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Ministry of Housing,
Communities &
Local Government

PRS FINANCE PLC

(incorporated with limited liability in England and Wales with registration number 9331085)

£3,500,000,000

Guaranteed Secured Bond Programme

unconditionally and irrevocably guaranteed by

THE SECRETARY OF STATE FOR HOUSING, COMMUNITIES AND LOCAL GOVERNMENT

Under this £3,500,000,000 Guaranteed Secured Bond Programme (the **Programme**), PRS Finance plc (the **Issuer**) may from time to time issue bonds (the **Bonds**) as agreed between the Issuer, the relevant Dealer (as defined below) and the Guarantor (as defined below).

The maximum aggregate nominal amount of all Bonds to be issued under the Programme will not exceed £3,500,000,000 or such greater amount (up to a maximum aggregate nominal amount not exceeding £6,500,000,000) as the Guarantor may, in its sole discretion, consent to.

The Bonds may be issued on a continuing basis to one or more of the Dealers specified under "*Overview of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuer (each a **Dealer** and together the **Dealers**), which appointment may be for a specific issue or on an ongoing basis. References in this Programme Memorandum to the **relevant Dealer** shall, in the case of an issue of Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Bonds.

The Secretary of State for Housing, Communities and Local Government (formerly the Secretary of State for Communities and Local Government) (the **Guarantor**) will issue an unconditional and irrevocable guarantee (the **Bond Guarantee**) of the Issuer's obligations in respect of the scheduled payments of principal and interest in respect of each issue of Bonds pursuant to the terms of a licence dated 10th December, 2014 (as modified and/or supplemented and/or restated, the **Licence**) granted to the Issuer's immediate parent company, PRS Operations Limited (the **Licensee**), for the management and delivery of the Private Rented Guarantee Scheme of the Guarantor.

The net proceeds from each issue of the Bonds will be advanced by the Issuer to Approved Borrowers (as defined in the Licence) pursuant to Loan Agreements (as defined in the Licence) between the Issuer and each Approved Borrower. Under the terms of the Licence, the Guarantor will also guarantee the payment obligations of the Approved Borrowers to the Issuer in respect of scheduled payments of principal and interest under their respective Loan Agreements (each a **Loan Guarantee**).

This Programme Memorandum does not constitute a base prospectus for the purpose of Article 5.4 of Directive 2003/71/EC (as amended, the **Prospectus Directive**). The Prospectus Directive does not apply to this Programme Memorandum pursuant to Article 1(2)(d) thereof.

Application will be made to the Financial Conduct Authority in its capacity as competent authority (the **UK Listing Authority**) for Bonds issued under the Programme to be admitted to the official list of the UK Listing Authority (the **Official List**) and to the London Stock Exchange plc (the **London Stock Exchange**) for such Bonds to be admitted to trading on the London Stock Exchange's regulated market. The London

Stock Exchange's regulated market is a regulated market for the purposes of the Markets in Financial Instruments Directive (Directive 2014/65/EC).

Notice of the aggregate nominal amount of Bonds, the interest payable in respect of Bonds, the issue price of Bonds and certain other information which is applicable to each Tranche (as defined under "*Conditions of the Bonds*") of Bonds will be set out in a pricing supplement document (the **Pricing Supplement**).

The Guarantor has been rated "Aa2" by Moody's Investors Service Limited (**Moody's**). The Programme has been rated "Aa2" by Moody's. Bonds issued under the Programme are expected to be rated "Aa2" by Moody's. Such rating will be disclosed in the Pricing Supplement. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

An investment in Bonds issued under the Programme involves certain risks. For a discussion of these risks see "*Investment Considerations*".

Arranger

NATWEST MARKETS

Dealers

BARCLAYS

HSBC

NATWEST MARKETS

The date of this Programme Memorandum is 23rd July, 2018.

The Issuer accepts responsibility for the information contained in this Programme Memorandum and the Pricing Supplement for each Tranche of Bonds issued under the Programme. 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 Programme Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

The information contained in the section "*Description of the Guarantor*" has been obtained solely from publicly available information. The Guarantor has neither reviewed this Programme Memorandum nor verified the information contained in it, and the Guarantor makes no representation, warranty or undertaking, express or implied, with respect to, and does not accept any responsibility or liability for, the contents of this Programme Memorandum or any other statement made or purported to be made on its behalf in connection with the Issuer or the issue or offering of the Bonds or their distribution. The Guarantor accordingly disclaims any and all liability, whether arising in contract, tort or otherwise which it might otherwise have in respect of this Programme Memorandum or any such statement.

Neither the Dealers nor the Trustee (as defined below) have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Programme Memorandum or any other information provided by the Issuer in connection with the Programme. No Dealer or the Trustee accepts any liability in relation to the information contained or incorporated by reference in this Programme Memorandum or any other information provided by the Issuer in connection with the Programme.

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

Neither this Programme Memorandum nor any other information supplied in connection with the Programme or any 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 Guarantor, any of the Dealers or the Trustee that any recipient of this Programme Memorandum or any other information supplied in connection with the Programme or any 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/or the Guarantor. Neither this Programme Memorandum nor any other information supplied in connection with the Programme or the issue of any Bonds constitutes an offer or invitation by or on behalf of the Issuer, the Guarantor, any of the Dealers or the Trustee to any person to subscribe for or to purchase any Bonds.

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

MiFID II product governance / target market – The Pricing Supplement in respect of any Bonds will include a legend entitled "MiFID II product governance" which will outline the target market assessment in respect of the Bonds and which channels for distribution of the Bonds are appropriate. Any person subsequently offering, selling or recommending the Bonds (a **distributor**) should take into account the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, **MiFID II**) is

responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue of Bonds about whether, for the purpose of the Product Governance rules under EU Delegated Directive 2017/593 (the **MiFID Product Governance Rules**), any Dealer subscribing for any Bonds is a manufacturer in respect of such Bonds, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

This Programme Memorandum 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 Programme Memorandum and the offer or sale of Bonds may be restricted by law in certain jurisdictions. The Issuer, the Guarantor, the Dealers and the Trustee do not represent that this Programme Memorandum may be lawfully distributed, or that any Bonds may be lawfully offered, 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. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Programme Memorandum 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 Programme Memorandum or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Programme Memorandum and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Programme Memorandum and the offer or sale of Bonds in the United States and the United Kingdom (see "*Subscription and Sale*").

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, 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*").

In this Programme Memorandum, all references to **Sterling** and **£** refer to pounds sterling.

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF BONDS, THE DEALER OR DEALERS (IF ANY) ACTING AS THE STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF BONDS IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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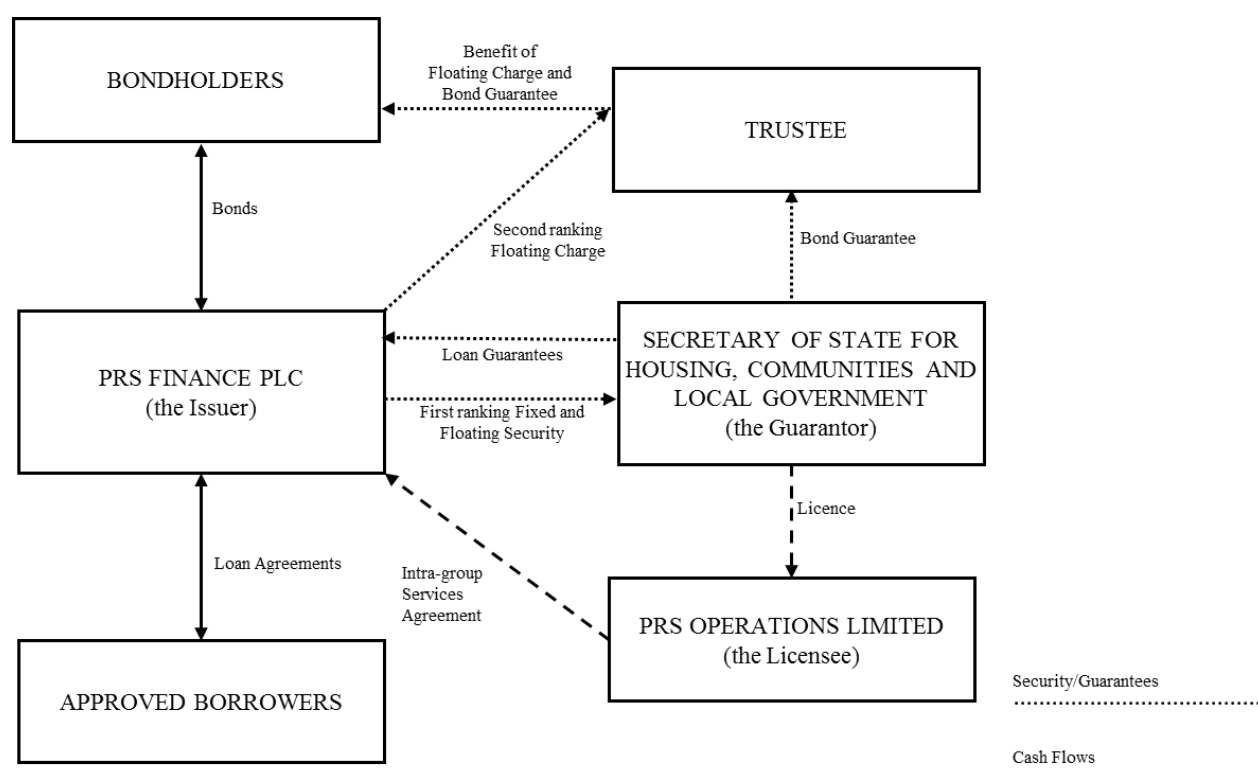
OVERVIEW OF THE PROGRAMME

The following overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Programme Memorandum and, in relation to the terms and conditions of any particular Tranche of Bonds, the applicable Pricing Supplement.

Words and expressions defined in "Form of the Bonds" and "Conditions of the Bonds" shall have the same meanings in this Overview.

DIAGRAM OF PRINCIPAL CASH FLOWS

The diagram below depicts the main features of the structure of the Programme as a whole and its principal cash flows.



THE PROGRAMME

Issuer:	PRs Finance plc
Issuer Legal Entity Identifier (LEI):	2138002JNX4ZKQI8OU17
Guarantor:	The Secretary of State for Housing, Communities and Local Government (formerly the Secretary of State for Communities and Local Government)
Use of Proceeds:	The net proceeds of each issue of the Bonds will be lent to Approved Borrowers pursuant to Loan Agreements to be applied towards the delivery of purpose-built and professionally managed private rented developments in the United Kingdom, in accordance with the Private Rented Guarantee Scheme.

Programme Size:	£3,500,000,000 or such greater amount (up to a maximum aggregate nominal amount not exceeding £6,500,000,000) as the Guarantor may, in its sole discretion, consent to.
Issue Price:	Bonds will be issued on a fully-paid basis at an issue price which is at par or at a discount to, or premium over, par.
Form of Bonds:	The Bonds will be issued in bearer form as described in " <i>Form of the Bonds</i> ".
Status of the Bonds:	The Bonds will constitute direct and unconditional obligations of the Issuer, will be secured by a second ranking floating charge granted by the Issuer and will rank <i>pari passu</i> among themselves.
Bond Guarantee:	The payment of Scheduled Principal and Scheduled Interest in respect of the Bonds will be unconditionally and irrevocably guaranteed by the Guarantor pursuant to the Bond Guarantee.
Denomination:	The Bonds will be issued in such denominations as may be agreed between the Issuer and the relevant Dealer.
Currency:	The Bonds will be issued in Sterling.
Maturities:	The Bonds will have such maturities as may be agreed between the Issuer and the relevant Dealer.
Fixed Rate Bonds:	Fixed interest will be payable on such date or dates as may be agreed between the Issuer and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer.
Floating Rate Bonds:	Floating Rate Bonds will bear interest at a rate determined: <ul style="list-style-type: none"> (a) on the same basis as the floating rate under a notional interest rate swap transaction in Sterling governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Bonds of the relevant Series); or (b) on the basis of the reference rate set out in the applicable Pricing Supplement.

The margin (if any) relating to such floating rate will be agreed between the Issuer and the relevant Dealer for each Series of Floating Rate Bonds.

Floating Rate Bonds may also have a maximum interest rate, a minimum interest rate or both.

Interest on Floating Rate Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant

Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the Issuer and the relevant Dealer.

Early Redemption:

As described further in Condition 10.3 (*Early Redemption*), each Series of Bonds may be redeemed early, in whole or in part, following receipt by the Issuer of a prepayment pursuant to an Associated Loan Agreement. Any such redemption shall (unless otherwise specified in the applicable Pricing Supplement) be:

(a) upon an Optional Redemption or a Default Redemption in the case of Fixed Rate Bonds, in an amount calculated by reference to the yield on the relevant outstanding United Kingdom government benchmark gilt having the nearest maturity (or average maturity in the case of Instalment Bonds) to that of the Bonds; and

(b) otherwise, at par,

in each case, plus accrued interest.

Final/Instalment Redemption:

The applicable Pricing Supplement will specify whether the Bonds are Instalment Bonds.

In respect of Bonds other than Instalment Bonds, the Bonds will be redeemed at par on the date specified as the Maturity Date in the Pricing Supplement.

In respect of Instalment Bonds, the applicable Pricing Supplement will specify the Instalment Dates on which the Bonds will be redeemed and the Instalment Amounts payable on each such date.

Security:

The Issuer's obligations in respect of all Series of Bonds are secured by a second ranking floating charge on the whole of the Issuer's undertaking, property and assets in favour of the Trustee. Pursuant to the Subordination Deed, such second ranking floating charge will rank subordinate to the first ranking Guarantor Security.

Guarantor Controlling Rights:

In relation to any matter other than a Bondholder Entrenched Right, provided that no Guarantor Trigger Event has occurred and is continuing, the Guarantor shall have the right to direct the Trustee in writing in respect of all matters relating to the Conditions, the Trust Deed and the other Programme Documents to the exclusion of any equivalent right of the Bondholders or any other person.

A Guarantor Trigger Event includes non-payment by the Guarantor when required under the Bond Guarantee and the Bond Guarantee ceasing to be, or being claimed by the Issuer or the Guarantor not to be, in full force and effect other than in circumstances where it has been replaced by an equivalent guarantee.

References to the Bond Guarantee in the definition of Guarantor Trigger Event shall mean any Bond Guarantee in respect of any Tranche of Bonds (forming part of any Series of Bonds).

A Guarantor Trigger Event is continuing if any of the events described above have occurred and have not been waived by an Extraordinary Resolution of the Bondholders of the relevant Series, provided that, in the case of non-payment by the Guarantor when required under the Bond Guarantee, such non-payment has continued for a period of 10 days in respect of Scheduled Principal or for a period of 14 days in respect of Scheduled Interest and has not been waived by an Extraordinary Resolution of the Bondholders of the relevant Series.

Taxation: All payments in respect of the Bonds will be made without withholding or deduction for or on account of any present or future Taxes as provided in Condition 11 (*Taxation*), unless required by law. In the event that any such deduction is made, the Issuer will not be obliged to make any additional payments in respect of the Bonds in respect of such withholding or deduction. Any such withholding or deduction will not constitute an Event of Default under Condition 13 (*Events of Default*).

Rating: The Guarantor has been rated "Aa2" by Moody's. The Programme has been rated "Aa2" by Moody's. Bonds issued under the Programme are expected to be rated "Aa2" by Moody's. Such rating will be disclosed in the Pricing Supplement. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Listing: Application will be made for each Tranche of Bonds issued under the Programme to be listed on the London Stock Exchange.

Governing Law: The Bonds and any non-contractual obligations arising out of or in connection with the Bonds will be governed by, and shall be construed in accordance with, English law.

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Bonds in the United States and the United Kingdom. See "*Subscription and Sale*".

Distribution: Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Arranger: NatWest Markets Plc

Dealers: Barclays Bank PLC
HSBC Bank plc
NatWest Markets Plc

and any other Dealers appointed in accordance with the Programme Agreement.

Trustee:	U.S. Bank Trustees Limited
Agent:	Elavon Financial Services DAC, acting through its UK Branch
Account Bank:	Elavon Financial Services DAC, acting through its UK Branch
Cash Manager:	Elavon Financial Services DAC, acting through its UK Branch
Custodian:	Elavon Financial Services DAC, acting through its UK Branch
Corporate Services Provider:	Intertrust Management Limited

USE OF PROCEEDS

The net proceeds of each issue of the Bonds will be lent to Approved Borrowers pursuant to Loan Agreements to be applied towards the delivery of purpose-built and professionally managed private rented developments in the United Kingdom, in accordance with the Private Rented Guarantee Scheme.

DESCRIPTION OF THE PRIVATE RENTED GUARANTEE SCHEME

In September 2012, the Department for Communities and Local Government (now succeeded by the Ministry of Housing, Communities and Local Government (the **MHCLG**)) announced a package of measures designed to stimulate economic activity and to facilitate an increase in housing supply. These measures include two UK-wide Housing Guarantee Schemes, whereby the MHCLG will provide guarantees to support debt raised by borrowers to develop additional new housing in both the private rented and affordable housing sectors. There are separate guarantee schemes for each sector (the scheme for the private rented sector being the Private Rented Guarantee Scheme), with a maximum value across both schemes of £10,000,000,000 (£3,500,000,000 allocated to each initially, with £3,000,000,000 held in reserve).

Pursuant to a licence dated 10th December, 2014 (the **Licence**), the Secretary of State for Communities and Local Government (now succeeded by the Secretary of State for Housing, Communities and Local Government) granted a licence to PRS Operations Limited (the **Licensee**) for the management and delivery of the Private Rented Guarantee Scheme. In accordance with the terms of the Licence, the Secretary of State for Housing, Communities and Local Government will guarantee the payment of scheduled principal and interest in respect of debt raised by the Issuer under the Private Rented Guarantee Scheme thereby lowering the cost of its debt. It will also guarantee the payment obligations of each Approved Borrower to the Issuer pursuant to their respective Loan Agreements.

Private Rented Guarantee Scheme Rules

The Guarantor has published the rules which apply to the Private Rented Guarantee Scheme (the **Rules**). The Rules establish the nature of the projects to be supported pursuant to the scheme, the security to be provided by Approved Borrowers who are able to access funding procured via the Private Rented Guarantee Scheme, the recourse nature of the borrowings, covenants, undertakings, documentation and process.

The Rules in effect as at the date of this Programme Memorandum are set out below. However, in accordance with their terms, the Rules may be changed by the Guarantor at any time.

1. *Project Eligibility*
 - 1.1 Guarantees¹ will only support projects that will deliver additional new-build private rented homes.
 - 1.2 Minimum size of project: Total project to have a minimum value of £10m. However the "project" can comprise of more than one development site, which cumulatively meet the minimum value requirement.
 - 1.3 Type of property and mix: All standard new-build residential properties permitted.
 - 1.4 Units must be used for private rent for the period of the debt guarantee. Borrowers must agree to use "best endeavours" to ensure that properties are actively marketed for rent.
 - 1.5 Guaranteed debt only available from practical completion/purchase of completed units, but a letter of comfort that the project has qualified for guarantee support may be issued to support borrowers' ability to access development finance.
 - 1.6 Borrowers will need to detail how property and tenant management services will be provided.
 - 1.7 Borrowers will need to be classified to the private sector, or a Private Registered Provider as defined in the Housing and Regeneration Act 2008 Section 80(3) (or equivalent in the Devolved Administrations).

¹ References to "Guarantees" in the Rules refer to Loan Guarantees.

- 1.8 Properties will need to be located in the United Kingdom.
2. *Financial Structure*
 - 2.1 Maximum loan/equity 80/20.
 - 2:2 Minimum projected rent/interest cover: Net – 1.2:1. Projections must be supported by approved professional property advice, addressed for the benefit of the lender and the guarantor.
3. *Security and Recourse*
 - 3.1 First fixed charge over the project assets (and first floating charge over other company assets where a special purpose vehicle is used) including a formal assignment of rents.
 - 3.2 Loan not to be greater than 80 per cent. of value, evidenced by professional valuation addressed for the benefit of the lender and guarantor.
 - 3.3 Minimum rent/interest cover at all times: Net – 1.2:1.
 - 3.4 First fixed charge over additional approved assets if required to meet minimum debt/equity and interest cover ratio.
 - 3.5 Annual revaluation obligations.
 - 3.6 Security release permitted when asset cover exceeds 200 per cent., evidenced by professional valuation.
 - 3.7 Recourse limited to project assets and contributed capital.
4. *Fees and Costs*
 - 4.1 Approved Borrowers will be required to meet the costs of arranging the relevant Guarantee, together with a guarantor fee payable alongside each interest payment.
 - 4.2 Approved Borrowers will also need to pay an administration fee to cover pro rata their share of the administration costs of managing and monitoring the facility.
5. *Covenants*
 - 5.1 Maintenance of loan to value and interest cover covenants.
 - 5.2 Financial and property performance monitoring reports.
 - 5.3 Standard financial and corporate covenants for long term secured debt facilities.
6. *Documentation*
 - 6.1 Standard loan and security documentation to be entered into.
7. *Application*
 - 7.1 Borrowers will be required to complete a standard application form which will detail the information required to support the application.

7.2 All applications will be subject to full due diligence and approval prior to any offer of a debt guarantee being made. Any such offer will be at the complete discretion of the guarantor. No offer nor commitment to provide a Guarantee is implied by the publication of these scheme rules. The Guarantor reserves the right to amend the scheme rules at any time.

DESCRIPTION OF THE BOND GUARANTEE ARRANGEMENTS

The following description of the Bond Guarantee consists of a summary of certain provisions of the Bond Guarantee and is subject to the detailed provisions thereof, the full form of which is set out below in "Form of Bond Guarantee".

Definitions used in this section but not otherwise defined in this Programme Memorandum have the meanings given to them in the Bond Guarantee.

Guarantee

The Bond Guarantee is an unconditional and irrevocable guarantee given by the Secretary of State for Housing, Communities and Local Government (formerly the Secretary of State for Communities and Local Government) to the Trustee for the benefit of the Holders (being the Bondholders, the Receiptholders and the Couponholders (each as defined in the Conditions)) in relation to the due and punctual performance by the Issuer of the Guaranteed Obligations.

Guaranteed Obligations

Pursuant to the Bond Guarantee the Guarantor guarantees all Guaranteed Obligations. Guaranteed Obligations is defined to include the payment obligations of the Issuer in respect of the Guaranteed Amounts. Guaranteed Amounts is defined to include the sum of all Scheduled Interest and Scheduled Principal, being interest and principal payable by the Issuer to the Bondholders, the Receiptholders and/or the Couponholders or to the Trustee for the benefit of Bondholders, the Receiptholders and/or the Couponholders under the Guaranteed Bonds (disregarding any default interest, indemnity payments or prepayment or early redemption penalties), together with any gross-up amounts in respect of such interest and principal. Guaranteed Bonds is defined as any Bonds issued under the Programme in respect of which the Guarantor has, in its sole discretion, issued a Guarantee Certificate (being a certificate confirming that a Tranche of Bonds issued under the Programme will benefit from the guarantee under the Bond Guarantee).

Demand and Payment

Pursuant to the Trust Deed and the Agency Agreement:

- (a) the Issuer (or the Cash Manager on its behalf) shall, not later than 10:00 a.m. on the fifth Business Day prior to each Interest Payment Date, give to the Trustee, the Agent and the Guarantor a notice that (i) it has sufficient funds to make payment of all amounts due to Bondholders, the Receiptholders and the Couponholders on the immediately following Interest Payment Date or (ii) there will be a shortfall in respect of such amounts and the amount of any such shortfall (the latter being, a **Notice of Shortfall**); and
- (b) upon receipt of a Notice of Shortfall from the Issuer (or the Cash Manager on its behalf) (or otherwise upon receipt of a notice from the Agent to the same effect), the Trustee shall issue a Notice of Demand (as defined in the Bond Guarantee) to the Guarantor in accordance with the Bond Guarantee requiring the Guarantor to make payment (in an amount equal to the amount stated in the Notice of Shortfall) to or to the order of the Trustee.

In accordance with clause 3.1 of the Bond Guarantee, the Guarantor shall, following Receipt by the Guarantor of a duly completed Notice of Demand, make payments in respect of Guaranteed Amounts on (i) the fourth Business Day following such Receipt or, if later, (ii) the Business Day immediately preceding the date upon which such Guaranteed Amounts fall due for payment pursuant to the Bonds, the Receipts, the Coupons, the Trust Deed or the Bond Guarantee.

FORM OF BOND GUARANTEE

The following is a copy of the Bond Guarantee executed on 3rd April, 2017 by the Secretary of State for Communities and Local Government (now the Secretary of State for Housing, Communities and Local Government):

THIS DEED OF GUARANTEE is made on 3 April 2017

BY

- (1) **THE SECRETARY OF STATE FOR COMMUNITIES AND LOCAL GOVERNMENT** of 2 Marsham Street, Westminster, London SW1P 4DF (the "**Guarantor**")

IN FAVOUR OF

- (2) **THE BOND TRUSTEE** (as defined below).

RECITALS

- (A) On 10 December 2014, the Guarantor granted a licence (the "**Licence**") to PRS Operations Limited (the "**Licensee**") for the management and delivery of the Housing Guarantee Scheme for the Private Rented Sector (the "**Private Rented Guarantee Scheme**").
- (B) The Licensee shall manage and deliver the Private Rented Guarantee Scheme by, inter alia, procuring that its wholly-owned subsidiary, PRS Finance plc (the "**Issuer**"), shall from time to time issue bonds for the sole purpose of on-lending the proceeds thereof to approved borrowers under the Private Rented Guarantee Scheme (including, without limitation, by applying amounts to reserves and in respect of certain fees).
- (C) The Issuer has published a programme memorandum in respect of a £3,500,000,000 guaranteed secured bond programme for the issue of bonds by the Issuer of a maximum aggregate nominal amount not exceeding £3,500,000,000 or such greater amount (up to a maximum aggregate nominal amount not exceeding £6,500,000,000) as the Guarantor may, at its sole discretion, consent to (the "**Programme**").
- (D) Pursuant to the Private Rented Guarantee Scheme and in connection with the Licence, the Guarantor provided, at the request of the Issuer, a guarantee dated 29 July 2015 to the Bond Trustee of certain liabilities of the Issuer under certain of the bonds issued under the Programme (the "**Original Bond Guarantee**").
- (E) This Deed of Guarantee amends and restates the Original Bond Guarantee, other than in respect of any bonds issued under the Programme with the benefit of the Original Bond Guarantee (as supplemented and amended by the Guarantee Certificate issued in respect thereof) prior to the date hereof which will continue to have the benefit of the Original Bond Guarantee (as so supplemented and amended). Any bonds issued on or after the date hereof so as to be consolidated and form a single series with any bonds issued prior to the date hereof will, subject to the issue by the Guarantor of a Guarantee Certificate thereunder, be issued with the benefit of the Original Bond Guarantee (as supplemented and amended by the relevant Guarantee Certificate).

NOW THIS DEED OF GUARANTEE WITNESSES as follows:

1. **Interpretation**

Definitions

1.1 In this Deed, the expressions defined in the recitals have the meanings given therein when used in the main body of this Deed and, in addition, the following expressions have the following meanings:

"**Account**" means, in respect of any payment made by the Guarantor pursuant to this Deed, the account specified in the relevant Notice of Demand.

"**Affected Guaranteed Obligations**" means those Guaranteed Obligations (identified in the relevant Notice of Demand) in respect of which a Non-payment has occurred or will occur, as specified in the relevant Notice of Demand.

"**Agency Agreement**" means the amended and restated agency agreement dated on or about the date of this Deed between the Issuer, the Agent and the Bond Trustee (as varied, amended, restated, supplemented, substituted or replaced from time to time).

"**Agent**" means Elavon Financial Services DAC, UK Branch as agent in respect of the Guaranteed Bonds (appointed pursuant to the Agency Agreement), or any successor or replacement therefor appointed in accordance with the terms of the Agency Agreement and notified to the Guarantor.

"**Avoided Payment Amounts**" has the meaning given to it in Clause 2.2.

"**Bond Trustee**" means U.S. Bank Trustees Limited as trustee for the Holders, and/or any additional or successor trustee appointed pursuant to the Bond Trust Deed and notified to the Guarantor.

"**Bond Trust Deed**" means the amended and restated bond trust deed dated on or about the date of this Deed between the Issuer and the Bond Trustee constituting the Guaranteed Bonds (as varied, amended, restated, supplemented, substituted or replaced from time to time).

"**Business Day**" means any day on which banks and other financial institutions are open for business in London, but excluding:

- (a) Saturdays, Sundays and public and statutory holidays in England and Wales; and
- (b) Privilege Days notified by the Guarantor to the Bond Trustee at least ten Business Days in advance.

"**Due Date**" means, in respect of any Guaranteed Amount, the date upon which such Guaranteed Amount falls due for payment pursuant to the Guaranteed Bonds.

"**Due for Payment**" means in relation to any Guaranteed Amount, that the Due Date for such Guaranteed Amount has been reached. For the avoidance of doubt, "Due for Payment" does not refer to any earlier date upon which payment of any Guaranteed Amounts may become due under the Guaranteed Obligations by reason of prepayment (whether mandatory or optional), acceleration of maturity or otherwise.

"**Final Release Date**" means the date on which all the payment obligations of the Issuer under the Guaranteed Bonds are irrevocably and unconditionally satisfied in full.

"**Guarantee Certificate**" means a certificate in the form set out in Schedule 2 (Form of Guarantee Certificate) (or in such other form as the Guarantor, the Bond Trustee and the Issuer may agree from time to time) and duly executed by the Guarantor confirming that a tranche of bonds issued under the Programme are Guaranteed Bonds for the purposes of this Deed. For the avoidance of doubt, any certificate or other confirmation of guarantee issued by the Guarantor in respect of any bonds issued

under the Programme which is not made in the form set out in Schedule 2 (Form of Guarantee Certificate) (or in such other form as the Guarantor, the Bond Trustee and the Issuer may agree from time to time) shall be void.

"Guaranteed Amounts" means, with respect to any Due Date, the sum of (without double counting) the following:

- (a) Scheduled Interest; and
- (b) Scheduled Principal.

"Guaranteed Bonds" means any bonds issued under the Programme in respect of which the Guarantor has issued a Guarantee Certificate (other than any Original Bond Guarantee Bonds), and (where the context permits) shall include the Bond Trust Deed to the extent that it relates to such bonds and, to the extent that such bonds are represented in definitive form, shall include the principal receipts (if any) and the interest coupons appertaining thereto. For the avoidance of doubt, the Guarantor shall have absolute discretion as to whether to issue a Guarantee Certificate in respect of any bonds issued or to be issued under the Programme and any bonds issued under the Programme in respect of which a Guarantee Certificate has not been issued and/or which constitute Original Bond Guarantee Bonds shall not benefit from the guarantee under this Deed.

"Guaranteed Obligations" means the payment obligations of the Issuer in respect of the Guaranteed Amounts owing by the Issuer and outstanding under the Guaranteed Bonds from the date hereof to the Final Release Date.

"Guarantee Fees" means the guarantee fees payable by the Issuer in consideration of the issue of the guarantee under this Deed, as specified in the fee letter dated on or about the date of the Original Bond Guarantee between the Guarantor and the Issuer.

"Holders" means the several persons who are for the time being holders of the Guaranteed Bonds (which, to the extent that the Guaranteed Bonds are represented by a global bond held by a common safekeeper for Euroclear and/or Clearstream, Luxembourg, shall include the beneficial owners of the Guaranteed Bonds in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg and, to the extent that the Guaranteed Bonds are represented in definitive form, shall include the holders of the principal receipts (if any) and the interest coupons appertaining thereto).

"Insolvency Act" means the Insolvency Act 1986 of the United Kingdom (as amended, varied, replaced or supplemented from time to time by any Insolvency Law).

"Insolvency Law" means any applicable United Kingdom bankruptcy or insolvency law (including, for the avoidance of doubt, the Insolvency Act).

"Non-payment" means, as of any Due Date, the failure of the Issuer to have paid to the Bond Trustee or the Holders any Guaranteed Amounts which are due on such Due Date (or which would have been due on such Due Date but for such Guaranteed Amounts having become due prior to such Due Date by reason of prepayment, acceleration of maturity, mandatory or optional redemption or otherwise).

"Notice of Demand" means a notice of demand in writing, in the form set out in Schedule 1 (Form of Notice of Demand) (or in such other form as the Guarantor and the Bond Trustee may agree from time to time) and duly executed by the Bond Trustee. For the avoidance of doubt, a demand for payment by the Bond Trustee under this Deed which is not made in the form set out in Schedule 1 (Form of Notice of Demand) (or in such other form as the Guarantor and the Bond Trustee may agree from time to time) shall be void.

"Original Bond Guarantee Bonds" means any bonds issued under the Programme:

- (a) prior to the date of this Deed; or
- (b) on or after the date of this Deed so as to be consolidated and form a single series with any bonds issued under the Programme prior to the date of this Deed,

which shall have the benefit of the Original Bond Guarantee (subject, in respect of (b) above, to the issue by the Guarantor of a Guarantee Certificate under the Original Bond Guarantee).

"Preference" means:

- (a) a preference pursuant to Section 239 of the Insolvency Act;
- (b) an avoidance of any property disposition pursuant to Section 127 of the Insolvency Act;
- (c) a transaction at an undervalue pursuant to Section 238 of the Insolvency Act; or
- (d) any analogous judgment, declaration, decision or similar pursuant to any Insolvency Law.

"Privilege Day" means the Friday before and the Tuesday after the Spring Bank Holiday in England and Wales, and any other day designated from time to time (in whole or in part) as a privilege day (being an additional non-working day) for United Kingdom civil servants generally.

"Receipt" means:

- (a) actual delivery to the Guarantor in accordance with Clause 10 (Notices); or
- (b) receipt by the Guarantor by email in accordance with Clause 10 (Notices),

in each case, prior to 12:00 noon (London time) on a Business Day. Delivery or receipt by email (as the case may be) either on a day that is not a Business Day or after 12:00 noon (London time) shall be deemed to be Receipt on the next succeeding Business Day.

"Scheduled Interest" means interest payable by the Issuer to the Holders or to the Bond Trustee for the benefit of the Holders under the Guaranteed Bonds as specified and calculated in accordance with the Guaranteed Bonds (as may be adjusted in accordance with the terms of the Guaranteed Bonds, but disregarding any default interest, any indemnity payments or any prepayment or early redemption penalties), together (to the extent applicable) with any gross-up amounts payable by the Issuer to the Holders or to the Bond Trustee for the benefit of the Holders in accordance with the terms of the Guaranteed Bonds.

"Scheduled Principal" means principal repayable by the Issuer to the Holders or to the Bond Trustee for the benefit of the Holders under the Guaranteed Bonds as specified in the Guaranteed Bonds (as may be adjusted in accordance with the terms of the Guaranteed Bonds, but disregarding any default interest, any indemnity payments or any prepayment or early redemption penalties), together (to the extent applicable) with any gross-up amounts payable by the Issuer to the Holders or to the Bond Trustee for the benefit of the Holders in accordance with the terms of the Guaranteed Bonds.

Construction

- 1.2 Any reference in this Deed to a Clause or a Schedule is, unless otherwise stated, to a clause hereof or a schedule hereto.

- 1.3 Any reference in this Deed to "**this Deed**" shall be deemed to be a reference to this Deed as a whole and not limited to the particular Clause, Schedule or provision in which the relevant reference appears and to this Deed as varied, amended, restated, supplemented, substituted or replaced from time to time.
- 1.4 The headings in this Deed are inserted for convenience only and shall be of no legal effect.
- 1.5 Unless the context otherwise requires, words denoting the singular number only shall include the plural and vice versa.

Acknowledgement

- 1.6 The Guarantor acknowledges having received a copy of the Bond Trust Deed.

2. Guarantee

Guaranteed Amounts

- 2.1 The Guarantor hereby agrees unconditionally and irrevocably to pay to the Bond Trustee for the benefit of the Holders any Guaranteed Amounts which have become Due for Payment but which are unpaid by reason of Non-payment, as if the Guarantor was the principal obligor.

Avoided Payment Amounts

- 2.2 In the event that the Bond Trustee has notice that any payments of Guaranteed Amounts which have become Due for Payment and which have been made to the Bond Trustee or to any Holder by or on behalf of the Issuer have been declared (in whole or in part) a Preference and are required to be repaid by the Bond Trustee or such Holder pursuant to any Insolvency Law in accordance with a final non-appealable order of a court of competent jurisdiction, the Bond Trustee on behalf of the relevant Holders shall be entitled to payment from the Guarantor, upon Receipt by the Guarantor from the Bond Trustee of a duly completed Notice of Demand, to the extent of such recovery (such amounts, the "**Avoided Payment Amounts**").

3. Payments

Time for payment

- 3.1 Save in respect of Avoided Payment Amounts, the Guarantor shall make payments which are due under this Deed to the Bond Trustee by 4:00pm (London time) on (i) the fourth Business Day following Receipt by the Guarantor of a duly completed Notice of Demand or, if later, (ii) the Business Day immediately preceding the applicable Due Date.
- 3.2 The Guarantor shall make payments in respect of Avoided Payment Amounts which are due under Clause 2.2 to the Bond Trustee by 4:00pm (London time) on the fourth Business Day following Receipt by the Guarantor of a duly completed Notice of Demand.

Method of payment

- 3.3 Payments due under this Deed shall be made by the Guarantor by credit to the Account in sterling. Payment in full to the Account shall discharge the obligations of the Guarantor under this Deed to the extent of such payment, whether or not such payment is properly applied by or on behalf of the Bond Trustee or the Agent.

Gross up

- 3.4 All payments by the Guarantor under this Deed 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 imposed, levied, collected, withheld or assessed by the United Kingdom or any political subdivision or taxing authority therein or thereof, unless the withholding or deduction is required by law. In that event, the Guarantor will pay such additional amounts (if any) as may be necessary in order that the net amounts received by the Bond Trustee for the benefit of the Holders after the withholding or deduction shall equal the respective net amounts which would have been receivable under the Guaranteed Bonds (after any applicable withholdings or deductions) from the Issuer had the Issuer satisfied its obligations thereunder.

4. Subrogation

Upon the Guarantor making any payment in respect of any Guaranteed Obligation(s) to the Account pursuant to this Deed, the Guarantor shall, to the extent of any such payment, be fully and automatically subrogated pursuant to applicable law to all of the Bond Trustee's and the Holders' rights to payment of any amounts payable in respect of such Guaranteed Obligation(s) (including, without limitation, (i) any rights and benefits attached to, and any security conferred or granted by law, contract or otherwise in respect of, the Affected Guaranteed Obligations and (ii) any default interest on any of the Affected Guaranteed Obligations accrued pursuant to the Guaranteed Bonds after the date of payment by the Guarantor).

5. Scope of Guarantee

- 5.1 This Deed is not cancellable by the Guarantor for any reason, including the failure of the Guarantor to receive payment of any Guarantee Fees due in respect of this Deed. The Guarantee Fees are not refundable for any reason. This Deed does not guarantee any accelerated payment (whether by way of prepayment, acceleration or early redemption of the Guaranteed Bonds or otherwise) nor does it provide protection by way of guarantee or otherwise against any risk other than Non-payment or in relation to Avoided Payment Amounts, in each case as provided herein.
- 5.2 For the avoidance of doubt, notwithstanding any other provision in this Deed and the Original Bond Guarantee, this Deed and any benefits derived hereunder shall apply only to the Guarantee Bonds (as defined herein) and any related Guaranteed Obligations and this Deed shall not apply to Original Bond Guarantee Bonds or any obligations related thereto. The Original Bond Guarantee Bonds and any obligations related thereto shall continue to benefit from the Original Bond Guarantee.

6. Immediate recourse

The Guarantor waives any right it may have of first requiring the Bond Trustee or any Holder to proceed against or to enforce any other rights or security against or to claim payment from any person before the Bond Trustee may claim from the Guarantor under this Deed. This waiver applies irrespective of any law or any provision of this Deed or the Guaranteed Bonds to the contrary.

7. Preservation of rights

Continuing obligations

- 7.1 The obligations of the Guarantor hereunder shall be continuing obligations notwithstanding any settlement of account and, in particular but without limitation, shall not be considered satisfied by any intermediate payment or satisfaction of all or any of the Guaranteed Obligations.

Waiver of defences

7.2 The obligations of the Guarantor under this Deed shall not in any way be affected by any act, omission, matter or thing which, but for this provision, would reduce, release, diminish or prejudice any of its obligations under this Deed. In particular (but without limitation), the obligations of the Guarantor under this Deed shall not be affected by:

- (A) any lack of validity, enforceability or legality of, or any amendment to, any of the Guaranteed Obligations or the Guaranteed Bonds;
- (B) the granting of any time, consent, waiver or other indulgence or concession by any party to the Issuer;
- (C) any insolvency or similar proceedings in relation to the Issuer or any other person;
- (D) the release of the Issuer or any other person under the terms of any composition or arrangement with any creditor;
- (E) the existence of any claim, set-off or other right which the Issuer or the Guarantor may have at any time against the Holders, the Bond Trustee or any other person;
- (F) any amalgamation, merger or reconstruction that may be effected by the Holders, the Bond Trustee or the Issuer with any other person, including any reconstruction by the Holders, the Bond Trustee or the Issuer involving the formation of a new company and the transfer of all or any of its assets to that company, or any sale or transfer of the whole or any part of the undertaking and assets of the Holders, the Bond Trustee or the Issuer to any other person;
- (G) any incapacity, lack of power, authority or legal personality of or dissolution, insolvency or change in the members or status of the Issuer, the Guarantor or any other person;
- (H) any variation, amendment, waiver, release, novation, supplement, extension, restatement or replacement of the Guaranteed Bonds or the Bond Trust Deed or any other guarantee, indemnity, security or other document, in each case however fundamental and of whatsoever nature;
- (I) any change in the identity of the Holders or the Bond Trustee;
- (J) the refusal or failure to take up, hold, perfect or enforce by any person any rights under or in connection with any guarantee, indemnity, security or other document (including any failure to comply with any formality or other requirement or any failure to realise the full value of any security); or
- (K) any other act, omission, event, matter or circumstance which would have discharged or affected the liability of the Guarantor had it been the principal debtor under the Guaranteed Bonds, or anything done or omitted by any person which, but for this provision, might exonerate or discharge the Guarantor or otherwise reduce or extinguish its liability under this Deed.

8. Termination

8.1 Subject to Clause 8.2 below, this Deed shall terminate upon the last to occur of:

- (A) the payment by the Guarantor of an amount equal to the aggregate amount of all Guaranteed Amounts payable hereunder; and

- (B) (i) the day following the date on which any payment in respect of a Guaranteed Obligation could have been avoided in whole or in part under Insolvency Law; or
- (ii) if the Issuer becomes subject to any proceedings or other action pursuant to Insolvency Law ("**Insolvency Proceedings**") prior to the occurrence of (i) above, then this Deed shall terminate on the last to occur of:
 - (x) the date of the final non-appealable conclusion or dismissal of the relevant Insolvency Proceedings without continuing jurisdiction by the court in such Insolvency Proceedings; and
 - (y) if the Bond Trustee or a Holder is required to return any payment (or portion thereof) in respect of such Guaranteed Obligation that is declared a Preference as a result of such Insolvency Proceedings, the date on which the Guarantor has made all payments required to be made under the terms of this Deed to the Bond Trustee for the benefit of the relevant Holders in respect of all Avoided Payment Amounts.

8.2 Clause 8.1 above shall be interpreted as referring to this Deed as it applies, in each case and separately, to the Guaranteed Bonds the subject of the various Guarantee Certificates and, accordingly, to the guarantee constituted by this Deed and the relevant Guarantee Certificate such that this Deed shall be capable of terminating in so far as it applies to the Guaranteed Bonds the subject of any specific Guarantee Certificate whilst continuing in so far as it applies to the Guaranteed Bonds the subject of each other Guarantee Certificate.

8.3 Without prejudice to Clauses 8.1 and 8.2 above, this Deed shall finally terminate upon the last to occur of:

- (A) termination, in accordance with Clause 8.1 above, in respect of every Guaranteed Bond then in issue; and
- (B) the Issuer having confirmed to the Guarantor in writing that it has no intention of issuing further Bonds under the Programme.

9. Miscellaneous

This Deed constitutes the entire agreement between the Guarantor, the Bond Trustee and the Holders in relation to the Guarantor's obligation to make payments to the Bond Trustee for the benefit of the Holders in respect of Guaranteed Amounts which become Due for Payment but shall have remained unpaid by reason of Non-payment or Avoided Payment Amounts and supersedes any previous agreement between the Guarantor, the Bond Trustee and the Holders in relation thereto.

10. Notices

In writing

10.1 Any communication in connection with this Deed (including, for the avoidance of doubt, any Notice of Demand) must be in writing and, unless otherwise stated, may be given:

- (A) in person, by post: or
- (B) to the extent agreed between the Guarantor and the Bond Trustee, by e-mail or other electronic communication.

- 10.2 For the purpose of this Deed, an electronic communication will be treated as being in writing.
- 10.3 Unless it is agreed to the contrary, any consent or agreement required under this Deed must be given in writing.

Contact details

- 10.4 The contact details of the Bond Trustee for the purpose of this Clause 10 are:

Address: U.S. Bank Trustees Limited, Fifth Floor, 125 Old Broad Street, London EC2N 1AR

E-mail: mbs.relationship.management@usbank.com

Attention: Relationship Management Group

- 10.5 The contact details of the Guarantor for the purpose of this Clause 10 are:

Address: 2 Marsham Street, Westminster, London SW1P 4DF

E-mail: ERSguarantees@communities.gsi.gov.uk
Jacinda.Humphrey@communities.gsi.gov.uk

Attention: Finance and PRS Guarantees, DCLG

- 10.6 The Bond Trustee and the Guarantor may change their contact details by giving five Business Days' notice to the other.
- 10.7 Where the Bond Trustee or the Guarantor nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

Effectiveness

- 10.8 Subject to Clause 10.9, any communication in connection with this Deed will be deemed to be given as follows:

- (A) if delivered in person, at the time of delivery;
- (B) if posted, when it has been received at the relevant address, or (if earlier) five Business Days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (C) if by e-mail or any other electronic communication, when received in legible form,

provided that, in the case of a communication to the Guarantor in connection with this Deed (including, for the avoidance of doubt, any Notice of Demand), such communication will only be effective on actual receipt by the Guarantor.

- 10.9 A communication given under Clause 10.8 but received on a non-Business Day or after 5:00pm in the place of receipt (or, in the case of Receipt of a Notice of Demand by the Guarantor, 12:00 noon (London time)) will only be deemed to be given on the next Business Day in that place.

English language

- 10.10 Any notice given in connection with this Deed must be in English.
- 10.11 Any other document provided in connection with this Deed must be:

- (A) in English; or
- (B) (unless the Guarantor otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

11. Changes to the parties

11.1 The rights and obligations of the Guarantor under this Deed shall not be assigned, novated or otherwise transferred (whether by virtue of any legislation or any scheme pursuant to any legislation or otherwise) to any person other than to any public body (being a single entity) acquiring the whole of the rights and the obligations of the Guarantor under this Deed and having the legal capacity, power and authority to become a party to and to perform the obligations of the Guarantor under this Deed, being:

- (A) a Minister of the Crown pursuant to an Order under the Ministers of the Crown Act 1975;
- (B) a governmental body or department which has sufficient financial standing or financial resources to perform the obligations of the Guarantor under this Deed; or
- (C) any other public body whose obligations under this Deed are unconditionally and irrevocably guaranteed (in a form reasonably acceptable to the Issuer) by the Guarantor or a Minister of the Crown having the legal capacity, power and authority to perform the obligations of the Guarantor under this Deed,

(such entity, the "**Incoming Guarantor**").

11.2 A transfer of obligations under this Clause 11 will be effective only if the Incoming Guarantor confirms to the Issuer and the Bond Trustee in form and substance satisfactory to both the Issuer and the Bond Trustee (acting reasonably) that it is bound by the terms of this Deed. On the transfer becoming effective in this manner the Guarantor will be released from its obligations under this Deed to the extent that they are transferred to the Incoming Guarantor.

12. Governing law

This Deed and any non-contractual obligations arising out of or in connection with it are governed by, and shall be construed in accordance with, English law.

13. Jurisdiction

13.1 The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this Deed (including a dispute regarding the existence, validity or termination of this Deed) (a "**Dispute**").

13.2 The parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes and accordingly no party will argue to the contrary.

IN WITNESS whereof this Deed has been executed by the Guarantor, and is intended to be, and is hereby delivered, as a deed poll on the date specified above.

SCHEDULE 1

FORM OF NOTICE OF DEMAND

EITHER

[To: The Secretary of State for Communities and Local Government

Attention: Finance and PRS Guarantees, DCLG
2 Marsham Street
Westminster
London SW1P 4DF]

OR

[By email to: ERSguarantees@communities.gsi.gov.uk
Jacinda.Humphrey@communities.gsi.gov.uk]²

[insert date]

Deed of Guarantee dated [insert date] in respect of a £3,500,000,000 Guaranteed Secured Bond Programme of PRS Finance plc (the "Issuer") – Notice of Demand

1. We refer to the deed of guarantee dated [insert date] (the "**Guarantee**") executed by the Secretary of State for Communities and Local Government (the "**Guarantor**") in favour of the Bond Trustee in respect of certain liabilities of the Issuer under certain of the bonds issued under the Programme.
2. Unless the context otherwise requires, capitalised terms used in this Notice of Demand and not defined herein shall have the meanings provided in the Guarantee. [In addition, in this Notice of Demand, "**Cash Manager**" means Elavon Financial Services DAC, UK Branch.]
3. The undersigned, a duly authorised officer of the Bond Trustee, hereby certifies to the Guarantor that:
 - (a) the Bond Trustee is the "Trustee" under the Bond Trust Deed for the Holders;
 - (b) **EITHER** [the Bond Trustee understands, on the basis of notification received from the [Agent/Cash Manager], that the deficiency in respect of the Guaranteed Amounts which [are/were] Due for Payment on [insert Due Date] (the "**Affected Guaranteed Obligations**") [will be/was/is] [insert applicable currency and amount] (the "**Shortfall**") (and of such Shortfall (i) [insert amount] is Scheduled Interest on the Affected Guaranteed Obligations and (ii) [insert amount] is Scheduled Principal on the Affected Guaranteed Obligations);]

OR [the Bond Trustee or the Holders [has/have] been required to repay [insert applicable currency and amount] (the "**Avoided Payment Amount**") to the Issuer on [insert date] in connection with a Preference declared or required to be recovered from the Bond Trustee or such Holder(s) pursuant to any Insolvency Law in accordance with a final non-appealable order of a court of competent jurisdiction;]

² Or such other address or email address(es) as the Guarantor may from time to time notify to the Bond Trustee in accordance with Clause 10 (Notices).

- (c) the Bond Trustee is making a claim under the Guarantee for the [Shortfall/Avoided Payment Amount] to be applied to the payment of the Guaranteed Amounts which [are Due for Payment/were paid but found to be a Preference];
 - (d) the Bond Trustee agrees that, following payment of funds by the Guarantor, it shall use reasonable endeavours to procure (i) that such amounts are applied directly to the payment of Guaranteed Amounts which [are Due for Payment/were paid but found to be a Preference]; (ii) that such funds are not applied for any other purpose; and (iii) the maintenance of an accurate record of such payments with respect to each Guaranteed Obligation and the corresponding claim on the Guarantee and the proceeds thereof (and, for the purposes of (i) and (ii) above, it shall be sufficient if the Bond Trustee directs the Guarantor to make payment to the Agent); and
 - (e) payment should be made by the Guarantor in [*insert currency*] by credit to an account in the name of [*insert name of Bond Trustee or Agent*] with [*insert name of bank*], of [*insert address of bank*], Sort Code [*insert sort code*] and Account Number [*insert account number*].
4. The Bond Trustee acknowledges that the Guarantee provides that, effective as of the date on which the [Shortfall/Avoided Payment Amount] is credited to such account, the Guarantor shall, to the extent of such payment, be fully and automatically subrogated pursuant to applicable law to all of the Bond Trustee's and the Holders' rights to payment of any amounts payable in respect of such [Shortfall/Avoided Payment Amount] (including, without limitation, (i) any rights and benefits attached to, and any security conferred or granted by law, contract or otherwise in respect of, the Affected Guaranteed Obligations and (ii) any default interest on any of the Affected Guaranteed Obligations accrued pursuant to the Guaranteed Bonds after the date of payment by the Guarantor).
5. This Notice of Demand may be revoked by written notice by the Bond Trustee to the Guarantor at any time prior to the date specified in paragraph 3(b) above on which Guaranteed Amounts are Due for Payment to the extent that moneys are actually received in respect of the Guaranteed Obligations prior to such date from a source other than the Guarantor.
6. This Notice of Demand and any non-contractual obligations arising out of or in connection with it shall be governed by and construed in accordance with English law.

IN WITNESS WHEREOF the Bond Trustee has executed and delivered this Notice of Demand on the date specified above.

U.S. BANK TRUSTEES LIMITED

By:

Name:

Title:

Phone:

SCHEDULE 2

FORM OF GUARANTEE CERTIFICATE

THE SECRETARY OF STATE FOR COMMUNITIES AND LOCAL GOVERNMENT

2 Marsham Street
Westminster
London SW1P 4DF
(the "**Guarantor**")

To: PRS Finance plc

[insert date]

Deed of Guarantee dated [insert date] in respect of a £3,500,000,000 Guaranteed Secured Bond Programme of PRS Finance plc (the "Issuer") – Guarantee Certificate

1. We refer to the Deed of Guarantee dated [insert date] (the "**Guarantee**") executed by the Guarantor in favour of the Bond Trustee in respect of certain liabilities of the Issuer under certain of the bonds issued under the Programme.
2. Unless the context otherwise requires, capitalised terms used in this Guarantee Certificate and not defined herein shall have the meanings provided in the Guarantee.
3. This Guarantee Certificate is a "Guarantee Certificate" for the purposes of the Guarantee.
4. The Guarantor hereby certifies that the bonds listed below are, upon their issue, Guaranteed Bonds for the purposes of the Guarantee:

Issuer	Description	ISIN	Nominal Amount
PRS Finance plc	[●]	[●]	[●]

IN WITNESS whereof this Guarantee Certificate has been executed by the Guarantor, and is intended to be, and is hereby delivered, as a deed poll on the date specified above.

EXECUTED as a deed by)
THE SECRETARY OF STATE FOR)
COMMUNITIES AND LOCAL)
GOVERNMENT)

The Corporate Seal of the Secretary of)
State for Communities and Local)
Government hereunto affixed is)
authenticated by:)

Signature:

Name (print):

A senior official in the Department for Communities and Local Government

DEED OF GUARANTEE SIGNATURE PAGE

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INVESTMENT CONSIDERATIONS

The following is a summary of certain aspects of the Bonds about which prospective Bondholders should be aware.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer or the Guarantor 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. 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.

This section is not intended to be exhaustive and prospective investors should also read the detailed information set out elsewhere in this Programme Memorandum and reach their own views prior to making any investment decision. Further, any prospective Bondholder should take its own legal, financial, accounting, tax and other relevant advice as to the viability of its investment.

Investment Considerations Relating to the Issuer

Special Purpose Vehicle Issuer

The Issuer is a special purpose finance entity with no business operations other than the issuance of Bonds pursuant to the Programme and entry into Loan Agreements with Approved Borrowers. As such the Issuer is entirely dependent upon (a) receipt of funds from the Approved Borrowers under the Loan Agreements, and the Guarantor under the Loan Guarantees and (b) the provision of services from third parties including, without limitation, the Licensee pursuant to the Intra-group Services Agreement and the Corporate Services Provider pursuant to the Corporate Services Agreement, in each case, in order to fulfil its obligations under the Bonds. To the extent the Issuer has insufficient funds to pay Scheduled Interest and Scheduled Principal under the Bonds, the Trustee (on behalf of the Bondholders, the Receiptholders and the Couponholders) will have recourse to the Guarantor pursuant to the Bond Guarantee.

Investment Considerations Relating to the Guarantor and the Bond Guarantee

Credit Support

As a result of the Bond Guarantee, the Bondholders' receipt of scheduled principal and interest payments under the Bonds does not depend on the Issuer receiving amounts from the Approved Borrowers under the Loan Agreements or from the Guarantor under the Loan Guarantees. To the extent the Issuer has insufficient funds to pay scheduled interest and principal under the Bonds, the Trustee (on behalf of the Bondholders, the Receiptholders and the Couponholders) will have recourse to the Guarantor pursuant to the Bond Guarantee. In deciding to purchase the Bonds, Bondholders will ultimately be relying on their assessment of the Bond Guarantee and the creditworthiness of the Guarantor. The rating of the Bonds is linked directly to that of the Guarantor.

Credit Rating

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

The rating of the Programme and the rating of the Bonds issued under the Programme are based on the Bond Guarantee and the Guarantor. Pursuant to the Bond Guarantee, the Guarantor will guarantee payments of scheduled principal and interest under the Bonds (the **Guaranteed Amounts**). The payment of the Guaranteed Amounts will, therefore, depend upon the Guarantor performing its obligations under the Bond Guarantee to the extent that the Issuer has defaulted in making payments of scheduled principal and interest under the Bonds. The likelihood of payment of the Guaranteed Amounts in these circumstances will depend upon the creditworthiness of the Guarantor. Consequently, investors are relying on the creditworthiness of the Guarantor to perform its obligations under the Bond Guarantee. Any event that would hinder the Guarantor's ability to guarantee the Bonds would adversely affect the likelihood of investors receiving payments of scheduled principal and interest on the Bonds and could result in a withdrawal or downgrade of the ratings of the Programme and/or the Bonds.

Withdrawal of the UK from the European Union

On 23rd 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 and, on 29th March, 2017, the UK Government invoked article 50 of the Treaty of Lisbon amending the Treaty on European Union and the Treaty on the Functioning of the European Union, relating to withdrawal of a member state from the European Union. Under article 50, the Treaty on European Union and the Treaty on the Functioning of the European Union shall cease to apply in the member state which decides to withdraw from the date of entry into force of a withdrawal agreement, or, failing that, two years after the notification of intention to withdraw, although this period may be extended in certain circumstances. 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 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 Guarantor. 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.

Control by the Guarantor

Although the Bond Guarantee mitigates the credit risks to which potential investors in the Bonds would otherwise be exposed, involvement of the Guarantor will have certain consequences. In particular, in relation to any matter, provided that no Guarantor Trigger Event has occurred and is continuing, the Guarantor shall have the right to direct the Trustee in respect of all matters relating to the Conditions, the Trust Deed and the other Programme Documents (other than a Bondholder Entrenched Right).

In addition, prior to the occurrence of a Guarantor Trigger Event that is continuing, the Trustee shall, without the consent of Bondholders, Receiptholders or Couponholders, if so directed by the Guarantor, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the Conditions or any of the provisions of the Trust Deed (provided that the subject matter is not a Bondholder Entrenched Right) in the circumstances and subject to the conditions described in Condition 19 (*Meetings of Bondholders, Modification, Waiver and Substitution*). The Trustee will incur no liability to any person for so doing.

Sovereign risks and state aid

Transactions entered into with sovereigns or other emanations of the state (a **Relevant State Entity**) can be exposed to certain risks, including in relation to sovereign immunity and procurement and competition law. In the context of the provision of a guarantee by a Relevant State Entity, the risks include that a guarantee constitutes unlawful state aid.

The Guarantor has submitted to the jurisdiction of the English Courts in relation to any dispute arising out of or in connection with the provision of any Loan Guarantee and the Bond Guarantee (together the **Guarantees**).

The Issuer has been advised that the Guarantees should not constitute State aid on the grounds that they should comply with the provisions of section 3.4 of the Commission Notice on the application of Articles 87 and 88 of the EC Treaty (now Articles 107 and 108 of the Treaty on the Functioning of the European Union) to State aid in the form of the guarantees (2008/C-155/02). The Issuer is not aware of any challenge on the basis of State aid in relation to the Private Rented Guarantee Scheme.

Investment Considerations Relating to the Bonds

Changes of Law

The conditions of the Bonds are based on English law in effect as at the date of this Programme Memorandum. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Programme Memorandum and any such change could materially adversely impact the value of any Bonds affected by it, nor can any assurance be given as to whether any such change would adversely affect the ability of the Issuer to make payments under the Bonds or the ability of the Guarantor to make payments under the Bond Guarantee.

Taxation – No Gross Up

Neither the Issuer nor the Guarantor will be obliged to pay any additional amounts to Bondholders to compensate them for any tax, assessment or charge required to be withheld or deducted from payments in respect of the Bonds by the Issuer or the Agent. Accordingly, in the event of a change of tax law, there may be an effect on the amount of principal or interest receivable by Bondholders under the terms of the Bonds.

Modification, Waivers and Substitution

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

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

Denominations involving Integral Multiples: Definitive Bonds

In relation to any issue of Bonds which have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Bonds may be traded in amounts in excess of the minimum Specified Denomination that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a

principal amount of Bonds at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Bond in respect of such holding (should definitive Bonds be printed) and would need to purchase a principal amount of Bonds at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

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

Redemption prior to maturity

In the event that the Bonds become redeemable prior to maturity in circumstances where they are to be redeemed at par, it may not be possible for an investor to reinvest the redemption proceeds at an effective yield as high as the yield on the Bonds. Condition 10.3 (*Early Redemption*) provides for redemption at par in respect in the case of an Illegality Redemption or a Tax Redemption of Fixed Rate Bonds and in respect of any early redemption of Floating Rate Bonds and Condition 13 (*Events of Default*) provides for redemption at par following an Event of Default.

The regulation and reform of "benchmarks" may adversely affect the value of Bonds linked to or referencing such "benchmarks"

Interest rates and indices which are deemed to be "benchmarks" are the subject of recent national and international regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted. Any such consequence could have a material adverse effect on any Bonds linked to or referencing such a "benchmark". Regulation (EU) 2016/1011 (the **Benchmarks Regulation**) was published in the Official Journal of the EU on 29th June, 2016 and applies from 1st January, 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. It will, among other things, (i) require benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed) and (ii) prevent certain uses by EU supervised entities of "benchmarks" of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed).

The Benchmarks Regulation could have a material impact on any Bonds linked to or referencing a "benchmark", in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the requirements of the Benchmarks Regulation. Such changes could, among other things, have the effect of reducing, increasing or otherwise affecting the volatility of the published rate or level of the "benchmark".

More broadly, any of the international or national reforms, or the general increased regulatory scrutiny of "benchmarks", could increase the costs and risks of administering or otherwise participating in the setting of a "benchmark" and complying with any such regulations or requirements. Such factors may have the following effects on certain "benchmarks": (i) discourage market participants from continuing to administer or contribute to the "benchmark"; (ii) trigger changes in the rules or methodologies used in the "benchmark" or (iii) lead to the disappearance of the "benchmark". Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on any Bonds linked to or referencing a "benchmark".

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmarks Regulation reforms in making any investment decision with respect to any Bonds linked to or referencing a "benchmark".

Fixed Rate Bonds

Investment in Fixed Rate Bonds involves the risk that if market interest rates subsequently increase above the rate paid on the Fixed Rate Bonds, this will adversely affect the value of the Fixed Rate Bonds.

Floating Rate Bonds

Future discontinuance of LIBOR may adversely affect the value of any Floating Rate Bonds which reference LIBOR.

On 27th July, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it does not intend to continue to persuade, or use its powers to compel, panel banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis is not guaranteed after 2021. It is not possible to predict whether, and to what extent, panel banks will continue to provide LIBOR submissions to the administrator of LIBOR going forwards. This may cause LIBOR to perform differently than it did in the past and may have other consequences which cannot be predicted.

Investors should be aware that, if LIBOR were discontinued or otherwise unavailable, the rate of interest on any Floating Rate Bonds which reference LIBOR will be determined for the relevant period by the fall-back provisions applicable to such Bonds. Depending on the manner in which the LIBOR rate is to be determined under the Conditions, this may (i) if ISDA Determination applies, be reliant upon the provision by reference banks of offered quotations for the LIBOR rate which, depending on market circumstances, may not be available at the relevant time or (ii) if Screen Rate Determination applies, result in the effective application of a fixed rate based on the rate which applied in the previous period when LIBOR was available. Any of the foregoing could have an adverse effect on the value or liquidity of, and return on, any Floating Rate Bonds which reference LIBOR.

Investment Considerations Relating to the Market Generally

Limited Liquidity

Bonds may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. The Dealers are not obliged to make a market in the Bonds and, if any Dealer does, any such market-making may be discontinued at any time without notice. Consequently, a purchaser must be prepared to hold the Bonds for an indefinite period of time or until the Maturity Date.

Exchange rate risks and exchange controls

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

FORM OF THE BONDS

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

The Global Bonds (as defined below) are intended to be held in a manner which would allow Eurosystem eligibility. However, this does not necessarily mean that the Bonds of the relevant Tranche will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any times during their life as such recognition depends upon satisfaction of the Eurosystem eligibility criteria. The Common Safekeeper will either be Euroclear or Clearstream, Luxembourg or another entity approved by Euroclear and Clearstream, Luxembourg, as indicated in the applicable Pricing Supplement.

Whilst any Bond is represented by a 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 such 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 Agent.

On and after the date (the **Exchange Date**) which is 40 days after a Temporary Global Bond is issued, interests in such Temporary Global Bond will be exchangeable (free of charge) upon a request as described therein for interests in a permanent global bond (a **Permanent Global Bond** and, together with a Temporary Global Bond, the **Global Bonds**) of the same Series against certification of beneficial ownership as described above unless such certification has already been given. The holder of a 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 a Permanent Global Bond is improperly withheld or refused.

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

A Permanent Global Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bonds with, where applicable, 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 13 (*Events of Default*)) 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 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 Permanent Global Bond in definitive form and a certificate to such effect signed by two directors of the Issuer is given to the Trustee. The Issuer will promptly give notice to Bondholders in accordance with Condition 18 (*Notices*) if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Global Bond) or the Trustee may give notice to the 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 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 Agent.

The following legend will appear on all Bonds (other than Temporary Global Bonds), receipts and interest coupons relating to such 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 Bonds, receipts or interest coupons and will not be entitled to capital gains treatment in respect of any gain on any sale, disposition, redemption or payment of principal in respect of such Bonds, receipts or interest coupons.

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

Pursuant to the Agency Agreement (as defined under "*Conditions of the Bonds*"), the Agent shall arrange that, where a further Tranche of Bonds is issued which is intended to form a single Series with an existing Tranche of Bonds at a point after the Issue Date of the further Tranche, the Bonds of such further Tranche shall be assigned a common code and ISIN which are different from the common code and ISIN assigned to Bonds of any other Tranche of the same Series until such time as the Tranches are consolidated and form a single Series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S under the Securities Act) applicable to the Bonds of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement.

No Bondholder, Receiptholder or Couponholder shall be entitled to proceed directly against the Issuer or the Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

CONDITIONS OF THE BONDS

The following are the Conditions of the Bonds which will be incorporated by reference into each Global Bond (as defined below) and each definitive Bond, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Bond will have endorsed thereon or attached thereto such Conditions. The applicable Pricing Supplement in relation to any Tranche of Bonds may specify other conditions which shall, to the extent so specified or to the extent inconsistent with the following Conditions, replace or modify the following Conditions for the purpose of such Bonds. Terms used but not otherwise defined in these Conditions shall have the meanings given to them in the applicable Pricing Supplement. The applicable Pricing Supplement will be endorsed upon, or attached to, each Global Bond and definitive Bond.

This Bond is one of a Series (as defined below) of Bonds issued by PRS Finance plc (the **Issuer**) constituted by an amended and restated trust deed (as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 3rd April, 2017 made between the Issuer and U.S. Bank Trustees Limited (the **Trustee**, which expression shall include any successor as Trustee).

Each of the Bonds is unconditionally and irrevocably guaranteed as to payments of Scheduled Principal and Scheduled Interest (each as defined below), pursuant to (a) an amended and restated deed of guarantee dated 3rd April, 2017 (the **Deed of Guarantee**) entered into by the Secretary of State for Communities and Local Government (the **Guarantor**) in favour of the Trustee in accordance with the Guarantor's Private Rented Guarantee Scheme and (b) a guarantee certificate (each a **Guarantee Certificate**) entered into by the Guarantor in respect of the Tranche (as defined below) of Bonds to which the relevant Bond relates in accordance with the Deed of Guarantee (the Deed of Guarantee and each Guarantee Certificate together being, the **Bond Guarantee**).

References herein to the **Bonds** shall be references to the Bonds of this Series and shall mean:

- (a) in relation to any Bonds represented by a global Bond (a **Global Bond**), units of each Specified Denomination;
- (b) any Global Bond; and
- (c) any definitive Bonds issued in exchange for a Global Bond.

The Bonds, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an amended and restated agency agreement (as modified and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 3rd April, 2017 and made between the Issuer, the Trustee, Elavon Financial Services DAC, acting through its UK Branch as issuing and principal paying agent and calculation agent (the **Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

The final terms for this Bond (or the relevant provisions thereof) are set out in Part A of the Pricing Supplement attached to or endorsed on this Bond and may specify other conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify these Conditions for the purposes of this Bond. References to the **applicable Pricing Supplement** are, unless otherwise stated, to Part A of the Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Bond.

Definitive Bonds have interest coupons (**Coupons**) and, in the case of Bonds which, when issued in definitive form, have more than 27 interest payments remaining, talons for further Coupons (**Talons**) attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires,

be deemed to include a reference to Talons or talons. Definitive Bonds which are repayable in instalments have receipts (**Receipts**) for the payment of the instalments of principal (other than the final instalment) attached on issue. Global Bonds do not have Receipts, Coupons or Talons attached on issue.

The Trustee acts for the benefit of the holders for the time being of the Bonds (the **Bondholders**, which expression shall, in relation to any Bonds represented by a Global Bond, be construed as provided below), the holders of the Receipts (the **Receiptholders**) and the holders of the Coupons (the **Couponholders**, which expression shall, unless the context otherwise requires, include the holders of the Talons), in accordance with the provisions of the Trust Deed.

As used herein, **Tranche** means Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Bonds together with any further Tranche or Tranches of Bonds which (a) are expressed to be consolidated and form a single series and (b) have the same terms and conditions or terms and conditions which are the same in all respects save for the amount and date of the first payment of interest thereon and the date from which interest starts to accrue.

Copies of the Trust Deed, the Original Trust Deed, the Agency Agreement, the Cash Management Agreement (as defined below), the Subordination Deed and the Bond Guarantee are available for inspection during normal business hours at the registered office for the time being of the Trustee being at 3rd April, 2017 at Fifth Floor, 125 Old Broad Street, London EC2N 1AR and at the specified office of each of the Paying Agents. The applicable Pricing Supplement will only be obtainable by a Bondholder holding one or more Bonds and such Bondholder must produce evidence satisfactory to the Issuer, the Trustee and the relevant Paying Agent as to its holding of such Bonds and identity. 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 Trust Deed, the Agency Agreement and the Bond Guarantee and the applicable Pricing Supplement which is applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Agency Agreement, the Cash Management Agreement and the Bond Guarantee.

Words and expressions defined in the Trust Deed or the Agency Agreement or used in the applicable Pricing Supplement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed and the Agency Agreement, the Trust Deed will prevail and, in the event of inconsistency between the Trust Deed or the Agency Agreement and the applicable Pricing Supplement, the applicable Pricing Supplement will prevail.

1. DEFINITIONS

Account Agreement means the account agreement dated 29th July, 2015 and made between the Issuer, the Guarantor, the Trustee and the Account Bank (as modified and/or supplemented and/or restated from time to time);

Account Bank means Elavon Financial Services DAC, acting through its UK Branch as account bank pursuant to the Account Agreement or any successor account bank appointed thereunder;

Aggregate Principal Amount Outstanding of a Series of Bonds on any date shall be the aggregate original nominal amount of such Series of Bonds less the aggregate amount of all principal payments (including, without limitation, all Instalment Amounts) in respect of such Series of Bonds which have become due and payable since their issue date except if and to the extent that any such payment has been improperly withheld or refused;

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

Approved Borrower has the meaning given in the Licence;

Associated Approved Borrower means each Approved Borrower pursuant to an Associated Loan Agreement;

Associated Loan Agreement means, in respect of each Series of Bonds, a Loan Agreement pursuant to which the Issuer advances a portion of the issue proceeds of such Series of Bonds for application by such Approved Borrower in accordance with the rules of the Private Rented Guarantee Scheme;

Bondholder Entrenched Rights means the right to vote on, or agree to, any proposal:

- (a) to change any date fixed for payment of principal, interest, redemption price or other amounts in respect of the Bonds, Receipts or Coupons, to reduce the amount of principal, interest or redemption price payable on any date in respect of the Bonds, Receipts or Coupons, to alter the method of calculating the amount of any payment in respect of the Bonds, Receipts or the Coupons or the date for any such payment;
- (b) to effect any exchange of the Bonds for, or the conversion of the Bonds into, shares, bonds or other obligations of the Issuer, the Guarantor or any other person or to approve the substitution of any person for the Issuer as principal obligor under the Bonds, Receipts and Coupons;
- (c) to change the currency of payments under the Bonds, Receipts or Coupons;
- (d) to modify any provision of the Bond Guarantee in a way which, in the opinion of the Trustee, is materially prejudicial to the interests of the Bondholders, the Receiptholders, the Couponholders and/or the Trustee (in its capacity as beneficiary of the Bond Guarantee);
- (e) to approve the substitution of any person for the Guarantor (or any previous substitute) as guarantor of the Bonds, Receipts and Coupons (other than as permitted by the Bond Guarantee);
- (f) to change the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution;
- (g) to release the Security;
- (h) to amend the definition of "Guarantor Trigger Event" or the concept of "continuing" in relation thereto or the use thereof in these Conditions or the Trust Deed;
- (i) to approve any amendment which would result in a change or elimination of the rights of the Bondholders, Receiptholders or Couponholders to receive any payment not contemplated by the original terms of the Bonds (save as results from procedural and/or administrative changes which are not material and arise in the ordinary course of administration of the Bonds); or
- (j) to amend this definition or the use thereof in these Conditions and the Trust Deed;

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

Calculation Amount Outstanding on any date shall be the original Calculation Amount less the aggregate amount of all principal payments (including, without limitation, all Instalment Amounts)

in respect of such Calculation Amount which have become due and payable since the issue date of the Bond except if and to the extent that any such payment has been improperly withheld or refused;

Cash Management Agreement means the cash management agreement originally dated 29th July, 2015 and made between, *inter alios*, the Issuer, the Guarantor, the Trustee and the Cash Manager (as amended and restated by an amendment and restatement agreement dated 11th December, 2015 and made between the same parties and as further modified and/or supplemented and/or restated from time to time);

Cash Manager means Elavon Financial Services DAC, acting through its UK Branch as cash manager pursuant to the Cash Management Agreement or any successor cash manager appointed thereunder;

continuing, when used to describe a Guarantor Trigger Event, means that any one or more of the events set out in the definition thereof have occurred and have not been waived by an Extraordinary Resolution of the Bondholders, provided that, in the case of non-payment of a Guaranteed Amount on the date stipulated in the Bond Guarantee, such non-payment by the Guarantor has continued for a period of 10 days in respect of Scheduled Principal or for a period of 14 days in respect of Scheduled Interest and has not been waived by an Extraordinary Resolution of the Bondholders;

Corporate Services Agreement means the corporate services agreement dated 29th July, 2015 and made between the Issuer, the Licensee and the Corporate Services Provider (as modified and/or supplemented and/or restated from time to time);

Corporate Services Provider means Intertrust Management Limited (formerly Structured Finance Management Limited) as corporate services provider pursuant to the Corporate Services Agreement or any successor corporate services provider appointed thereunder;

Custodian means Elavon Financial Services DAC, acting through its UK Branch as custodian pursuant to the Retained Bond Custody Agreement or any successor custodian appointed thereunder;

Dealers means the entities appointed as such pursuant to the Programme Agreement;

Default Redemption means a redemption pursuant to Condition 10.3 (*Early Redemption*) following the occurrence of a Loan Default Event under one or more Associated Loan Agreements;

Event of Default has the meaning given in Condition 13 (*Events of Default*);

Extraordinary Resolution has the meaning given to it in the Trust Deed;

Guarantee Fee has the meaning given to "Issuer Guarantor Fee" in the Licence;

Guaranteed Amount has the meaning given to it in the Bond Guarantee;

Guarantor Security means the security interests constituted or expressed to be constituted by the Issuer in respect of the whole of the Issuer's undertaking, property and assets, whatsoever and wheresoever situated, present and future, in favour of the Guarantor by or pursuant to the Issuer-Guarantor Security Deed;

Guarantor Trigger Event means (a) the Issuer fails to pay any Guaranteed Amount on the due date thereof and such Guaranteed Amount is not paid by the Guarantor on the date stipulated in the Bond Guarantee; (b) the Guarantor disclaims, disaffirms, repudiates and/or challenges the validity of any of its obligations under the Bond Guarantee or seeks to do so; or (c) the Bond Guarantee ceases to be in full force and effect other than in circumstances where it has been replaced by a guarantee from

another guarantor on terms previously approved in writing by the Trustee or by an Extraordinary Resolution; and references to the Bond Guarantee in this definition shall mean any Bond Guarantee in respect of any Tranche of Bonds (whether in respect of the Tranche of Bonds of which this Bond forms part or another Tranche of Bonds and whether in respect of a Tranche of Bonds forming part of the Series of Bonds of which this Bond forms part or another Series of Bonds);

Illegality Redemption means a redemption pursuant to Condition 10.3 (*Early Redemption*) following the occurrence of a Loan Illegality Event under one or more Associated Loan Agreements;

Intra-group Services Agreement means the intra-group services agreement dated 29th July, 2015 made between the Issuer and the Licensee (as modified and/or supplemented and/or restated from time to time);

Issuer Expenses means amounts due and payable by the Issuer (i) in respect of fees and expenses (including indemnities) to the Trustee and any Appointee under the Trust Deed, (ii) to the Paying Agents under the Agency Agreement, (iii) to the Custodian under the Retained Bond Custody Agreement, (iv) to the Cash Manager under the Cash Management Agreement, (v) to the Account Bank under the Account Agreement, (vi) to the Primary Servicer under the Servicing Agreement, (vii) to the independent accountants, agents and counsel of the Issuer for fees and expenses (including amounts payable in connection with the preparation of tax forms on behalf of the Issuer and any registered office fees), (viii) to any other person in respect of any governmental fee, charge or tax, (ix) to the Dealers in respect of any amounts payable in respect of indemnities under the Programme Agreement, (x) to the Rating Agency (in respect of fees and expenses in connection with the ratings of the Bonds, including the annual fees payable to the Rating Agency for monitoring such rating), (xi) to the UK Listing Authority and the London Stock Exchange in respect of the listing of the Bonds, (xii) to the Licensee under the Intra-group Services Agreement, (xiii) to the Corporate Services Provider under the Corporate Services Agreement and (xiv) to any other person in respect of any other fees or expenses (including indemnities) permitted under the Trust Deed and the documents delivered pursuant to or in connection with the Trust Deed and the Bonds;

Issuer-Guarantor Security Deed means the security deed dated 29th July, 2015 and made between the Issuer and the Guarantor (as modified and/or supplemented and/or restated from time to time);

Liabilities has the meaning given to it in the Trust Deed;

Licence means the licence dated 10th December, 2014 made between the Guarantor and the Licensee (as modified and/or supplemented and/or restated from time to time) pursuant to which the Guarantor granted the Licensee a licence for the management and delivery of the Private Rented Guarantee Scheme;

Licensee means PRS Operations Limited;

Loan has the meaning given in the Licence;

Loan Agreement has the meaning given in the Licence;

Loan Default Event means an Associated Approved Borrower has become obliged to repay its Loan in full, in accordance with the terms of its Associated Loan Agreement, as a result of an event of default (howsoever defined) thereunder;

Loan Guarantee means each guarantee issued by the Guarantor in respect of certain of the payment obligations of an Associated Approved Borrower to the Issuer under its respective Associated Loan Agreement;

Loan Illegality Event means an Associated Approved Borrower has become obliged to repay its Loan in full, in accordance with the terms of its Associated Loan Agreement, as a result of (a) its obligations thereunder becoming unlawful in any applicable jurisdiction or contrary to any request from or requirement of any fiscal, monetary or other authority with which it is customary for the Associated Approved Borrower to comply, (b) it becoming unlawful for the Issuer or the Licensee to perform any of its obligations thereunder or to fund the relevant Loan or to allow the relevant Loan to remain outstanding or (c) it becoming unlawful under English law for the Issuer to comply with its obligations under the Bonds;

Loan Tax Event means an Associated Approved Borrower has exercised its right to repay its Loan in full, in accordance with the terms of its Associated Loan Agreement, as a result of it becoming obliged to pay to the Issuer or the Licensee additional amounts in respect of any deduction or withholding of tax or in respect of the Issuer or the Licensee becoming obliged to make any payment on account of tax;

Loan Optional Repayment Event means an Associated Approved Borrower has exercised its right to repay all or part of its Loan, in accordance with the terms of its Associated Loan Agreement, other than as a result of a Loan Tax Event;

Optional Redemption means a redemption pursuant to Condition 10.3 (*Early Redemption*) following the occurrence of a Loan Optional Repayment Event under one or more Associated Loan Agreements;

Original Trust Deed means the trust deed dated 29th July, 2015 made between the Issuer and the Trustee (as modified and/or supplemented and/or restated from time to time);

Post-Enforcement Priority of Payments has the meaning given in Condition 6.2 (*Post-enforcement*);

Pre-Enforcement Priority of Payments has the meaning given in the Cash Management Agreement;

Primary Servicer means Situs Asset Management Limited as servicer pursuant to the Servicing Agreement or any successor servicer appointed thereunder;

Principal Amount Outstanding of a Bond on any date shall be its original nominal amount less the aggregate amount of all principal payments (including, without limitation, all Instalment Amounts) in respect of such Bond which have become due and payable since its issue date except if and to the extent that any such payment has been improperly withheld or refused;

Private Rented Guarantee Scheme has the meaning given in the Licence;

Programme Agreement means the amended and restated programme agreement dated 3rd April, 2017 and made between the Issuer and the Dealers (as modified and/or supplemented and/or restated from time to time) and any Subscription Agreement entered into pursuant thereto;

Programme Documents means the Trust Deed, the Agency Agreement, the Retained Bond Custody Agreement, the Cash Management Agreement, the Account Bank Agreement, the Programme Agreement, the Corporate Services Agreement, the Intra-group Services Agreement, the Subordination Deed and the Loan Agreements;

Rating Agency means Moody's Investors Service Limited (or any successor to its ratings business) or such other rating agency which has assigned a solicited rating to the Bonds;

Relevant Date means the date on which a payment first becomes due except that, if the full amount of the money payable has not been received by the Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 18 (*Notices*);

Relevant Document means each Programme Document and any other document (to which the Issuer is a party) referred to in Condition B3.1 of the Licence;

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 and Coupons;

Retained Bond Custody Agreement means the custody agreement relating to the Retained Bonds dated 29th July, 2015 and made between the Issuer and the Custodian, as modified and/or supplemented and/or restated from time to time;

Retained Bonds means any Bonds immediately purchased by the Issuer on the issue date thereof;

Scheduled Interest means interest payable by the Issuer to the Bondholders, or to the Trustee for the benefit of the Bondholders, in respect of the Bonds (but disregarding any default interest, any indemnity payments or any prepayment or early redemption penalties);

Scheduled Principal means principal repayable by the Issuer to the Bondholders, or to the Trustee for the benefit of the Bondholders, in respect of the Bonds (but disregarding any default interest, any indemnity payments or any prepayment or early redemption penalties);

Security means the security created pursuant to the Trust Deed, as described in Condition 5 (*Security*);

Servicing Agreement means the servicing and delegation agreement dated 15th September, 2015 in respect of servicing of payments due to the Issuer pursuant to the Loan Agreements and made between the Issuer and the Primary Servicer, as modified and/or supplemented and/or restated from time to time;

Subordination Deed means the subordination deed dated 29th July, 2015 made between the Issuer, the Cash Manager, the Trustee and the Guarantor (as modified and/or supplemented and/or restated from time to time);

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

Tax Redemption means a redemption pursuant to Condition 10.3 (*Early Redemption*) following the occurrence of a Loan Tax Event under one or more Associated Loan Agreements;

Taxes means present or future taxes, duties, assessments or governmental charges in the nature of tax imposed or levied by or on behalf of a Relevant Jurisdiction; and

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

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

The Bonds are in bearer form, in Sterling and, in the case of definitive Bonds, serially numbered, in the denominations (the **Specified Denomination(s)**) specified in the applicable Pricing Supplement. Bonds of one Specified Denomination may not be exchanged for Bonds of another Specified Denomination.

This Bond may be a Fixed Rate Bond or a Floating Rate Bond, depending upon the Interest Basis shown in the applicable Pricing Supplement.

This Bond may also be an Instalment Bond, depending upon the Redemption Basis shown in the applicable Pricing Supplement.

2.2 Title

Subject as set out below, title to the Bonds, Receipts and Coupons will pass by delivery. The Issuer, the Guarantor, the Paying Agents and the 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 but, in the case of any Global Bond, without prejudice to the provisions set out in the next succeeding paragraph and none of the Issuer, the Guarantor, the Paying Agents or the Trustee shall be liable for so treating such bearer.

For so long as any of the Bonds is represented by a Global Bond held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking S.A. (**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 (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 by the Issuer, the Guarantor, the Paying Agents and the Trustee 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 by the Issuer, the Guarantor, any Paying Agent and the Trustee 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 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. References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in Part B of the applicable Pricing Supplement.

2.3 Retained Bonds

Retained Bonds may be (in each case, together with the related Receipts, Coupons and Talons) purchased by and held by or for the account of the Issuer and may be sold or otherwise disposed of

in whole or in part by private treaty at any time, and shall cease to be Retained Bonds to the extent of and upon such sale or disposal.

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

3. STATUS

The Bonds and any Receipts and Coupons are direct and unconditional obligations of the Issuer, are secured in the manner set out in Condition 5 (*Security*), and rank *pari passu* among themselves.

4. BOND GUARANTEE

4.1 Guarantee

The payment of Scheduled Principal and Scheduled Interest in respect of the Bonds has been unconditionally and irrevocably guaranteed by the Guarantor pursuant to the Bond Guarantee.

4.2 Subrogation of the Guarantor

The Bond Guarantee provides that the Guarantor shall be subrogated to any right of the Bond Trustee, the Bondholders, the Receiptholders and the Couponholders against the Issuer in respect of amounts due in respect of the Bonds which have been paid by the Guarantor under the Bond Guarantee.

5. SECURITY

5.1 Security

The Issuer's obligations in respect of all Series of Bonds are secured under the Original Trust Deed by a second ranking floating charge on the whole of the Issuer's undertaking, property and assets, whatsoever and wheresoever situated, present and future, in favour of the Trustee. Pursuant to the Subordination Deed, such second ranking floating charge will rank subordinate to the first ranking Guarantor Security.

5.2 Enforcement of security

The Security will become enforceable upon the service of notice by the Trustee to the Issuer following the occurrence of an Event of Default which is continuing as provided in Condition 13 (*Events of Default*), in which event the Trustee may, in its discretion, and if so requested in writing by holders of at least one-fifth in aggregate outstanding nominal amount of the Bonds of any Series (excluding any Retained Bonds) or by an Extraordinary Resolution of the Bondholders shall, subject to being indemnified and/or secured and/or pre-funded to its satisfaction, and without any liability as to the consequence of such action and without having regard to individual Bondholders, Receiptholders or Couponholders, take action immediately to enforce such security (including without limitation converting the floating charge into a fixed charge).

6. ORDER OF PAYMENTS

6.1 Pre-enforcement

Subject as follows, payments by the Issuer in respect of the Bonds prior to the Bonds having become due and repayable in full and the Security being enforced (in the event that the Security has become enforceable in accordance with Condition 5.2 (*Enforcement of security*)) will be paid in accordance with the Pre-Enforcement Priority of Payments.

Payments made by the Guarantor under the Bond Guarantee shall not be paid in accordance with the Pre-Enforcement Priority of Payments but shall instead be paid to, or to the order of, the Trustee for payment to the Bondholders, the Receiptholders and/or the Couponholders, as applicable.

6.2 Post-enforcement

The Trust Deed requires that all monies received by or on behalf of the Trustee following enforcement with respect to the Bonds (in the event that the Bonds have become due and repayable in full following an Event of Default as provided in Condition 13 (*Events of Default*)) and/or the Security (in the event that the Security has become enforceable in accordance with Condition 5.2 (*Enforcement of security*)) shall be applied according to the following priority (the **Post-Enforcement Priority of Payments**):

- (a) first, to the payment of all amounts owing to the Trustee, any Appointee and any receiver (including remuneration payable to the Trustee, any such Appointee and any such receiver) under the Trust Deed, the Paying Agents under the Agency Agreement, the Custodian under the Retained Bond Custody Agreement, the Cash Manager under the Cash Management Agreement, the Account Bank under the Account Agreement and the Corporate Services Provider under the Corporate Services Agreement; and the Guarantee Fee owing to the Guarantor, in each case in the order of priorities set out in the Cash Management Agreement;
- (b) second, to the payment of all amounts owing to the Primary Servicer under the Services Agreement;
- (c) third, to the payment of all amounts owing to the Licensee under the Intra-group Services Agreement;
- (d) fourth, to the payment, on a *pari passu* and *pro rata* basis, of any other due but unpaid Issuer Expenses relating to the Bonds;
- (e) fifth, to the payment, on a *pari passu* and *pro rata* basis, of the interest due and payable on the Bonds;
- (f) sixth, to the payment, on a *pari passu* and *pro rata* basis, of any principal due and payable on the Bonds; and
- (g) thereafter, as provided for in the Cash Management Agreement.

7. COVENANTS

In addition to certain other covenants of the Issuer set out in the Trust Deed, the Issuer has covenanted with the Trustee in the Trust Deed that, for so long as any of the Bonds remain outstanding, the Issuer shall not, without the prior written consent of the Trustee:

- (h) enter into any transaction;

- (i) carry on any business or operations;
- (j) acquire any assets, business or undertaking (or, in each case, any interest in them);
- (k) incur any actual or contingent indebtedness or liabilities;
- (l) sell, transfer, assign or dispose of any assets or part of its business, or take any action that would result in the disposal of any assets or part of its business;
- (m) create any security over all or any part of its assets or all or any part of its business;
- (n) grant any interests or rights over all or any part of its assets or all or any part of its business;
- (o) change its registered office;
- (p) change its accounting reference date;
- (q) issue any shares, make any rights issue, redeem, repurchase, defease, retire or repay any of its share capital or declare, make or pay any dividend, charge, fee or other distribution (whether in cash or in kind);
- (r) make any loans, grant any credit or give any guarantee or indemnity;
- (s) give or create any option;
- (t) enter into any amalgamation, de-merger, merger, consolidation or reconstruction;
- (u) surrender any losses;
- (v) have any employees (other than directors) or hold any premises;
- (w) have any Subsidiary;
- (x) be a director of any company; or
- (y) hold any interest in any bank account,

other than (where applicable) (i) pursuant to the exercise of its rights and the performance of its obligations under, and the entry into transactions contemplated by, any Relevant Document and any activity reasonably incidental thereto or necessary in connection therewith, (ii) the taking of action required in connection with its incorporation or the maintenance of its corporate existence or governance and (iii) the making or paying of any distributions in respect of profits made by the Issuer in connection with a purchase of Bonds by the Issuer pursuant to Condition 10.6 (*Purchase of Bonds by the Issuer*).

8. INTEREST

The applicable Pricing Supplement will indicate whether the Bonds are Fixed Rate Bonds or Floating Rate Bonds.

8.1 Interest on Fixed Rate Bonds

This Condition 8.1 applies to Fixed Rate Bonds only. The applicable Pricing Supplement contains provisions applicable to the determination of fixed rate interest and must be read in conjunction with this Condition 8.1 for full information on the manner in which interest is calculated on Fixed Rate

Bonds. In particular, the applicable Pricing Supplement will specify the Interest Commencement Date, the Rate(s) of Interest, the Interest Payment Date(s), the Maturity Date, the Fixed Coupon Amount, any applicable Broken Amount, the Calculation Amount, the Day Count Fraction and any applicable Interest Determination Date.

Each Fixed Rate Bond bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Bonds are in definitive form, except as provided in the applicable Pricing Supplement, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Pricing Supplement, amount to the Broken Amount so specified.

As used in the Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Bonds in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Pricing Supplement, interest shall be calculated in respect of any period by applying the Rate of Interest to:

- (a) in the case of Fixed Rate Bonds which are represented by a Global Bond, the aggregate outstanding nominal amount (or, in the case of Instalment Bonds, the Aggregate Principal Amount Outstanding) of the Fixed Rate Bonds represented by such Global Bond; or
- (b) in the case of Fixed Rate Bonds in definitive form, the Calculation Amount (or, in the case of Instalment Bonds, the Calculation Amount Outstanding);

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest penny, half a penny being rounded upwards. Where the Specified Denomination of a Fixed Rate Bond in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount (or the Calculation Amount Outstanding, as applicable) and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In this Condition 8.1:

Day Count Fraction means (unless otherwise specified in the applicable Pricing Supplement):

- (i) in the case of Bonds where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Interest Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (I) the number of days in such Interest Determination Period and (II) the number of Interest Determination Dates (as specified in the applicable Pricing Supplement) that would occur in one calendar year; or

- (ii) in the case of Bonds where the Accrual Period is longer than the Interest Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Interest Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Interest Determination Period and (y) the number of Interest Determination Dates that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Interest Determination Period divided by the product of (x) the number of days in such Interest Determination Period and (y) the number of Interest Determination Dates that would occur in one calendar year; and

Interest Determination Period means each period from (and including) an Interest Determination Date to (but excluding) the next Interest Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not an Interest Determination Date, the period commencing on the first Interest Determination Date prior to, and ending on the first Interest Determination Date falling after, such date).

8.2 Interest on Floating Rate Bonds

(a) Interest Payment Dates

This Condition 8.2 applies to Floating Rate Bonds only. The applicable Pricing Supplement contains provisions applicable to the determination of floating rate interest and must be read in conjunction with this Condition 8.2 for full information on the manner in which interest is calculated on Floating Rate Bonds. In particular, the applicable Pricing Supplement will identify any Specified Interest Payment Dates, any Specified Period, the Interest Commencement Date, the Business Day Convention, any Additional Business Centres, whether ISDA Determination or Screen Rate Determination applies to the calculation of interest, the party who will calculate the amount of interest due if it is not the Agent, the Margin and any maximum or minimum interest rates. Where ISDA Determination applies to the calculation of interest, the applicable Pricing Supplement will also specify the applicable Floating Rate Option, Designated Maturity and Reset Date. Where Screen Rate Determination applies to the calculation of interest, the applicable Pricing Supplement will also specify the applicable Reference Rate, Interest Determination Date(s) and Relevant Screen Page.

Each Floating Rate Bond bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

- (i) the Specified Interest Payment Date(s) in each year specified in the applicable Pricing Supplement; or
- (ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Pricing Supplement, each date (each such date, together with each Specified Interest Payment Date, an **Interest Payment Date**) which falls the number of months or other period specified as the Specified Period in the applicable Pricing Supplement after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period. In the Conditions, **Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

If there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then (unless otherwise specified in the applicable Pricing Supplement), such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Bonds will be determined in the manner specified in the applicable Pricing Supplement.

(i) ISDA Determination for Floating Rate Bonds

Where ISDA Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent under an interest rate swap transaction if the Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Bonds (the **ISDA Definitions**) and under which:

- (A) the Floating Rate Option is as specified in the applicable Pricing Supplement;
- (B) the Designated Maturity is a period specified in the applicable Pricing Supplement; and
- (C) the relevant Reset Date is the day specified in the applicable Pricing Supplement.

For the purposes of this subparagraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Pricing Supplement the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Bonds

Where Screen Rate Determination is specified in the applicable Pricing Supplement as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation; or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (London time) on the Interest Determination Date in question plus or minus (as indicated in the applicable Pricing Supplement) the Margin (if any), all as

determined by the Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

Unless otherwise stated in the applicable Pricing Supplement, the Minimum Rate of Interest shall be deemed to be zero.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Pricing Supplement specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Pricing Supplement specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Agent will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent will calculate the amount of interest (the **Interest Amount**) payable on the Floating Rate Bonds for the relevant Interest Period by applying the Rate of Interest to:

- (A) in the case of Floating Rate Bonds which are represented by a Global Bond, the aggregate outstanding nominal amount (or, in the case of Instalment Bonds, the Aggregate Principal Amount Outstanding) of the Bonds represented by such Global Bond; or
- (B) in the case of Floating Rate Bond in definitive form, the Calculation Amount (or, in the case of Instalment Bonds, the Calculation Amount Outstanding);

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest penny, half a penny being rounded upwards. Where the Specified Denomination of a Floating Rate Bond in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Bond shall be the product of the amount (determined in the manner provided above) for the Calculation Amount (or the Calculation Amount Outstanding, as applicable) and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

In this Condition 8.2:

Day Count Fraction means the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (I) the actual number of days in that

portion of the Interest Period falling in a leap year divided by 366 and (II) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365).

(e) Linear Interpolation

Where Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Agent by straight line linear interpolation by reference to two rates based on the relevant Reference Rate (where Screen Rate Determination is specified as applicable in the applicable Pricing Supplement) or the relevant Floating Rate Option (where ISDA Determination is specified as applicable in the applicable Pricing Supplement), one of which shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period and the other of which shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period provided however that if there is no rate available for a period of time next shorter or, as the case may be, next longer, then the Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

Designated Maturity means, in relation to Screen Rate Determination, the period of time designated in the Reference Rate.

(f) Notification of Rate of Interest and Interest Amounts

The Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Guarantor, the Trustee and any stock exchange on which the relevant Floating Rate Bonds are for the time being listed and notice thereof to be published in accordance with Condition 18 (*Notices*) as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will promptly be notified to each stock exchange on which the relevant Floating Rate Bonds are for the time being listed and to the Bondholders in accordance with Condition 18 (*Notices*). For the purposes of this paragraph, the expression **London Business Day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(g) Determination or Calculation by Trustee

If for any reason at any relevant time the Agent defaults in its obligation to determine the Rate of Interest or in its obligation to calculate any Interest Amount in accordance with subparagraph (b)(i) or subparagraph (b)(ii) above, as the case may be, and in each case in accordance with paragraph (d) and (e) above, the Trustee shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Pricing Supplement), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Trustee shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent.

(h) Certificates to be final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 8.2 by the Agent shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the

Guarantor, the Agent, the other Paying Agents and all Bondholders, Receiptholders and Couponholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer, the Guarantor, the Bondholders, the Receiptholders or the Couponholders shall attach to the Agent or the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

8.3 Accrual of interest

Each Bond (or in the case of the redemption of part only of a Bond, that part only of such Bond) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Bond have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Bond has been received by the Agent and notice to that effect has been given to the Bondholders in accordance with Condition 18 (*Notices*).

9. PAYMENTS

9.1 Method of payment

Subject as provided below, payments will be made by credit or transfer to a Sterling account maintained by the payee with, or, at the option of the payee, by a cheque in Sterling drawn on, a bank in London.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

9.2 Presentation of definitive Bonds, Receipts and Coupons

Subject as provided below in respect of Instalment Bonds, payments of principal in respect of definitive Bonds will (subject as provided below) be made in the manner provided in Condition 9.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bonds, and payments of interest in respect of definitive Bonds will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

In respect of Instalment Bonds, payments of instalments of principal in respect of definitive Bonds, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 9.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph. Payment of the final instalment will be made in the manner provided in Condition 9.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bond in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bond to which it appertains. Receipts presented without the definitive Bond to which they appertain do not constitute valid obligations of

the Issuer. Upon the date on which any definitive Bond becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Bonds in definitive form (other than Long Maturity Bonds (as defined below) should be presented for payment (in respect of a final payment of principal) together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 12 (*Prescription*)) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Bond in definitive form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Bond or Long Maturity Bond in definitive form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A **Long Maturity Bond** is a Fixed Rate Bond (other than a Fixed Rate Bond which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon provided that such Bond shall cease to be a Long Maturity Bond on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Bond.

If the due date for redemption of any definitive Bond is not an Interest Payment Date, interest (if any) accrued in respect of such Bond from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bond.

9.3 Payments in respect of Global Bonds

Payments of principal and interest (if any) in respect of Bonds represented by any Global Bond will (subject as provided below) be made in the manner specified above in relation to definitive Bonds or otherwise in the manner specified in the relevant Global Bond, where applicable, against presentation or surrender, as the case may be, of such Global Bond at the specified office of any Paying Agent outside the United States. A record of each payment made, distinguishing between any payment of principal and any payment of interest, will be made either on such Global Bond by the Paying Agent to which it was presented or in the records of Euroclear and Clearstream, Luxembourg, as applicable.

9.4 General provisions applicable to payments

The holder of a Global Bond shall be the only person entitled to receive payments in respect of Bonds represented by such Global Bond and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Bond in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Bonds represented by such Global Bond must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Bond.

9.5 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 12 (*Prescription*)) is:

- (a) 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 London; and
- (b) in the case of Bonds in definitive form only, 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 the relevant place of presentation.

9.6 Interpretation of principal

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

- (a) in relation to Instalment Bonds, the Instalment Amounts; and
- (b) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Bonds.

10. REDEMPTION AND PURCHASE

10.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Bond will be redeemed by the Issuer at its principal amount on the Maturity Date specified in the applicable Pricing Supplement.

10.2 Instalment Bonds

Instalment Bonds will be redeemed in the Instalment Amounts on the Instalment Dates specified in the applicable Pricing Supplement.

10.3 Early Redemption

If any Loan has been prepaid in whole or in part prior to the relevant repayment date as specified in the relevant Associated Loan Agreement, then the Issuer shall redeem Bonds in an aggregate nominal amount equal to the nominal amount of the Loan prepaid on the date which is seven Business Days after that on which payment is made by the Associated Approved Borrower under that Associated Loan Agreement (or by the Guarantor (if, in its sole discretion, it so chooses) under the relevant Loan Guarantee, as applicable), provided that no such redemption shall be required if the Issuer otherwise applies such monies in the purchase and cancellation of Bonds pursuant to Conditions 10.6 (*Purchase of Bonds by the Issuer*) and 10.7 (*Cancellation*) before such date. Redemption of the Bonds pursuant to this Condition shall (unless otherwise specified in the applicable Pricing Supplement):

- (a) in the case of Fixed Rate Bonds:

- (i) in the case of an Illegality Redemption or a Tax Redemption, be made at par (or, in the case of Instalment Bonds, their Principal Amount Outstanding); or
- (ii) in the case of a Default Redemption or an Optional Redemption, be made at the higher of the following:
 - (A) par (or, in the case of Instalment Bonds, their Principal Amount Outstanding); and
 - (B) the amount (as calculated by a financial adviser nominated by the Issuer and approved by the Trustee (the **Nominated Financial Adviser**) and reported in writing to the Issuer and the Trustee) which is equal to the principal amount of the Bonds to be redeemed multiplied by the price (expressed as a percentage and calculated by the 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 Gross Redemption Yield at 3:00 pm (London time) on the Determination Date of the Benchmark Gilt; and
- (b) in the case of Floating Rate Bonds, be made at par (or, in the case of Instalment Bonds, their Principal Amount Outstanding),

in each case, together with any interest accrued up to (but excluding) the date of redemption.

For the purposes of this Condition:

Benchmark Gilt means the UK Government Gilt specified as the Benchmark Gilt in the applicable Pricing Supplement 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 Trustee with such advice) to be the most appropriate benchmark conventional UK Government Gilt (including with respect to its average life or maturity, as applicable);

Determination Date means the twelfth dealing day prior to the due date for redemption of the Bonds; 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*" on page 5, Section One: Price/Yield Formulae (Conventional Gilts; Doubledated and Undated Gilts with Assumed (or Actual) Redemption on a Quasi-Coupon Date) (published on 8th June, 1998 and updated on 15th January, 2002 and 16th March, 2005) (as amended or supplemented from time to time).

Notice of any such redemption as is provided in this Condition 10.3 shall be given by the Issuer to the Trustee, the Guarantor, the Paying Agent and the Bondholders as promptly as practicable.

10.4 Partial Redemption

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

called for redemption, the serial numbers of Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.

In the case of Bonds which are represented by a Global Bond (and such Global Bond is/are held on behalf of Euroclear and/or Clearstream, Luxembourg), no selection of Bonds will be required under this Condition 10.4. In such event, the standard procedures of Euroclear and/or Clearstream, Luxembourg shall operate to determine which interests in the Global Bond are to be subject to such redemption (and such redemption shall be reflected in the records of Euroclear and Clearstream, Luxembourg as either a reduction in the principal amount of the Bonds or a reduction by the application of a pool factor at the discretion of Euroclear and Clearstream, Luxembourg).

10.5 Purchases of Bonds by an Associated Approved Borrower

Any Associated Approved Borrower may at any time purchase Bonds on the London Stock Exchange or by tender (available to all Bondholders alike) or by private treaty at any price. Following any such purchase, such Associated Approved Borrower may surrender the Bonds to the Issuer to be cancelled. An amount equal to the nominal amount of the Bonds being surrendered shall be deemed prepaid under such Associated Approved Borrower's Associated Loan Agreement (but, for the avoidance of doubt, without triggering a redemption under Condition 10.3). Such surrendered and cancelled Bonds shall not be available for reissue.

10.6 Purchase of Bonds by the Issuer

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

10.7 Cancellation

All Bonds which are redeemed by the Issuer pursuant to Condition 10.3 or purchased by the Issuer pursuant to Condition 10.6 (other than Retained Bonds) will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption) and may not be reissued or resold.

The Issuer may cancel any Retained Bonds held by it or on its behalf at any time.

11. TAXATION

All payments of principal and interest in respect of the Bonds, Receipts and Coupons by or on behalf of the Issuer or the Guarantor will be made without withholding or deduction for or on account of any present or future Taxes unless such withholding or deduction is required by law. In such event, the Issuer will not be obliged to make any additional payments to Bondholders, Receiptholders or Couponholders in respect of such withholding or deduction. Any such withholding or deduction will not constitute an Event of Default under Condition 13 (*Events of Default*).

12. PRESCRIPTION

The Bonds, Receipts and Coupons will become void unless claims in respect of principal and/or interest are made 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 9.2 (*Presentation of definitive Bonds, Receipts and Coupons*) or any Talon which would be void pursuant to Condition 9.2 (*Presentation of definitive Bonds, Receipts and Coupons*).

13. EVENTS OF DEFAULT

If any Event of Default (as defined below) occurs and is continuing, then the Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth of the aggregate outstanding nominal amount of the Bonds (excluding any Retained Bonds) or if so requested by an Extraordinary Resolution of the Bondholders shall (subject to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice to the Issuer and the Guarantor that the Bonds are, and they shall accordingly immediately become, due and repayable at par (or, in the case of Instalment Bonds, their Principal Amount Outstanding) together with accrued interest. Upon the service of such notice, the security shall become enforceable as referred to in Condition 5.2 (*Enforcement of security*). Each of the following events shall, following the occurrence of a Guarantor Trigger Event that is continuing, be an **Event of Default**:

- (a) default is made by both the Issuer and Guarantor (i) for a period of 10 days in the payment when due of any monies payable on redemption of the whole or any part of the Bonds of any Series or (ii) for a period of 14 days in the payment of any interest due on the Bonds of any Series (in each case, for the avoidance of doubt, whether in respect of a Series of Bonds of which this Bond forms part or another Series of Bonds);
- (b) if the Issuer fails to perform or observe any of its other obligations under the Bonds, the Coupons or the Trust Deed, the breach of which obligation the Trustee certifies to be materially prejudicial to the interests of the Bondholders, and (except in any case where the Trustee considers the failure to be incapable of remedy or certifies that in its opinion any delay would be materially prejudicial to the interests of the Bondholders when no continuation or notice as is hereinafter mentioned will be required) such failure continues for a period of 30 days (or such longer period as the Trustee may permit) next following the service by the Trustee upon the Issuer of notice requiring the same to be remedied;
- (c) if any order shall be made by any competent court or any resolution passed for the winding up or dissolution of the Issuer (save for the purposes of amalgamation, merger, consolidation, reorganisation or other similar arrangement on terms approved by the Trustee) or the Issuer becomes unable to pay its debts as and when they fall due, or is deemed unable to pay its debts within the meaning of section 123 of the Insolvency Act 1986 (excluding, for this purpose, any debts which have the benefit of a guarantee from the Guarantor);
- (d) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or, as the case may be, in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer, and (ii) in any such case (other than the appointment of an administrator or an administrative receiver appointed following presentation of a petition for an administration order), is not discharged within 20 days;
- (e) if the Issuer (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a

proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

- (f) if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have, in the Trustee's opinion, an analogous effect to any of the events referred to in subparagraphs (c) to (e) above.

14. EXERCISE AND ENFORCEMENT

14.1 Exercise and Enforcement

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

- (a)
 - (i) prior to the occurrence of a Guarantor Trigger Event that is continuing, it has been directed in writing by the Guarantor; and
 - (ii) following the occurrence of a Guarantor Trigger Event that is continuing, it has been so requested in writing by the holders of at least one-fifth of the outstanding nominal amount of the Bonds (excluding any Retained Bonds) or has been so requested by an Extraordinary Resolution of the Bondholders; and
- (b) it has been indemnified and/or secured and/or pre-funded to its satisfaction.

14.2 Action by Bondholders

No Bondholder may take any action (a) against the Issuer to enforce its rights in respect of the Bonds or to enforce all or any of the Security or (b) against the Guarantor to enforce its rights in respect of the Bond Guarantee, in each case otherwise than through the Trustee, in each case unless the Trustee fails to do so within a reasonable time and such failure is continuing.

15. 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 Agent 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.

16. PAYING AGENTS

The names of the initial Paying Agents and their initial specified offices are set out below. If any additional Paying Agents are appointed in connection with any Series, the names of such Paying Agents will be specified in Part B of the applicable Pricing Supplement.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent and/or appoint additional or other Paying Agents and/or approve any change in the specified office through which any Paying Agent acts, provided that:

- (a) there will at all times be an Agent; and
- (b) so long as the Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent with a specified office in such

place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority.

Notice of any variation, termination, appointment or change in Paying Agents will be given to the Bondholders promptly by the Issuer in accordance with Condition 18 (*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 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.

17. 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 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 12 (*Prescription*).

18. NOTICES

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

Until such time as any definitive Bonds are issued, there may, so long as any Global Bonds representing the Bonds are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the holders of the Bonds and, in addition, for so long as any Bonds are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. 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 the said notice was given to Euroclear and/or Clearstream, Luxembourg.

19. MEETINGS OF BONDHOLDERS, MODIFICATION, WAIVER AND SUBSTITUTION

19.1 Controlling Rights of the Guarantor prior to a Guarantor Trigger Event that is continuing

In relation to any matter other than a Bondholder Entrenched Right, provided that no Guarantor Trigger Event has occurred and is continuing, the Guarantor shall have the right to direct the Trustee in writing in respect of all matters relating to these Conditions, the Trust Deed, the other Programme Documents and the Bond Guarantee to the exclusion of any equivalent right of the Bondholders or

any other person; provided that the Trustee shall not be bound by any such direction unless it is first indemnified and/or secured and/or pre-funded to its satisfaction in respect of any Liabilities which, in its opinion, it may incur in acting in accordance with such direction.

19.2 Meetings of Bondholders

The 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 Receipts, the Coupons or any of the provisions of the Trust Deed, the other Programme Documents or the Bond Guarantee. Such a meeting may be convened by the Issuer or the Trustee and shall be convened by the Issuer if required in writing by Bondholders holding not less than 10 per cent. in nominal amount of the Bonds for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in nominal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the nominal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Bonds, the Receipts or the Coupons or the Trust Deed (including modifying the date of maturity (or the date(s) for payment of instalment amounts) of the Bonds or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Bonds or altering the currency of payment of the Bonds, the Receipts or the Coupons), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Bonds for the time being outstanding. The Trust Deed does not contain any provisions requiring higher quorums in any other circumstances. The Trust Deed provides that (i) a resolution passed at a meeting duly convened and held in accordance with the Trust Deed by a majority consisting of not less than three-fourths of the votes cast on such resolution, (ii) a resolution in writing signed by or on behalf of the holders of not less than three-fourths in nominal 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 Trustee) by or on behalf of the holders of not less than three-fourths in nominal 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 will be binding on all the Bondholders, whether or not they are present at any meeting and whether or not they voted on the resolution, and on all Receiptholders and Couponholders.

19.3 Modification, Waiver, Authorisation and Determination

Prior to the occurrence of a Guarantor Trigger Event that is continuing, the Trustee shall (without the consent of, and without incurring any liability to the Bondholders, Receiptholders or the Couponholders), if so directed in writing by the Guarantor, agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, the other Programme Documents or the Bond Guarantee; provided that (a) the subject matter is not a Bondholder Entrenched Right and (b) such modification does not, in the sole opinion of the Trustee, impose upon the Trustee more onerous obligations or liabilities the repayment of which are not, within a reasonable time, in its opinion assured to it.

Following the occurrence of a Guarantor Trigger Event that is continuing, the Trustee may, without the consent of the Bondholders, Receiptholders or Couponholders (but subject to confirmation from the Rating Agency that its then current rating of the Bonds would not be adversely affected and provided that the subject matter is not a Bondholder Entrenched Right), (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, the other Programme Documents or the Bond Guarantee or determine that any Event of Default or Potential Event of Default (as defined in the Trust Deed) shall

not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders) or (ii) agree to any modification which, in its opinion, is of a formal, minor or technical nature or made to correct a manifest or proven error.

19.4 Trustee to have Regard to Interests of Bondholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Bondholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Bondholders, 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 Trustee shall not be entitled to require, nor shall any Bondholder, Receiptholder or Couponholder be entitled to claim, from the Issuer, the Guarantor, the 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.

19.5 Substitution

The Trustee may, without the consent of the Bondholders (but with the prior written consent of the Guarantor), 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 Trust Deed of another company, subject to (a) the Bonds continuing to be unconditionally and irrevocably guaranteed as to scheduled principal and interest by the Guarantor (or any substitute appointed in accordance with the Bond Guarantee), (b) the Trustee being satisfied that the interests of the Bondholders will not be materially prejudiced by the substitution and (c) certain other conditions set out in the Trust Deed being complied with.

19.6 Notification to the Bondholders

Any modification, waiver, authorisation or determination shall be binding on the Bondholders, the Receiptholders and the Couponholders and, unless the Trustee agrees otherwise, any modification shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 18 (*Notices*).

20. INDEMNIFICATION OF THE TRUSTEE AND TRUSTEE CONTRACTING WITH THE ISSUER

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction.

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Bondholders, Receiptholders or Couponholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

21. FURTHER FUNGIBLE ISSUES

The Issuer shall be at liberty from time to time with the prior written consent of the Guarantor but without the consent of the Bondholders, the Receiptholders or the Couponholders to create and issue further bonds having terms and conditions 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 the date from which interest starts to accrue and so that the same shall be consolidated and form a single Series with the outstanding Bonds.

22. 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.

23. GOVERNING LAW AND SUBMISSION TO JURISDICTION

23.1 Governing law

The Programme Documents, the Bonds, the Receipts, the Coupons and any non-contractual obligations arising out of or in connection with the Programme Documents, the Bonds, the Receipts and the Coupons are governed by, and construed in accordance with, English law.

23.2 Submission to jurisdiction

- (a) Subject to Condition 23.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Bonds, the Receipts and/or the Coupons, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Bonds, the Receipts and/or the Coupons (a **Dispute**) and accordingly each of the Issuer and the Trustee and any Bondholders, Receiptholders or Couponholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts.
- (b) For the purposes of this Condition 23.2, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.
- (c) To the extent allowed by law, the Trustee, the Bondholders, the Receiptholders and the Couponholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

23.3 Other documents and the Guarantor

The Issuer and, where applicable, the Guarantor have in the other Programme Documents submitted to the jurisdiction of the English courts.

DESCRIPTION OF THE ISSUER

Incorporation and Status

PRS Finance plc (the **Issuer**) is a public limited company incorporated in England with registered number 9331085 on 27th November, 2014 under the Companies Act 2006.

The registered address of the Issuer is 35 Great St. Helen's, London EC3A 6AP and its telephone number is 020 7398 6300. The Issuer has no subsidiaries.

Principal Activities of the Issuer

The Issuer was established to raise debt for the purpose of on lending to developers and/or owners of new-build private rented homes that satisfy the eligibility criteria set out in the rules of the Private Rented Guarantee Scheme of the Guarantor.

The Secretary of State for Housing, Communities and Local Government (formerly the Secretary of State for Communities and Local Government) has granted a licence to the Issuer's parent company, PRS Operations Limited, (the **Licensee**) on 10th December, 2014 for the management and delivery of the Private Rented Guarantee Scheme, with exclusivity for the period to 31st December, 2018 (or as extended from time to time).

The Licensee is a private limited company incorporated in England with registered number 9280030 on 24th October, 2014 under the Companies Act 2006.

Directors

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

Name	Principal Activities
Clifford Pearce	Director
Intertrust Directors 1 Limited	Corporate Director
Intertrust Directors 2 Limited	Corporate Director

The business address of each of the directors is 35 Great St. Helen's, London EC3A 6AP.

The secretary of the Issuer is Intertrust Corporate Services Limited whose business address is 35 Great St. Helen's, London EC3A 6AP.

Share Capital and Major Shareholders

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

The Licensee is itself a wholly owned subsidiary of Venn Partners LLP.

Licensee

The Licensee's business is to manage and deliver the Private Rented Guarantee Scheme and, in respect of the Issuer, to provide certain administrative, secretarial and managerial services to the Issuer, including the keeping of proper accounting and tax records, liaising with the Approved Borrowers and the Guarantor as

required with relation to payments of interest, principal and any other amounts payable under the Loan Agreements and the Loan Guarantees, respectively, and with the Trustee, the Cash Manager and the Agent with respect to payments under the Bonds and providing such information and/or documentation as is required under the Trust Deed, all as more particularly described in the Intra-group Services Agreement dated 29th July 2015 between the Issuer and the Licensee.

Corporate Services Provider

The Issuer has entered into a Corporate Services Agreement dated 29th July, 2015 with Intertrust Management Limited (formerly Structured Finance Management Limited), a private limited company with its registered office at 35 Great St. Helen's, London EC3A 6AP (registered number 03853947), to provide corporate services to the Issuer and the Licensee.

The Corporate Services Provider has agreed, pursuant to and on terms of the Corporate Services Agreement, to provide certain corporate administration services to the Issuer, including the provisions of directors and the secretary. Fees are payable to Intertrust Management Limited thereunder.

The directors receive no remuneration from the Issuer for their services nor do they hold any direct, indirect, beneficial or economic interest in any of the shares of the Issuer. The directors are provided as part of the Corporate Services Provider's overall corporate administration service provided to the Issuer pursuant to the Corporate Services Agreement.

The directors of the Issuer may engage in other activities and have other directorships. As a matter of English law, each director is under a duty to act honestly and in good faith with a view to the best interests of the Issuer, regardless of any other directorship he or she may hold.

DESCRIPTION OF THE GUARANTOR

The Secretary of State for Housing, Communities and Local Government (formerly the Secretary of State for Communities and Local Government) is the holder of one of the principal offices of Her Majesty's Government of the United Kingdom of Great Britain and Northern Ireland. The Secretary of State for Housing, Communities and Local Government was incorporated by the Secretaries of State for Health and Social Care and for Housing, Communities and Local Government and Transfer of Functions (Commonhold Land) Order 2018 and the functions of the Secretary of State for Communities and Local Government were transferred to him with effect from 11th April, 2018.

Obligations assumed by the Secretary of State in his official capacity are enforceable against the incorporated office of the Secretary of State, not the office holder personally. The Secretary of State acts for and on behalf of Her Majesty's Government for the purposes of creating legal, valid and binding obligations in relation to, *inter alia*, the Bond Guarantee and therefore obligations of the Secretary of State under the Bond Guarantee are obligations of Her Majesty's Government.

The UK Government currently has a sovereign credit rating of "AA" by Standard & Poor's Credit Market Services Europe Limited, "AA" by Fitch Ratings Ltd and "Aa2" by Moody's.

DOCUMENTS INCORPORATED BY REFERENCE

The audited financial statements for the Issuer, including the reports of the auditors, in respect of the years ended 31st December, 2016 and 31st December, 2017 shall be incorporated in, and form part of, this Programme Memorandum.

Copies of such financial statements can be obtained from the registered office of the Issuer.

TAXATION

UK 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 law and HM Revenue & Customs (HMRC) published practice in the United Kingdom relating only to United Kingdom withholding tax treatment of payments of interest (as that term is understood for United Kingdom tax purposes) in respect of Bonds. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Bonds. The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may be subject to change in the future, possibly with retrospective effect. This summary does not constitute legal or tax advice and prospective Bondholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

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 are 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. 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 are and 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 by the Issuer without withholding or deduction on account of United Kingdom tax where the maturity of the Bonds is less than 365 days and those Bonds do not form part of a scheme or arrangement of borrowing intended to be capable of remaining outstanding for more than 364 days.

In other cases (and unless another exemption applies), 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 (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).

The Issuer understands that it is not clear whether, as a matter of current United Kingdom law, payments under the Bond Guarantee would be subject to any deduction of or withholding on account of United Kingdom income tax. Any such deduction or withholding would be subject to such relief as might be available under the provisions of any double taxation treaty or any other relief that might apply.

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" 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 may 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 the 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 1st 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 (including by reason of a substitution of the Issuer). However, if additional Bonds (as described under Condition 21 (*Further Fungible Issues*)) that are not distinguishable from previously issued Bonds are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Bonds, including the Bonds offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisors 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.

The proposed financial transactions tax (FTT)

On 14th 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**). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Bonds (including secondary market transactions) in certain circumstances. The issuance and subscription of Bonds should, however, be exempt.

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 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.

However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

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

SUBSCRIPTION AND SALE

The Dealers have, in a programme agreement (such programme agreement as modified and/or supplemented and/or restated from time to time, the **Programme Agreement**) dated 3rd April, 2017, agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Bonds. Any such agreement will extend to those matters stated under "*Conditions of the Bonds*". In the Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

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. Terms used in this paragraph have the meanings given to them by Regulation S under 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. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and Treasury regulations promulgated thereunder.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Bonds on a syndicated basis, the relevant lead manager, of all Bonds of the Tranche of which such Bonds are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Bonds, an offer or sale of such Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) in relation to any Bonds which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Bonds would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the **FSMA**) by the Issuer;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) 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

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree 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 Programme Memorandum and will obtain any consent, approval or permission 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 and neither the Issuer, the Guarantor, the Trustee nor any of the other Dealers shall have any responsibility therefor.

None of the Issuer, the Guarantor, the Trustee and the Dealers 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 establishment of the Programme and the issue of Bonds have been duly authorised by a resolution of the Board of Directors of the Issuer dated 3rd July, 2015. The update of the Programme has been authorised by a resolution of the Board of Directors of the Issuer dated 20th July, 2018.

Listing of Bonds

It is expected that each Tranche of Bonds will be admitted separately to the Official List and to trading on the London Stock Exchange's regulated market as and when issued, subject only to the issue of the Temporary Global Bond initially representing the Bonds of such Tranche.

Documents Available

For so long as any Bonds remain outstanding, copies of the following documents will be available for inspection from the registered office of the Issuer during usual business hours on any weekday (Saturday, Sunday and public holidays excepted):

- (a) the audited financial statements of the Issuer, including the report of the auditors, in respect of the year ended 31st December, 2016;
- (b) the audited financial statements of the Issuer, including the report of the auditors, in respect of the year ended 31st December, 2017;
- (c) the Articles of Association of the Issuer;
- (d) a redacted form of the Licence; and
- (e) the Trust Deed, the Original Trust Deed, the Bond Guarantee, the Agency Agreement, the Account Agreement, the Cash Management Agreement, the Retained Bond Custody Agreement, the Subordination Deed and the Corporate Services Agreement.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Bonds allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Pricing Supplement.

The address of Euroclear is Euroclear Bank SA/NV, 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.

Conditions for determining price

The price and amount of Bonds to be issued under the Programme will be determined by the Issuer and each relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

Save as disclosed in this Programme Memorandum, there has been no significant change in the financial or trading position of the Issuer since 31st December, 2017 and there has been no material adverse change in the financial position or prospects of the Issuer since 31st December, 2017.

Litigation

The Issuer is not and has not been involved in any 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 the date of this document which may have or have in such period had a significant effect on the financial position or profitability of the Issuer.

Auditors

The auditors of the Issuer are Deloitte LLP. The auditors of the Issuer have no material interest in the Issuer.

Post-issuance information

The Issuer does not intend to provide any post-issuance information in relation to any issues of Bonds.

Dealers transacting with the Issuer and the Guarantor

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates and the Guarantor in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Bonds issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, the Guarantor, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates or the Guarantor. Certain of the Dealers or their affiliates routinely hedge their credit exposures consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds issued under the Programme. Any such positions could adversely affect future trading prices of Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

ISSUER

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