.
- 9.3.4 The housing market is certainly slowing down of late. Housing transaction volumes are lower than a year ago while annual house price growth has slowed, albeit it is still quite strong at 4.1%. However, this is lower compared with three months earlier and when compared with the 8.0% a year earlier.
- 9.3.5 According to the RICS survey, results continue to point to a relatively subdued picture for activity across the UK. Housing demand has been falling in the three months to April 2017, although conditions vary across the UK. The flow of properties coming to market has remained in decline in the three months to April 2017. The twelve month outlook for sales continued its downward trajectory. Survey respondents were expecting only a modest improvement during 2017, having lowered their expectations significantly in the previous quarter.
- 9.3.6 Annual house price growth was positive across all regions except the North East for the year ending March 2017. House price growth was the highest in the East at 6.7%. House price growth across the Midlands and North West also performed strongly in the year to March 2017. House price growth in London at 1.5% was below the average across the UK at 4.1% and significantly below the highest performing region.
- 9.3.7 Quarterly and annual construction starts and completions in England increased during Q1 2017 when compared with the previous quarter. The number of annual starts now stands at 162,880 and the number of completions at 147,960. These are some of the highest levels recorded since 2008.

## 10 Sources and Verification of Information

### 10.1 General

- 10.1.1 We have relied upon the property descriptions provided to us by the Borrowers and have verified their accuracy where we have inspected properties internally.
- 10.1.2 We have also relied upon the tenancy types and current rental income for each unit as provided. We have not audited the rent roll, nor have we been able to verify the accuracy of the data. However, we consider that the general rent levels in the Portfolio to be reasonable in the context of affordable housing and we have relied on the information provided as being current and accurate.

### 10.2 Tenure

- 10.2.1 The Borrowers hold a freehold interest or long leasehold interest with not less than 80 years unexpired in respect of its properties, unless otherwise stated in this Report. We confirm that there will be no material difference in the MV-T and EUV-SH cashflow valuations between these two holding interests.

### 10.3 Title

- 10.3.1 We have not reviewed the certificate of title prepared by Devonshires LLP (the "Certificate") and can confirm that our valuations fully reflect the disclosures contained therein.
- 10.3.2 In respect of each property that we have valued on the basis of MV-T we confirm that we have reviewed the Certificate and confirm that each such property can be disposed of on an unfettered basis (subject only to existing tenancies disclosed in the Certificate but not subject to any security interest, option of other encumbrance or to any restriction preventing or restricting its sale to or use by any person for residential use).

### 10.4 Nomination Agreements

- 10.4.1 Our valuations are prepared on the basis that there are no nomination agreements. If any nomination rights are found to be in existence, they are assumed not to be binding on a mortgagee in possession unless otherwise stated in this Report

### 10.5 Measurements/Floor Areas

- 10.5.1 We have not measured the properties, this being outside the scope of a valuation of a portfolio of this nature, unless otherwise stated in this Report.

## 10.6 Structural Surveys

- 10.6.1 Unless expressly instructed, we do not carry out a structural survey, nor do we test the services and we, therefore, do not give any assurance that any property is free from defect. We seek to reflect in our valuations any readily apparent defects or items of disrepair, which we note during our inspection, or costs of repair which are brought to our attention. Otherwise, we assume that each building is structurally sound and that there are no structural, latent or other material defects.
- 10.6.2 In our opinion the economic life of each property should exceed 50 years providing the properties are properly maintained.

## 10.7 Deleterious Materials

- 10.7.1 We do not normally carry out or commission investigations on site to ascertain whether any building was constructed or altered using deleterious materials or techniques (including, by way of example high alumina cement concrete, woodwool as permanent shuttering, calcium chloride or asbestos). Unless we are otherwise informed, our valuations are on the basis that no such materials or techniques have been used.

## 10.8 Site Conditions

- 10.8.1 We do not normally carry out or commission investigations on site in order to determine the suitability of ground conditions and services for the purposes for which they are, or are intended to be, put; nor do we undertake archaeological, ecological or environmental surveys. Unless we are otherwise informed, our valuations are on the basis that these aspects are satisfactory and that, where development is contemplated, no extraordinary expenses, delays or restrictions will be incurred during the construction period due to these matters.

## 10.9 Environmental Contamination

- 10.9.1 Unless expressly instructed, we do not carry out or commission site surveys or environmental assessments, or investigate historical records, to establish whether any land or premises are, or have been, contaminated. Therefore, unless advised to the contrary, our valuations are carried out on the basis that properties are not affected by environmental contamination. However, should our site inspection and further reasonable enquiries during the preparation of the valuation lead us to believe that the land is likely to be contaminated we will discuss our concerns with you.

## 10.10 Market Rental Values

- 10.10.1 Our assessment of rental values is formed purely for the purposes of assisting in the formation of an opinion of MV-T and is generally on the basis of Market Rent, as defined in the "the Red Book". Such figures should not be used for any other purpose other than in the context of this valuation.

## 10.11 Insurance

10.11.1 Unless expressly advised to the contrary we assume that appropriate cover is and will continue to be available on commercially acceptable terms.

## 10.12 Planning

10.12.1 We have prepared our valuations on the basis that each property exists in accordance with a valid planning permission.

## 10.13 Outstanding Debts

10.13.1 In the case of property where construction works are in hand, or have recently been completed, we do not normally make allowance for any liability already incurred, but not yet discharged, in respect of completed works, or obligations in favour of contractors, subcontractors or any members of the professional or design team.

## 10.14 Services

10.14.1 We do not normally carry out or commission investigations into the capacity or condition of services. Therefore we assume that the services, and any associated controls or software, are in working order and free from defect. We also assume that the services are of sufficient capacity to meet current and future needs.

## 10.15 Plans and Maps

10.15.1 All plans and maps included in our Report are strictly for identification purposes only, and, whilst believed to be correct, are not guaranteed and must not form part of any contract. All are published under licence and may include mapping data from Ordnance Survey © Crown Copyright. All rights are reserved.

## 10.16 Compliance with Building Regulations and Statutory Requirements

10.16.1 We have assumed that the properties conform to the Fire Precaution Regulations and any other statutory requirements.

# Appendix 1

## List of Addresses

**Borrower:** Stonewater Limited  
**Valuer:** JLL  
**Date of Valuation:** 31-Oct-17  
**Valuation:** Retained Bonds

Property Reference	Company	Address	Postcode	Property Type	Beds	Category	Tenure	EUW-SH	MV-T
36492	Stonewater 2	128 Vicarage Rd, Smethwick	B67 7AP	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£53,324	£46,005
36489	Stonewater 2	Flat 1, 10 Littlemoor Hill, Smethwick	B67 7BE	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£54,348	£46,888
36490	Stonewater 2	Flat 2, 10 Littlemoor Hill, Smethwick	B67 7BE	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£57,630	£49,720
36491	Stonewater 2	Flat 3, 10 Littlemoor Hill, Smethwick	B67 7BE	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£54,930	£47,391
37340	Stonewater 2	18 Shepherds Drive, West Ashton, Trowbridge, BA14 6DG	BA14 6DG	House	2	General Needs and Sheltered Restricted	Freehold	£68,383	
37341	Stonewater 2	19 Shepherds Drive, West Ashton, Trowbridge, BA14 6DG	BA14 6DG	House	2	General Needs and Sheltered Restricted	Freehold	£68,383	
37342	Stonewater 2	20 Shepherds Drive, West Ashton, Trowbridge, BA14 6DG	BA14 6DG	House	2	General Needs and Sheltered Restricted	Freehold	£68,383	
37343	Stonewater 2	21 Shepherds Drive, West Ashton, Trowbridge, BA14 6DG	BA14 6DG	House	2	General Needs and Sheltered Restricted	Freehold	£68,383	
37344	Stonewater 2	22 Shepherds Drive, West Ashton, Trowbridge, BA14 6DG	BA14 6DG	Flat	1	General Needs and Sheltered Restricted	Freehold	£48,621	
37346	Stonewater 2	24 Shepherds Drive, West Ashton, Trowbridge, BA14 6DG	BA14 6DG	House	2	General Needs and Sheltered Restricted	Freehold	£68,383	
37347	Stonewater 2	25 Shepherds Drive, West Ashton, Trowbridge, BA14 6DG	BA14 6DG	House	2	General Needs and Sheltered Restricted	Freehold	£68,383	
31629	Stonewater 2	87 Poulton, Bradford-On-Avon, Wiltshire, BA15 1EH	BA15 1EH	House	3	General Needs and Sheltered Restricted	Freehold	£80,514	
31628	Stonewater 2	88 Poulton, Bradford-On-Avon, Wiltshire, BA15 1EH	BA15 1EH	House	2	General Needs and Sheltered Restricted	Freehold	£76,118	
31627	Stonewater 2	89 Poulton, Bradford-On-Avon, Wiltshire, BA15 1EH	BA15 1EH	House	2	General Needs and Sheltered Restricted	Freehold	£76,118	
31626	Stonewater 2	90 Poulton, Bradford-On-Avon, Wiltshire, BA15 1EH	BA15 1EH	House	2	General Needs and Sheltered Restricted	Freehold	£76,118	
31625	Stonewater 2	91 Poulton, Bradford-On-Avon, Wiltshire, BA15 1EH	BA15 1EH	House	3	General Needs and Sheltered Restricted	Freehold	£80,514	
31624	Stonewater 2	92 Poulton, Bradford-On-Avon, Wiltshire, BA15 1EH	BA15 1EH	House	3	General Needs and Sheltered Restricted	Freehold	£80,514	
30941	Stonewater 2	2 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	House	2	General Needs and Sheltered Unrestricted	Freehold	£61,002	£90,426
30942	Stonewater 2	4 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	House	2	General Needs and Sheltered Unrestricted	Freehold	£61,002	£90,426
30943	Stonewater 2	6 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	House	2	General Needs and Sheltered Unrestricted	Freehold	£61,002	£90,426
30944	Stonewater 2	8 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	House	2	General Needs and Sheltered Unrestricted	Freehold	£61,002	£90,426
30945	Stonewater 2	10 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	House	2	General Needs and Sheltered Unrestricted	Freehold	£60,601	£89,833
30946	Stonewater 2	12 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	House	2	General Needs and Sheltered Unrestricted	Freehold	£59,815	£88,666
30947	Stonewater 2	14 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£44,054	£60,433
30948	Stonewater 2	16 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£44,054	£60,433
30861	Stonewater 2	18 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	House	2	General Needs and Sheltered Unrestricted	Freehold	£61,002	£90,426
30862	Stonewater 2	20 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	House	2	General Needs and Sheltered Unrestricted	Freehold	£61,002	£90,426
30863	Stonewater 2	22 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	House	3	General Needs and Sheltered Unrestricted	Freehold	£68,077	£100,914
30864	Stonewater 2	24 Brook Close, Abbey Manor Park, Yeovil, Somerset, BA21 3JP	BA21 3JP	House	3	General Needs and Sheltered Unrestricted	Freehold	£68,077	£100,914
37500	Stonewater 2	15 St Thomas Cross, Yeovil	BA21 4JT	House	3	General Needs and Sheltered Unrestricted	Freehold	£69,271	£97,364
37501	Stonewater 2	16 St Thomas Cross, Yeovil	BA21 4JT	House	3	General Needs and Sheltered Unrestricted	Freehold	£69,271	£97,364
37502	Stonewater 2	17 St Thomas Cross, Yeovil	BA21 4JT	House	3	General Needs and Sheltered Unrestricted	Freehold	£69,271	£97,364
37503	Stonewater 2	18 St Thomas Cross, Yeovil	BA21 4JT	House	3	General Needs and Sheltered Unrestricted	Freehold	£69,271	£97,364
10630	Stonewater 1	12 Royal Close Yeovil Somerset	BA21 4NX	House	4	General Needs and Sheltered Unrestricted	Freehold	£88,107	£120,865
10631	Stonewater 1	10 Royal Close Yeovil Somerset	BA21 4NX	House	3	General Needs and Sheltered Unrestricted	Freehold	£78,317	£107,436
10632	Stonewater 1	9 Royal Close Yeovil Somerset	BA21 4NX	House	3	General Needs and Sheltered Unrestricted	Freehold	£78,317	£107,436
10633	Stonewater 1	8 Royal Close Yeovil Somerset	BA21 4NX	House	3	General Needs and Sheltered Unrestricted	Freehold	£78,317	£107,436
10634	Stonewater 1	5 Royal Close Yeovil Somerset	BA21 4NX	House	2	General Needs and Sheltered Unrestricted	Freehold	£63,633	£87,292
10635	Stonewater 1	6 Royal Close Yeovil Somerset	BA21 4NX	House	2	General Needs and Sheltered Unrestricted	Freehold	£63,633	£87,292
10636	Stonewater 1	7 Royal Close Yeovil Somerset	BA21 4NX	House	2	General Needs and Sheltered Unrestricted	Freehold	£63,633	£87,292
10637	Stonewater 1	11 Royal Close Yeovil Somerset	BA21 4NX	House	2	General Needs and Sheltered Unrestricted	Freehold	£63,633	£87,292
10638	Stonewater 1	18 Royal Close Yeovil Somerset	BA21 4NX	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£36,711	£50,361
10639	Stonewater 1	19 Royal Close Yeovil Somerset	BA21 4NX	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£36,711	£50,361
10640	Stonewater 1	20 Royal Close Yeovil Somerset	BA21 4NX	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£36,711	£50,361
10641	Stonewater 1	21 Royal Close Yeovil Somerset	BA21 4NX	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£36,711	£50,361
10642	Stonewater 1	1 Royal Close Yeovil Somerset	BA21 4NX	House	3	General Needs and Sheltered Unrestricted	Freehold	£78,317	£107,436

**Borrower:** Stonewater Limited  
**Valuer:** JLL  
**Date of Valuation:** 31-Oct-17  
**Valuation:** Retained Bonds

Property Reference	Company	Address	Postcode	Property Type	Beds	Category	Tenure	EUW-SH	MV-T
10643	Stonewater 1	2 Royal Close Yeovil Somerset	BA21 4NX	House	3	General Needs and Sheltered Unrestricted	Freehold	£78,317	£107,436
10644	Stonewater 1	3 Royal Close Yeovil Somerset	BA21 4NX	House	3	General Needs and Sheltered Unrestricted	Freehold	£78,317	£107,436
10645	Stonewater 1	17 Royal Close Yeovil Somerset	BA21 4NX	House	3	General Needs and Sheltered Unrestricted	Freehold	£78,317	£107,436
10646	Stonewater 1	4 Royal Close Yeovil Somerset	BA21 4NX	House	2	General Needs and Sheltered Unrestricted	Freehold	£63,633	£87,292
10647	Stonewater 1	14 Royal Close Yeovil Somerset	BA21 4NX	House	2	General Needs and Sheltered Unrestricted	Freehold	£63,633	£87,292
10648	Stonewater 1	15 Royal Close Yeovil Somerset	BA21 4NX	House	2	General Needs and Sheltered Unrestricted	Freehold	£63,633	£87,292
10649	Stonewater 1	16 Royal Close Yeovil Somerset	BA21 4NX	House	2	General Needs and Sheltered Unrestricted	Freehold	£63,633	£87,292
3444	Stonewater 1	40 Alton Road	BH10 4AE	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3446	Stonewater 1	40A Alton Road	BH10 4AE	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3448	Stonewater 1	2 Priestley Road	BH10 4AS	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3449	Stonewater 1	4 Priestley Road	BH10 4AS	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3430	Stonewater 1	32 Copper Beech Gardens	BH10 5DB	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,445	£131,107
3432	Stonewater 1	34 Copper Beech Gardens	BH10 5DB	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,445	£131,107
3434	Stonewater 1	36 Copper Beech Gardens	BH10 5DB	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,445	£131,107
3436	Stonewater 1	38 Copper Beech Gardens	BH10 5DB	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,445	£131,107
3438	Stonewater 1	40 Copper Beech Gardens	BH10 5DB	House	2	General Needs and Sheltered Unrestricted	Freehold	£71,196	£106,082
3440	Stonewater 1	57 Copper Beech Gardens	BH10 5DB	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,445	£131,107
3442	Stonewater 1	59 Copper Beech Gardens	BH10 5DB	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,445	£131,107
3485	Stonewater 1	28 Keeble Road	BH10 7HJ	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3489	Stonewater 1	30 Keeble Road	BH10 7HJ	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3494	Stonewater 1	32 Keeble Road	BH10 7HJ	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3498	Stonewater 1	34 Keeble Road	BH10 7HJ	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3500	Stonewater 1	36 Keeble Road	BH10 7HJ	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3502	Stonewater 1	38 Keeble Road	BH10 7HJ	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3504	Stonewater 1	40 Keeble Road	BH10 7HJ	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3506	Stonewater 1	42 Keeble Road	BH10 7HJ	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3508	Stonewater 1	44 Keeble Road	BH10 7HJ	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3510	Stonewater 1	46 Keeble Road	BH10 7HJ	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3512	Stonewater 1	48 Keeble Road	BH10 7HJ	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3513	Stonewater 1	50 Keeble Road	BH10 7HJ	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3515	Stonewater 1	52 Keeble Road	BH10 7HJ	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3517	Stonewater 1	54 Keeble Road	BH10 7HJ	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3519	Stonewater 1	56 Keeble Road	BH10 7HJ	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3521	Stonewater 1	58 Keeble Road	BH10 7HJ	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236
3524	Stonewater 1	60 Keeble Road	BH10 7HJ	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236
3526	Stonewater 1	62 Keeble Road	BH10 7HJ	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236
3528	Stonewater 1	64 Keeble Road	BH10 7HJ	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236
3457	Stonewater 1	1 Keeble Road	BH10 7HX	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3460	Stonewater 1	3 Keeble Road	BH10 7HX	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3462	Stonewater 1	5 Keeble Road	BH10 7HX	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3464	Stonewater 1	7 Keeble Road	BH10 7HX	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3466	Stonewater 1	9 Keeble Road	BH10 7HX	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3468	Stonewater 1	11 Keeble Road	BH10 7HX	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3470	Stonewater 1	13 Keeble Road	BH10 7HX	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236
3472	Stonewater 1	15 Keeble Road	BH10 7HX	House	1	General Needs and Sheltered Unrestricted	Freehold	£62,479	£92,616
3474	Stonewater 1	17 Keeble Road	BH10 7HX	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236

**Borrower:** Stonewater Limited  
**Valuer:** JLL  
**Date of Valuation:** 31-Oct-17  
**Valuation:** Retained Bonds

Property Reference	Company	Address	Postcode	Property Type	Beds	Category	Tenure	EUW-SH	MV-T
3476	Stonewater 1	19 Keeble Road	BH10 7HX	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236
3478	Stonewater 1	21 Keeble Road	BH10 7HX	House	2	General Needs and Sheltered Unrestricted	Freehold	£65,134	£106,082
3480	Stonewater 1	23 Keeble Road	BH10 7HX	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3481	Stonewater 1	25 Keeble Road	BH10 7HX	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3483	Stonewater 1	27 Keeble Road	BH10 7HX	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3487	Stonewater 1	29 Keeble Road	BH10 7HX	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3492	Stonewater 1	31 Keeble Road	BH10 7HX	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3496	Stonewater 1	33 Keeble Road	BH10 7HX	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3530	Stonewater 1	2 Keeble Crescent	BH10 7HY	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236
3532	Stonewater 1	4 Keeble Crescent	BH10 7HY	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236
3534	Stonewater 1	6 Keeble Crescent	BH10 7HY	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236
3536	Stonewater 1	8 Keeble Crescent	BH10 7HY	House	1	General Needs and Sheltered Unrestricted	Freehold	£66,945	£99,236
3538	Stonewater 1	10 Keeble Crescent	BH10 7HY	House	2	General Needs and Sheltered Unrestricted	Freehold	£75,517	£111,943
3540	Stonewater 1	12 Keeble Crescent	BH10 7HY	House	2	General Needs and Sheltered Unrestricted	Freehold	£75,517	£111,943
3542	Stonewater 1	14 Keeble Crescent	BH10 7HY	House	2	General Needs and Sheltered Unrestricted	Freehold	£75,517	£111,943
3544	Stonewater 1	16 Keeble Crescent	BH10 7HY	House	2	General Needs and Sheltered Unrestricted	Freehold	£75,517	£111,943
3545	Stonewater 1	18 Keeble Crescent	BH10 7HY	House	2	General Needs and Sheltered Unrestricted	Freehold	£75,517	£111,943
3547	Stonewater 1	20 Keeble Crescent	BH10 7HY	House	2	General Needs and Sheltered Unrestricted	Freehold	£73,419	£108,833
3549	Stonewater 1	22 Keeble Crescent	BH10 7HY	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3551	Stonewater 1	24 Keeble Crescent	BH10 7HY	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3553	Stonewater 1	26 Keeble Crescent	BH10 7HY	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3556	Stonewater 1	28 Keeble Crescent	BH10 7HY	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3558	Stonewater 1	30 Keeble Crescent	BH10 7HY	House	3	General Needs and Sheltered Unrestricted	Freehold	£86,064	£127,577
3274	Stonewater 1	2 Raglan Gardens	BH11 8QU	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3276	Stonewater 1	3 Raglan Gardens	BH11 8QU	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3278	Stonewater 1	4 Raglan Gardens	BH11 8QU	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3280	Stonewater 1	5 Raglan Gardens	BH11 8QU	House	2	General Needs and Sheltered Unrestricted	Freehold	£81,177	£120,333
3282	Stonewater 1	6 Raglan Gardens	BH11 8QU	House	2	General Needs and Sheltered Unrestricted	Freehold	£81,177	£120,333
3284	Stonewater 1	7 Raglan Gardens	BH11 8QU	House	2	General Needs and Sheltered Unrestricted	Freehold	£81,177	£120,333
3286	Stonewater 1	8 Raglan Gardens	BH11 8QU	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3288	Stonewater 1	9 Raglan Gardens	BH11 8QU	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3290	Stonewater 1	10 Raglan Gardens	BH11 8QU	House	3	General Needs and Sheltered Unrestricted	Freehold	£88,438	£131,097
3292	Stonewater 1	11 Raglan Gardens	BH11 8QU	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3294	Stonewater 1	12 Raglan Gardens	BH11 8QU	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3268	Stonewater 1	47 Fernheath Road	BH11 8SG	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3270	Stonewater 1	49 Fernheath Road	BH11 8SG	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3272	Stonewater 1	51 Fernheath Road	BH11 8SG	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3114	Stonewater 1	1 Paddock Close	BH12 3JR	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3116	Stonewater 1	2 Paddock Close	BH12 3JR	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3118	Stonewater 1	3 Paddock Close	BH12 3JR	House	2	General Needs and Sheltered Unrestricted	Freehold	£70,423	£104,392
3120	Stonewater 1	4 Paddock Close	BH12 3JR	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3122	Stonewater 1	5 Paddock Close	BH12 3JR	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3124	Stonewater 1	6 Paddock Close	BH12 3JR	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£55,922	£82,896
3126	Stonewater 1	7 Paddock Close	BH12 3JR	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£55,922	£82,896
3128	Stonewater 1	8 Paddock Close	BH12 3JR	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£55,922	£82,896
3130	Stonewater 1	9 Paddock Close	BH12 3JR	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£55,922	£82,896



**Borrower:** Stonewater Limited  
**Valuer:** JLL  
**Date of Valuation:** 31-Oct-17  
**Valuation:** Retained Bonds

Property Reference	Company	Address	Postcode	Property Type	Beds	Category	Tenure	EUW-SH	MV-T
3132	Stonewater 1	10 Paddock Close	BH12 3JR	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£55,922	£82,896
3134	Stonewater 1	11 Paddock Close	BH12 3JR	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£55,922	£82,896
3136	Stonewater 1	12 Paddock Close	BH12 3JR	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3138	Stonewater 1	13 Paddock Close	BH12 3JR	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
3140	Stonewater 1	14 Paddock Close	BH12 3JR	House	2	General Needs and Sheltered Unrestricted	Freehold	£77,491	£114,869
13624	Stonewater 1	36 Cecil Place	BH16 6FG	House	2	General Needs and Sheltered Restricted	Freehold	£75,502	
13640	Stonewater 1	34 Cecil Place	BH16 6FG	House	2	General Needs and Sheltered Restricted	Freehold	£75,502	
13641	Stonewater 1	32 Cecil Place	BH16 6FG	House	3	General Needs and Sheltered Restricted	Freehold	£86,108	
13642	Stonewater 1	33 Cecil Place	BH16 6FG	House	2	General Needs and Sheltered Restricted	Freehold	£75,502	
13643	Stonewater 1	35 Cecil Place	BH16 6FG	Flat	2	General Needs and Sheltered Restricted	Freehold	£68,256	
13659	Stonewater 1	27 Cecil Place	BH16 6FG	Flat	2	General Needs and Sheltered Restricted	Freehold	£68,256	
13660	Stonewater 1	28 Cecil Place	BH16 6FG	Flat	2	General Needs and Sheltered Restricted	Freehold	£68,256	
13661	Stonewater 1	31 Cecil Place	BH16 6FG	House	3	General Needs and Sheltered Restricted	Freehold	£90,290	
3051	Stonewater 1	1 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3053	Stonewater 1	2 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3055	Stonewater 1	3 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3057	Stonewater 1	4 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3059	Stonewater 1	5 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3061	Stonewater 1	6 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3063	Stonewater 1	7 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3065	Stonewater 1	8 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3066	Stonewater 1	9 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3068	Stonewater 1	10 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3070	Stonewater 1	11 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3072	Stonewater 1	12 Cranborne Court	BH17 8SZ	Flat	1	General Needs and Sheltered Restricted	Freehold	£54,218	
3236	Stonewater 1	1 Bay View	BH19 2BD	House	2	General Needs and Sheltered Restricted	Freehold	£75,121	
3238	Stonewater 1	2 Bay View	BH19 2BD	House	2	General Needs and Sheltered Restricted	Freehold	£75,121	
3240	Stonewater 1	3 Bay View	BH19 2BD	House	2	General Needs and Sheltered Restricted	Freehold	£75,121	
3242	Stonewater 1	4 Bay View	BH19 2BD	House	2	General Needs and Sheltered Restricted	Freehold	£75,121	
3244	Stonewater 1	5 Bay View	BH19 2BD	House	2	General Needs and Sheltered Restricted	Freehold	£75,121	
3246	Stonewater 1	6 Bay View	BH19 2BD	House	2	General Needs and Sheltered Restricted	Freehold	£75,121	
3248	Stonewater 1	7 Bay View	BH19 2BD	House	2	General Needs and Sheltered Restricted	Freehold	£75,121	
3250	Stonewater 1	8 Bay View	BH19 2BD	House	2	General Needs and Sheltered Restricted	Freehold	£75,121	
3252	Stonewater 1	1 Raglan Terrace	BH19 2JU	House	2	General Needs and Sheltered Restricted	Freehold	£70,538	
3254	Stonewater 1	2 Raglan Terrace	BH19 2JU	House	2	General Needs and Sheltered Restricted	Freehold	£70,538	
3256	Stonewater 1	3 Raglan Terrace	BH19 2JU	House	3	General Needs and Sheltered Restricted	Freehold	£78,855	
3258	Stonewater 1	4 Raglan Terrace	BH19 2JU	House	3	General Needs and Sheltered Restricted	Freehold	£78,855	
2867	Stonewater 1	1 Long Ground Cottages	BH20 5NH	House	2	General Needs and Sheltered Unrestricted	Freehold	£78,057	£122,583
2869	Stonewater 1	2 Long Ground Cottages	BH20 5NH	House	2	General Needs and Sheltered Unrestricted	Freehold	£78,057	£122,583
2871	Stonewater 1	3 Long Ground Cottages	BH20 5NH	House	1	General Needs and Sheltered Unrestricted	Freehold	£65,799	£101,367
2873	Stonewater 1	4 Long Ground Cottages	BH20 5NH	House	1	General Needs and Sheltered Unrestricted	Freehold	£69,933	£103,666
2875	Stonewater 1	5 Long Ground Cottages	BH20 5NH	House	1	General Needs and Sheltered Unrestricted	Freehold	£65,799	£101,367
2885	Stonewater 1	1 Hardy Cottages	BH20 5SA	House	3	General Needs and Sheltered Restricted	Freehold	£83,933	
2887	Stonewater 1	2 Hardy Cottages	BH20 5SA	House	2	General Needs and Sheltered Restricted	Freehold	£76,292	
2889	Stonewater 1	3 Hardy Cottages	BH20 5SA	House	1	General Needs and Sheltered Restricted	Freehold	£66,423	
2891	Stonewater 1	4 Hardy Cottages	BH20 5SA	House	1	General Needs and Sheltered Restricted	Freehold	£63,472	

**Borrower:** Stonewater Limited  
**Valuer:** JLL  
**Date of Valuation:** 31-Oct-17  
**Valuation:** Retained Bonds

Property Reference	Company	Address	Postcode	Property Type	Beds	Category	Tenure	EUW-SH	MV-T
2893	Stonewater 1	5 Hardy Cottages	BH20 5SA	House	2	General Needs and Sheltered Restricted	Freehold	£76,292	
2895	Stonewater 1	6 Hardy Cottages	BH20 5SA	House	2	General Needs and Sheltered Restricted	Freehold	£76,292	
13781	Stonewater 1	7 The Poppies Wool Wareham Dorset	BH20 6HT	House	3	General Needs and Sheltered Unrestricted	Freehold	£82,523	£122,328
13782	Stonewater 1	9 The Poppies Wool Wareham Dorset	BH20 6HT	House	2	General Needs and Sheltered Unrestricted	Freehold	£78,699	£116,660
13783	Stonewater 1	11 The Poppies Wool Wareham Dorset	BH20 6HT	House	2	General Needs and Sheltered Unrestricted	Freehold	£78,699	£116,660
13804	Stonewater 1	6 The Poppies Wool Wareham Dorset	BH20 6HT	House	3	General Needs and Sheltered Unrestricted	Freehold	£82,523	£122,328
13805	Stonewater 1	8 The Poppies Wool Wareham Dorset	BH20 6HT	House	3	General Needs and Sheltered Unrestricted	Freehold	£82,523	£122,328
13806	Stonewater 1	10 The Poppies Wool Wareham Dorset	BH20 6HT	House	3	General Needs and Sheltered Unrestricted	Freehold	£82,523	£122,328
13807	Stonewater 1	12 The Poppies Wool Wareham Dorset	BH20 6HT	House	3	General Needs and Sheltered Unrestricted	Freehold	£82,523	£122,328
13808	Stonewater 1	14 The Poppies Wool Wareham Dorset	BH20 6HT	House	2	General Needs and Sheltered Unrestricted	Freehold	£74,344	£110,204
13809	Stonewater 1	16 The Poppies Wool Wareham Dorset	BH20 6HT	House	2	General Needs and Sheltered Unrestricted	Freehold	£78,699	£116,660
13810	Stonewater 1	18 The Poppies Wool Wareham Dorset	BH20 6HT	House	3	General Needs and Sheltered Unrestricted	Freehold	£82,537	£122,349
13812	Stonewater 1	13 The Poppies Wool Wareham Dorset	BH20 6HT	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£78,699	£110,793
13814	Stonewater 1	Flat 1 15 The Poppies Wool Wareham Dorset	BH20 6HT	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£58,738	£80,577
13815	Stonewater 1	Flat 2 15 The Poppies Wool Wareham Dorset	BH20 6HT	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£58,738	£80,577
13816	Stonewater 1	Flat 3 15 The Poppies Wool Wareham Dorset	BH20 6HT	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£67,262	£99,706
13817	Stonewater 1	Flat 4 15 The Poppies Wool Wareham Dorset	BH20 6HT	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£58,738	£80,577
13818	Stonewater 1	Flat 5 15 The Poppies Wool Wareham Dorset	BH20 6HT	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£58,738	£80,577
13819	Stonewater 1	Flat 6 15 The Poppies Wool Wareham Dorset	BH20 6HT	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£67,269	£99,717
13820	Stonewater 1	Flat 7 15 The Poppies Wool Wareham Dorset	BH20 6HT	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£58,738	£80,577
13821	Stonewater 1	Flat 8 15 The Poppies Wool Wareham Dorset	BH20 6HT	Flat	1	General Needs and Sheltered Unrestricted	Freehold	£58,738	£80,577
13823	Stonewater 1	17 The Poppies Wool Wareham Dorset	BH20 6HT	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£67,269	£99,717
31193	Stonewater 2	1a St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31194	Stonewater 2	1b St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31195	Stonewater 2	1c St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31196	Stonewater 2	1d St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31207	Stonewater 2	2a St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31208	Stonewater 2	2b St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
36419	Stonewater 2	2c St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
36420	Stonewater 2	2d St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31197	Stonewater 2	3a St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31198	Stonewater 2	3b St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31199	Stonewater 2	3c St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31200	Stonewater 2	3d St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31201	Stonewater 2	3e St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31202	Stonewater 2	4a St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31203	Stonewater 2	4b St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31204	Stonewater 2	4c St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31205	Stonewater 2	4d St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
31206	Stonewater 2	4e St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
36421	Stonewater 2	5a St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
36422	Stonewater 2	5b St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
36423	Stonewater 2	6a St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
36424	Stonewater 2	6b St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
36425	Stonewater 2	6c St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
36426	Stonewater 2	6d St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	

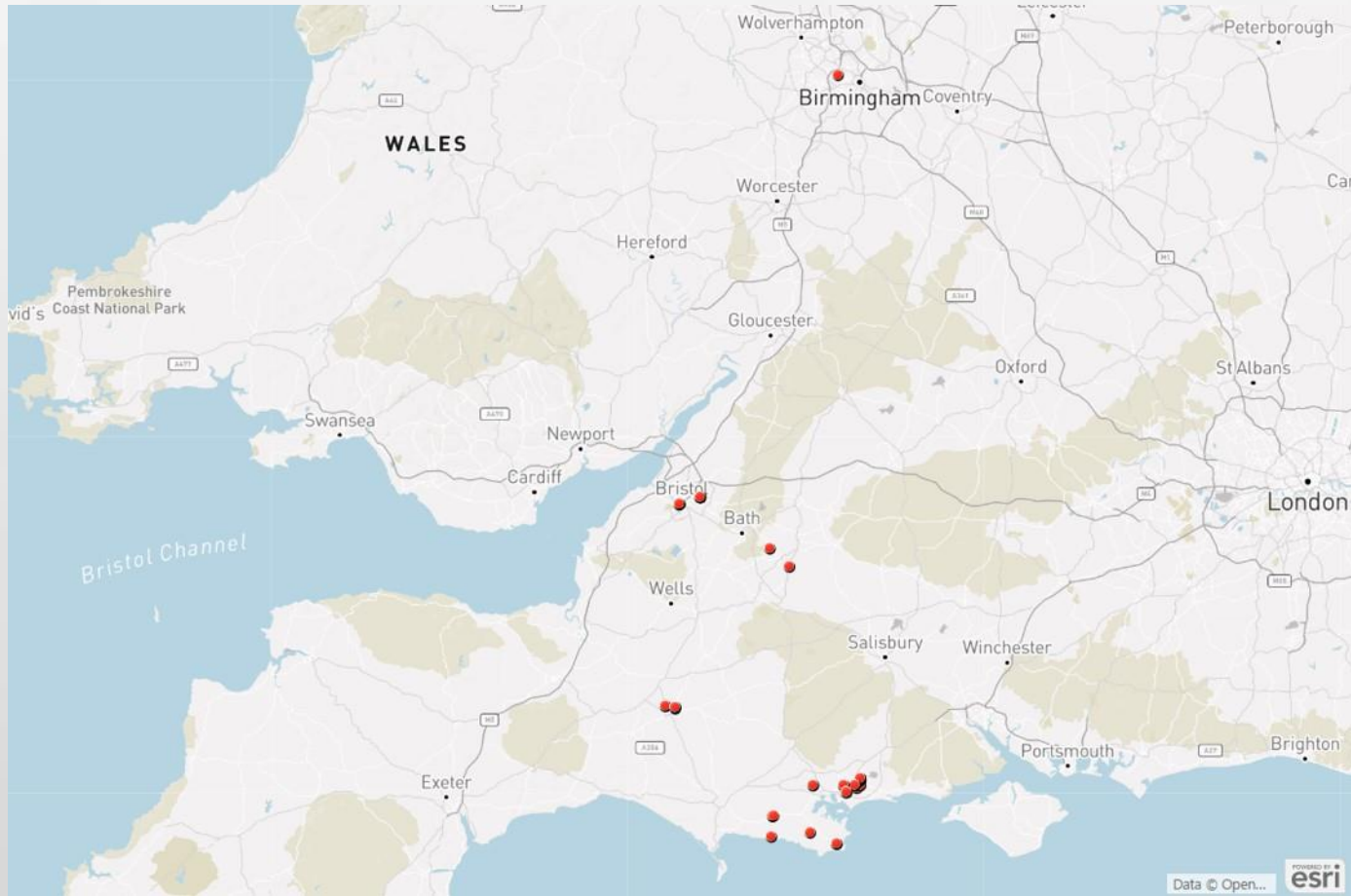
**Borrower:** Stonewater Limited  
**Valuer:** JLL  
**Date of Valuation:** 31-Oct-17  
**Valuation:** Retained Bonds

Property Reference	Company	Address	Postcode	Property Type	Beds	Category	Tenure	EUW-SH	MV-T
30427	Stonewater 2	7cm, St Georges House, 101 St Georges Road, Bristol, BS1 5UP	BS1 5UP	Sheltered	R	Supported restricted	Leasehold	£34,019	
36427	Stonewater 2	74 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£66,068	£97,936
36428	Stonewater 2	75 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£66,068	£97,936
36429	Stonewater 2	78 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£66,068	£97,936
36430	Stonewater 2	79 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£66,068	£97,936
36431	Stonewater 2	82 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£66,068	£97,936
36432	Stonewater 2	83 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£66,068	£97,936
36433	Stonewater 2	86 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£66,068	£97,936
36434	Stonewater 2	87 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	General Needs and Sheltered Unrestricted	Freehold	£66,068	£97,936
30181	Stonewater 2	62 Hollybrook Park, Kingswood, Bristol	BS15 1SX	House	3	General Needs and Sheltered Unrestricted	Freehold	£77,015	£114,163
30182	Stonewater 2	63 Hollybrook Park, Kingswood, Bristol	BS15 1SX	House	3	General Needs and Sheltered Unrestricted	Freehold	£77,015	£114,163
30183	Stonewater 2	64 Hollybrook Park, Kingswood, Bristol	BS15 1SX	House	3	General Needs and Sheltered Unrestricted	Freehold	£77,015	£114,163
30184	Stonewater 2	65 Hollybrook Park, Kingswood, Bristol	BS15 1SX	House	4	General Needs and Sheltered Unrestricted	Freehold	£84,021	£124,548
30185	Stonewater 2	66 Hollybrook Park, Kingswood, Bristol	BS15 1SX	House	4	General Needs and Sheltered Unrestricted	Freehold	£84,021	£124,548
30186	Stonewater 2	67 Hollybrook Park, Kingswood, Bristol	BS15 1SX	House	4	General Needs and Sheltered Unrestricted	Freehold	£84,021	£124,548
30187	Stonewater 2	68 Hollybrook Park, Kingswood, Bristol	BS15 1SX	House	4	General Needs and Sheltered Unrestricted	Freehold	£84,021	£124,548
30188	Stonewater 2	69 Hollybrook Park, Kingswood, Bristol	BS15 1SX	House	3	General Needs and Sheltered Unrestricted	Freehold	£77,015	£114,163
30189	Stonewater 2	70 Hollybrook Park, Kingswood, Bristol	BS15 1SX	House	3	General Needs and Sheltered Unrestricted	Freehold	£77,015	£114,163
30190	Stonewater 2	71 Hollybrook Park, Kingswood, Bristol	BS15 1SX	House	3	General Needs and Sheltered Unrestricted	Freehold	£77,015	£114,163
13672	Stonewater 1	29 Cecil Place	BH16 6FG	House	3	Shared ownership	Freehold	£73,600	
13673	Stonewater 1	30 Cecil Place	BH16 6FG	House	3	Shared ownership	Freehold	£70,200	
13674	Stonewater 1	37 Cecil Place	BH16 6FG	House	2	Shared ownership	Freehold	£64,000	
13675	Stonewater 1	38 Cecil Place	BH16 6FG	House	2	Shared ownership	Freehold	£64,000	
13630	Stonewater 1	76 Dorchester Road Wool Dorset	BH20 6EL	House	3	Shared ownership	Freehold	£75,400	
24579	Stonewater 2	34 Hollybrook Park, Kingswood, Bristol	BS15 1ST	Flat	2	Shared ownership	Freehold	£55,400	
24580	Stonewater 2	35 Hollybrook Park, Kingswood, Bristol	BS15 1ST	Flat	2	Shared ownership	Freehold	£52,500	
24586	Stonewater 2	41 Hollybrook Park, Kingswood, Bristol	BS15 1ST	Flat	2	Shared ownership	Freehold	£55,400	
24582	Stonewater 2	37 Hollybrook Park, Kingswood, Bristol	BS15 1ST	Flat	2	Shared ownership	Freehold	£55,400	
24578	Stonewater 2	33 Hollybrook Park, Kingswood, Bristol	BS15 1ST	Flat	2	Shared ownership	Freehold	£55,400	
24587	Stonewater 2	42 Hollybrook Park, Kingswood, Bristol	BS15 1ST	Flat	2	Shared ownership	Freehold	£55,400	
24585	Stonewater 2	40 Hollybrook Park, Kingswood, Bristol	BS15 1ST	Flat	1	Shared ownership	Freehold	£45,000	
24588	Stonewater 2	43 Hollybrook Park, Kingswood, Bristol	BS15 1ST	Flat	2	Shared ownership	Freehold	£55,400	
24581	Stonewater 2	36 Hollybrook Park, Kingswood, Bristol	BS15 1ST	Flat	1	Shared ownership	Freehold	£45,000	
24689	Stonewater 2	73 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	Shared ownership	Freehold	£34,500	
36136	Stonewater 2	84 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	Shared ownership	Freehold	£34,500	
24690	Stonewater 2	76 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	Shared ownership	Freehold	£33,000	
24691	Stonewater 2	77 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	Shared ownership	Freehold	£34,500	
36135	Stonewater 2	81 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	Shared ownership	Freehold	£34,500	
36137	Stonewater 2	85 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	Shared ownership	Freehold	£34,500	
36134	Stonewater 2	80 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	Shared ownership	Freehold	£34,500	
36435	Stonewater 2	72 Hollybrook Park, Kingswood, Bristol	BS15 1SX	Flat	2	Shared ownership	Freehold	£34,500	
								<b>£18,070,000</b>	<b>£18,340,000</b>

## Appendix 2

### Location Plan

# Stonewater Retained Bonds 2017



## Appendix 3

### Photographs



BA15 1EH - 87 Poulton



BA21 4NX - 6 Royal Close



BH10 7HX - 23 Keeble Road



TN24 0QS - 1 Raglan Court





BH11 8QU - 10 Raglan Gardens



BH16 6FG - 35 Cecil Place



BH17 8SZ - 4 Cranborne Court



BS1 5UP - 1a St Georges House, 101 St Georges Road



BS15 1SX - 64 Hollybrook Park



B67 7AP - 128 Vicarage Road



B67 7B - Flat 1, 10 Littlemoor Hill



BH10 4AS - 2 Priestley Road



BH10 7HY - 24 Keeble Crescent



BH20 6EL - 76 Dorchester Road



BH20 5SA - 1 Hardy Cottages



BA14 6DG - 18 Shepherds Drove



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## TAXATION

### United Kingdom Taxation

The following applies only to persons who are the beneficial owners of Bonds and is a summary of the Issuer's understanding of current United Kingdom law and published HM Revenue & Customs practice relating to certain aspects of United Kingdom taxation as at the date of this Prospectus. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective holders of the Bonds depends on their individual circumstances and may be subject to change at any time in the future, possibly with retrospective effect. This is not intended to constitute a complete analysis of all tax consequences relating to the ownership of the Bonds and is not intended to be, nor should it be considered to be, legal or tax advice. Prospective holders of Bonds who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

#### A. Interest on the Bonds

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

Payments of interest by the Issuer on the Bonds may be made without deduction of or withholding on account of United Kingdom income tax provided that the Bonds carry a right to interest and continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List (within the meaning of and in accordance with the provisions of Part 6 of the Financial Services and Markets Act 2000) and admitted to trading on the London Stock Exchange. Provided, therefore, that the Bonds remain so listed, interest on the Bonds will be payable without withholding or deduction on account of United Kingdom tax.

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

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

HMRC has powers to obtain information and documents relating to the Bonds, including in relation to issues of and other transactions in the Bonds, interest, payments treated as interest and other payments derived from the Bonds. This may include details of the beneficial owners of the Bonds, of the persons for whom the Bonds are held and of the persons to whom payments derived from the Bonds are or may be paid. Information may be obtained from a range of persons including persons who effect or are a party to such transactions on behalf of others, registrars and administrators of such transactions, the registered holders of the Bonds, persons who make, receive or are entitled to receive payments derived from the Bonds and persons by or through



whom interest and payments treated as interest are paid or credited. Information obtained by HMRC may be provided to tax authorities in other jurisdictions.

2. *Exchange of information regime*

A new automatic exchange of information regime was introduced by Council Directive 2011/16/EU on administrative co-operation in the field of taxation (as amended by Council Directive 2014/107/EU). Council Directive 2011/16/EU (as amended), which effectively implements the Organisation for Economic Co-operation and Development's common reporting standard on automatic exchange of financial account information in tax matters, requires governments to obtain detailed account information from financial institutions and exchange that information automatically with other jurisdictions annually. Council Directive 2011/16/EU (as amended) does not impose withholding taxes.

3. *Further United Kingdom Income Tax Issues*

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

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

**B. United Kingdom Corporation Tax Payers**

4. In general, Bondholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with generally accepted accounting principles, subject to adjustments as provided for by the loan relationship regime and the corporation tax acts. Bondholders should consult their own tax advisers regarding their specific tax position.

**C. Other United Kingdom Tax Payers**

5. *Accrued Income Scheme*

On a disposal of Bonds by a Bondholder, any interest which has accrued since the last interest payment date may be chargeable to tax as income under the rules of the accrued income scheme as set out in Part 12 of the Income Tax Act 2007, if that Bondholder is resident in the United Kingdom or carries on a trade in the United Kingdom through a branch or agency to which the Bonds are attributable.

6. *Taxation of Chargeable Gains*

The Bonds will constitute "qualifying corporate bonds" within the meaning of section 117 of the Taxation of Chargeable Gains Act 1992. Accordingly, a disposal by a Bondholder of a Bond will

not give rise to a chargeable gain or an allowable loss for the purposes of the UK taxation of chargeable gains.

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

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

#### **The Proposed Financial Transactions Tax (FTT)**

On 14 February 2013, the European Commission published a proposal (the **Commission's Proposal**) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the **Participating Member States**).

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Bonds (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

Joint statements issued by participating Member States indicate an intention to implement the FTT by 1 January 2016. However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate.

Prospective holders of the Bonds are advised to seek their own professional advice in relation to the FTT.

#### **Foreign Account Tax Compliance Act**

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as "FATCA", a "foreign financial institution" (as defined by FATCA) may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting or related requirements.

The Issuer is likely to be a foreign financial institution for these purposes. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions.

Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to 1 January 2019 and Bonds issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date.

Bondholders should consult their own tax advisers regarding how these rules may apply to their investment in the Bonds. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Bonds, no person will be required to pay additional amounts as a result of the withholding.

## SUBSCRIPTION AND SALE

The Dealer has, in a subscription agreement (the **Subscription Agreement**) dated 31 October 2017, agreed to subscribe for the Bonds at the issue price of 100 per cent. of the nominal amount of the Bonds, and resell the Bonds to the Issuer. The Issuer shall also reimburse the Arranger and the Dealer in respect of certain of their expenses. In addition, the Issuer has agreed to indemnify the Arranger and the Dealer against certain liabilities incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

### United States

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

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

The Arranger and the Dealer have each represented and agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver Bonds (a) as part of its distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons.

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

Terms used above have the meanings given to them by Regulation S under the Securities Act.

### United Kingdom

The Arranger and the Dealer have each represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the **FSMA**)) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the United Kingdom.

### General

The Arranger and the Dealer have each agreed that it will, to the best of its knowledge and belief, comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Bonds or possesses or distributes this Prospectus and will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required by it for the purchase, offer, sale or delivery by it of Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries.

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

## GENERAL INFORMATION

### Authorisation

The issue of the Bonds has been approved and authorised by a resolution of the Board of Directors of the Issuer dated 26 September 2017.

### Listing of the Bonds

It is expected that the official listing of the Bonds will be granted on or about 3 November 2017 subject only to the issue of the Temporary Global Bond. Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on the London Stock Exchange's regulated market.

The Issuer estimates that the total expenses related to the admission to trading will be £5,000. Each Original Borrower shall pay to the Issuer, *inter alia*, an amount equal to its *pro rata* share of such expenses in accordance with Clause 19 (*Expenses*) of its Loan Agreement.

### Documents Available

For the period of 12 months following the date of this Prospectus, copies of the following documents will, when published, be available for inspection by the public from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in London:

- (a) the constitutional documents of the Issuer and each Original Borrower;
- (b) the audited consolidated financial statements, including the reports of the auditors, of Stonewater in respect of the financial years ended 31st March, 2016 and 31st March, 2017. Stonewater currently prepares audited accounts on an annual basis;
- (c) the audited financial statements, including the reports of the auditors, of Stonewater 5 in respect of the financial years ended 31st March, 2016 and 31st March, 2017. Stonewater 5 currently prepares audited accounts on an annual basis;
- (d) the audited financial statements, including the reports of the auditors, of Stonewater 2 in respect of the financial years ended 31st March, 2016 and 31st March, 2017. Stonewater 2 currently prepares audited accounts on an annual basis;
- (e) the audited financial statements, including the reports of the auditors, of the Issuer in respect of the financial periods ended 31st March, 2016 and 31st March, 2017. The Issuer currently prepares audited accounts on an annual basis;
- (f) the most recently published audited annual financial statements (if any) of the Issuer and each Borrower and the most recently published unaudited interim financial statements (if any) of the Issuer and each Borrower, in each case together with any audit or review reports prepared in connection therewith;
- (g) the Bond Trust Deed, the Agency Agreement, the Account Agreement, the Custody Agreement, the Retained Bond Custody Agreement, the Loan Agreements, the Security Trust Deed and the Security Agreements;
- (h) the Valuation Report;
- (i) a copy of this Prospectus; and

- (j) any future offering circulars, prospectuses and information memoranda and any other documents incorporated therein by reference.

### **Clearing Systems**

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN and the Common Code for the Bonds is XS1603460608 and 160346060, respectively.

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

### **Characteristics of underlying assets**

The Original Loan Agreements have, and each Additional Loan Agreement will have, characteristics that demonstrate capacity to produce funds to service the payments due and payable on the Bonds.

### **Material or Significant Change**

There has been no material adverse change in the financial position or prospects of the Issuer since 31<sup>st</sup> March 2017.

There has been no significant change in the financial or trading position of Stonewater since 31<sup>st</sup> March, 2017. There has been no material adverse change in the prospects of Stonewater since 31<sup>st</sup> March, 2017.

There has been no significant change in the financial or trading position of Stonewater 5 since 31<sup>st</sup> March 2017 and there has been no material adverse change in the prospects of Stonewater 5 since 31<sup>st</sup> March 2017.

There has been no significant change in the financial or trading position of Stonewater 2 since 31<sup>st</sup> March 2017 and there has been no material adverse change in the prospects of Stonewater 2 since 31<sup>st</sup> March 2017.

There has been no significant change in the financial or trading position of the Group since 31<sup>st</sup> March, 2017.

### **Litigation**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding this Prospectus which may have, or have had in the recent past significant effects on the Issuer's financial position or profitability.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which each Original Borrower is aware) in the 12 months preceding the date of this Prospectus which may have, or have had in the recent past significant effects on such Original Borrower's financial position or profitability.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Group is aware) in the 12 months preceding the date of this Prospectus which may have, or have had in the recent past significant effects on the Group's financial position or profitability.

## **Auditors**

The auditors of the Issuer are BDO LLP, whose registered address is 55 Baker Street, London, W1U 7EU, who have audited the Issuer's accounts, without qualification, in accordance with generally accepted accounting principles in the United Kingdom for the financial years ended 31 March 2016 and 31 March 2017. The auditors of the Issuer have no material interest in the Issuer.

The auditors of Stonewater and Stonewater 5 are BDO LLP whose registered address is 55 Baker Street, London, W1U 7EU, who have audited Stonewater's and Stonewater 5's accounts, without qualification, in accordance with generally accepted accounting principles in the United Kingdom for the financial years ended 31 March 2016 and 31 March 2017. The auditors of Stonewater and Stonewater 5 have no material interest in Stonewater or Stonewater 5.

The auditors of Stonewater 2 are BDO LLP, whose registered address is 55 Baker Street, London, W1U 7EU, who have audited Stonewater 2's accounts, without qualification, in accordance with generally accepted accounting principles in the United Kingdom the financial years ended 31 March 2016 and 31 March 2017. The auditors of Stonewater 2 have no material interest in Stonewater 2.

## **Post-issuance information**

The Issuer does not intend to provide any post-issuance transaction information in relation to the Bonds, the Issuer Security or the Underlying Security, other than as required pursuant to Condition 6.2 (*Information Covenants*).

## **Arranger and Dealer transacting with the Issuer or the Borrowers**

The Arranger, the Dealer and each of their affiliates may in the future engage in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and/or the Borrowers and their affiliates in the ordinary course of business.

## **Yield**

Indication of the yield on the Bonds 3.375 per cent. (semi annual). The yield is calculated at the Issue date on the basis of the Issue Price. It is not an indication of future yield.



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