



AFFINITY SUTTON CAPITAL MARKETS PLC

(Incorporated in England with limited liability under the Companies Act 1985, registered number 6678086)

£250,000,000 4.25 per cent. Secured Bonds due 2042

Issue Price: 98.912 per cent.

The £250,000,000 4.25 per cent. Secured Bonds due 2042 (the **Bonds**) are issued by Affinity Sutton Capital Markets plc (the **Issuer**).

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **UK Listing Authority**) for the Bonds to be admitted to the Official List of the UK Listing Authority and to the London Stock Exchange plc (the **London Stock Exchange**) for the Bonds to be admitted to trading on the London Stock Exchange's regulated market. The London Stock Exchange's regulated market is a regulated market for the purposes of Directive 2004/39/EC (the **Markets in Financial Instruments Directive**).

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

Subject as set out below, the net proceeds from the issue of the Bonds will be advanced by the Issuer to Affinity Sutton Funding Limited (the **Group Borrower**) pursuant to a Loan Agreement between the Group Borrower and the Issuer dated on or around the Issue Date (the **Loan Agreement**) and the Group Borrower will in turn on-lend such funds to Affinity Sutton Homes Limited (the **Original Borrower**) pursuant to an Intra-group Loan Agreement made between the Group Borrower and the Original Borrower to be applied in the achievement of the Original Borrower's objects. Subject to certain conditions in the Loan Agreement, the Group Borrower may also on-lend some or all of the proceeds of the Loan Agreement after the Issue Date to other members of the Affinity Sutton Group (together with the Original Borrower, the **Borrowers**) to the extent that the Original Borrower has repaid any amounts received by it under its Intra-group Loan Agreement or the Issuer has made further advances to the Group Borrower under the Loan Agreement in respect of Retained Proceeds (as defined below) or following a further issue of bonds. For so long as insufficient security has been granted by the Borrowers in favour of the Issuer to permit the drawing of the Original Commitment (as defined in the Loan Agreement) in full or the Group Borrower has not otherwise drawn any part of the Original Commitment, all or part of the issue proceeds (the **Retained Proceeds**) shall be retained in a charged account (the **Initial Cash Security Account**) of the Issuer in accordance with the Security Account Agreement (as defined below) (and may be held on deposit or invested in Permitted Investments (as defined below)). For the avoidance of doubt, in the event that the Group Borrower has not drawn any part of the Original Commitment on the Issue Date, the Retained Proceeds at that date shall be the entire amount of the Original Commitment. Any Retained Proceeds shall be advanced to the Group Borrower at a later date pursuant to the Loan Agreement to the extent that sufficient security has been granted by the Borrowers in favour of the Issuer.

Interest on the Bonds is payable semi-annually in arrear in equal instalments on 8th April and 8th October in each year at the rate of 4.25 per cent. per annum, commencing on 8th April, 2013, as described in Condition 7 (*Interest*). Payments of principal of, and interest on, the Bonds will be made without withholding or deduction on account of United Kingdom taxes unless required by law. In the event that any such withholding or deduction is so required, the Issuer may opt to gross up payments due to the Bondholders in respect thereof as described in Condition 10 (*Taxation*).

The Bonds may be redeemed at any time upon the prepayment by the Group Borrower of the loan (the **Loan**) in accordance with the terms of the Loan Agreement at the higher of their principal amount and an amount calculated by reference to the sum of (i) the yield on the relevant outstanding United Kingdom government benchmark gilt having the nearest maturity date to that of the Bonds and (ii) 0.20 per cent., together with accrued interest (or, in respect of a prepayment of the Loan following an event of default thereunder, at their principal amount, together with accrued interest). The Bonds will also be redeemed in full at their principal amount, plus accrued interest, in the event of (i) a mandatory prepayment of the Loan following one or more Borrowers ceasing to be a Registered Provider of Social Housing (other than following, or as part of,

a Permitted Reorganisation or if such Borrower regains its status as a Registered Provider of Social Housing or ceases to be a Borrower within 180 days), (ii) the Loan becoming repayable as a result of an ASFL Default (as defined in the Loan Agreement) or (iii) any withholding or deduction on account of United Kingdom taxes being required and the Issuer not having opted to pay (or having so opted to pay has notified the Bond Trustee of its intention to cease to pay) additional amounts in respect of such withholding or deduction.

Unless previously redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on 8th October, 2042 (the **Maturity Date**).

It is expected that the Bonds will be rated "Aa2" by Moody's Investors Service Limited (**Moody's**). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Offering Circular, Moody's is established in the European Union and is registered under Regulation (EU) No 1060/2009 (as amended) (the **CRA Regulation**). As such, Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

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

The Bonds will initially be represented by a temporary global bond (the **Temporary Global Bond**), without interest coupons, which will be deposited on or about 8th October, 2012 (the **Closing Date**) with a common safekeeper for Euroclear Bank S.A./N.V. (**Euroclear**) and Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**). Interests in the Temporary Global Bond will be exchangeable for interests in a permanent global bond (the **Permanent Global Bond** and, together with the Temporary Global Bond, the **Global Bonds**), without interest coupons, on or after 17th November, 2012 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Bond will be exchangeable for definitive Bonds only in certain limited circumstances - see "*Form of the Bonds and Summary of Provisions relating to the Bonds while in Global Form*".

	Joint Bookrunners	
Barclays		Lloyds Bank
	RBC Capital Markets	

The date of this Offering Circular is 3rd October, 2012.

This Offering Circular comprises a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the *Prospectus Directive*).

The Issuer accepts responsibility for the information contained in this Offering Circular. 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 Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The figures relating to the Nationwide House Price Index referred to in the risk factor entitled "Housing Market Downturn Risk" in the section "Risk Factors" were obtained from www.nationwide.co.uk/hpi/. The Issuer confirms that such figures have been accurately reproduced and that, as far as the Issuer is aware and is able to ascertain from information published by Nationwide, no facts have been omitted which would render the reproduced figures inaccurate or misleading.

The Group Parent accepts responsibility for the information under the heading "Affinity Sutton Group Limited" in the "*Description of the Affinity Sutton Group*" section on pages 83 to 85 and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Group Borrower accepts responsibility for the information under the heading "Affinity Sutton Funding Limited" in the section headed "*Description of the Affinity Sutton Group*" on pages 85 to 86, the information under the heading "Factors which may affect the Group Borrower's ability to fulfil its obligations under the Loan Agreement" in the section headed "*Risk Factors*" on page 8 and the information relating to it under the headings "Significant or Material Change" and "Litigation" in the section headed "*General Information*" on page 745 and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Original Borrower accepts responsibility for the information under the heading "Affinity Sutton Homes Limited" in the section headed "*Description of the Affinity Sutton Group*" on pages 86 to 88, the information under the heading "Factors which may affect the Borrowers' ability to fulfil their obligations under the Intra-group Loan Agreements and the Security Agreements" in the section headed "*Risk Factors*" on pages 8 to 13 and the information relating to it under the headings "Significant or Material Change" and "Litigation" in the section headed "*General Information*" on page 745 and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Jones Lang LaSalle (the *Valuer*) accepts responsibility for the information contained in the section "*Valuation Report*" and, to the best of its knowledge (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Save for the Issuer, the Group Parent, the Group Borrower, the Original Borrower and the Valuer no other person has independently verified any information contained herein. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Barclays Bank PLC, Lloyds TSB Bank plc and RBC Europe Limited (together, the *Joint Bookrunners*) or the Security Account Bank, the Transaction Account Bank, the Custodian, the Principal Paying Agent, the Paying Agents, the Security Agent or the Bond Trustee (as defined below) as to the accuracy or completeness of the information contained or incorporated in this Offering Circular or any other information provided by the Issuer in

connection with the offering of the Bonds. None of the Joint Bookrunners nor the Bond Trustee accepts any liability in relation to the information contained in this Offering Circular.

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

To the fullest extent permitted by law, the Joint Bookrunners do not accept any responsibility for the contents of this Offering Circular or for any other statement made or purported to be made by a Joint Bookrunner or on its behalf in connection with the Issuer, the Group Parent, the Group Borrower, the Original Borrower or the issue and offering of the Bonds. Each Joint Bookrunner accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

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

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*").

This Offering Circular 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 Offering Circular and the offer or sale of Bonds may be restricted by law in certain jurisdictions. The Issuer, the Joint Bookrunners and the Bond Trustee do not represent that this Offering Circular 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. In particular, no action has been taken by the Issuer, the Joint Bookrunners or the Bond Trustee which is intended to permit a public offering of any Bonds or distribution of this Offering Circular in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular 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 Offering Circular or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Offering Circular and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Offering Circular and the offer or sale of Bonds in the United States and the United Kingdom (see "*Subscription and Sale*").

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

IN CONNECTION WITH THE ISSUE OF THE BONDS, RBC EUROPE LIMITED AS STABILISING MANAGER (THE *STABILISING MANAGER*) (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) 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, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

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

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

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

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

Factors which may affect the Issuer's ability to fulfil its obligations under the Bonds

Special Purpose Vehicle Issuer: The Issuer is a special purpose finance entity with no business operations other than the incurrence of financial indebtedness, including the issuance of the Bonds. As such the Issuer is entirely dependent upon receipt of funds received from the Group Borrower or the Borrowers in order to fulfil its obligations under the Bonds.

Credit Risk: The Issuer, and therefore payments by the Issuer in respect of the Bonds, will be subject to the credit risk of the Group Borrower and the Borrowers. The Issuer will be subject to the risk of delays in the receipt, or risk of defaults in the making, of payments due from the Group Borrower in respect of the Loan Agreement. However, each of the Borrowers has (or will have, upon such entities becoming Borrowers) guaranteed the obligations of the Group Borrower to the Issuer under the Loan Agreement and it is envisaged that in the event that a Borrower is unable to make a payment under the Intra-group Loan Agreement to which it is a party (pursuant to which the Group Borrower has on-lent part of the proceeds of the Loan Agreement) such payment will be made by the other Borrowers pursuant to the terms of their respective Security Agreements.

Effect of Losses on Loan on Interest Payments and Repayments on the Bonds: There can be no assurance that the levels or timeliness of payments of collections received in respect of the Loan will be adequate to ensure fulfilment of the Issuer's obligations in respect of the Bonds on each Interest Payment Date or on the Maturity Date. In addition, a default under the Loan Agreement could ultimately result in its enforcement, a claim being made by the Issuer under the Security Agreements and, if payment is not made thereunder on a timely basis, the enforcement of the Underlying Security. The proceeds of any such enforcement may be insufficient to cover the full amount due from the Group Borrower resulting in a shortfall in funds available to repay the Bonds. However, it is expected that in the event that the Group Borrower's payment obligations under the Loan Agreement are not fulfilled, the Borrowers shall fulfil such obligations without the need to enforce the Underlying Security or seek recourse through the courts.

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

Credit Risk: The Group Borrower acts as a financing vehicle for the Affinity Sutton Group and does not own any social housing assets. The proceeds of the Loan will be on-lent by the Group Borrower to the Borrowers pursuant to the Intra-group Loan Agreements and the payments to be made by the Group Borrower to the Issuer under the Loan Agreement will be dependent in part upon the Group Borrower receiving from the Borrowers the payments due to it under the Intra-group Loan Agreements. The Group Borrower's ability to satisfy its obligations under the Loan Agreement is therefore dependent in part on the credit risk of each of the Borrowers.

Capital Resources & Treasury Risk: To mitigate liquidity risk and augment its capital resources, the Group Borrower relies on financing through committed lines of credit from major banks, building societies and other financing vehicles (including the Issuer, which itself is funded through the capital markets), and through revolving debt (which may either be secured or unsecured) and the Group Borrower will on-lend such financing to the Borrowers. The Group Borrower is therefore dependent on its ability to access and maintain these sources of financing.

The Group Borrower is also subject to interest rate risk with respect to its variable rate borrowing. The Affinity Sutton Group's treasury function seeks to mitigate interest rate risk through actions that support the Affinity Sutton Group's interest rate management policy and that comply with applicable regulatory guidelines.

Factors which may affect the Borrowers' ability to fulfil their obligations under the Intra-group Loan Agreements and the Security Agreements

Rental Income, Housing Benefit and Welfare Reform: A proportion of the rent received by each Borrower is derived from housing benefit payable by local authorities. If there is a reduction or termination by the Government of housing benefit, then this may accordingly have an adverse impact on the payment of rent, as the tenants would have to pay a higher proportion of the rent themselves. The receipt of rental payments by a Borrower, as landlord, may be delayed by the failure of the claimant regularly to pay rent which is due in addition to the housing benefit and/or, in circumstances where the housing benefit is not paid directly to the landlord, a failure to pass on the housing benefit payments to the landlord.

The Welfare Reform Act (the **WRA**), which received royal assent on 8th March, 2012 sets out significant changes in the provision of welfare benefits. The WRA provides for the introduction of a number of reforms including a total household benefit cap, which is expected to be set at £26,000 per household per year, new criteria for those in receipt of housing benefit, which will see a reduction in the amount of housing benefit (or the housing credit which will replace it) received by those who are under-occupying, and the introduction of Universal Credit. Caps have already been introduced to the local housing allowance (**LHA**) which applies to those living in the private rented sector and this is primarily affecting those living in central London and the south-east. Currently these caps do not apply to tenants living within social housing, but Registered Providers of Social Housing are anticipating that this policy may change in future, and many are setting rents within LHA levels as a risk management measure.

Universal Credit, which will be phased in from October 2013, will be a single means-tested benefit paid to those of working age (in and out of work), which will include an amount in respect of housing costs which will replace housing benefit. Currently housing benefit is paid directly to Registered Providers of Social Housing and it has been acknowledged by the Government that some households may go into rent arrears as a consequence of the introduction of Universal Credit and the related plans to introduce direct payment of housing benefit to claimants as the default position.

The Government white paper entitled "*Universal Credit: welfare that works*" considered that there would be advantages in paying the housing component of Universal Credit directly to tenants, although it stated "we also recognise the importance of stable rental income for social landlords to support the delivery of new homes and will develop Universal Credit in a way that protects their financial position". In order to allay the fears of Registered Providers of Social Housing and their lenders, the Department of Work and Pensions (the **DWP**) has agreed to safeguard landlords' income by putting in place protection mechanisms to allow for the payment of rent directly to landlords if tenants are vulnerable or fall into arrears of rent above a certain level. Changes to the structure of the benefit system (including any system of direct payments of the housing component of Universal Credit to tenants) may affect the ability of claimants of housing benefit to pay their rent and which in turn may affect the ability of a Borrower to meet its payment obligations under the Intra-group Loan Agreement to which it is a party.

In January 2012 the DWP launched a series of demonstration projects with five local authority and housing association partnerships. These pilots will see claimants in the social rented sector directly receiving monthly housing benefit payments and paying rent to landlords themselves for the first time. They will take place from June 2012 until June 2013, and will test how claimants can manage housing benefit monthly payments ahead of the introduction of Universal Credit. The projects will also look at the appropriate level of safeguards needed to help secure landlord income streams if tenants fall behind on their rent. Each will be involved in testing different elements of the project, including testing different trigger points at which social landlords should receive direct payments if tenants fall into specified levels of arrears. The projects will also inform how best to communicate the changes to claimants, provide assistance with budgeting to successfully pay their rent, and support claimants and landlords experiencing financial difficulties.

Changes to the structure of the benefit system (including any system of direct payment of the housing component of Universal Credit to tenants) may affect the ability of claimants to pay their rent and also the ability of a Borrower to meet its payment obligations under the Intra-group Loan Agreement to which it is a party.

It is estimated that the benefit cap will affect less than one per cent. of the current residents of properties owned by the Original Borrower, mainly tenants paying affordable rents in larger London properties. In order to mitigate this risk the Original Borrower has capped rents for larger homes at 65 per cent. of market levels in order to increase affordability. In addition, the Original Borrower's Works and Enterprise team is working with tenants of these properties to assist tenants to gain employment, where appropriate.

Under-occupancy penalties are estimated potentially to affect up to 10 per cent. of the Original Borrower's tenants which implies a worst-case benefit shortfall of £3 million per annum. To help address this, the Original Borrower is (a) establishing a pool of suitable smaller properties which can be offered to tenants who need to downsize and (b) improving the quality of data held in order to be more closely aligned with the demands of the welfare reform requirement.

In addition, the Original Borrower has appointed five new Welfare Benefit Advisors who will work closely with the Original Borrower's Community Investment teams to ensure tenants are provided with help in relation to the introduction of Universal Credit and in particular, to help tenants to set-up bank accounts and to encourage direct debits and other electronic payments.

The Original Borrower is active in discussions with the DWP to ensure that the protection mechanisms it plans to put in place are effective in safeguarding rental income. Nonetheless, it has already made provisions within its business plans for an increase in bad debts and made an additional allowance of £0.35 million within its base operating costs for managing the impact of welfare reform. It has also increased provisions for arrears levels and bad debts.

Rental Growth Risk: Levels of rental income are currently impacted each year by the Retail Price Index (**RPI**) which refers back to the figure published in the September of the preceding year. The Chancellor announced in the Emergency Budget on 22nd June, 2010 that from the financial year 2013-2014, housing benefit limits will be adjusted upwards in line with the Consumer Prices Index (**CPI**) rather than RPI. Each Borrower will apply future rent increases, or decreases in the case of negative RPI, in accordance with the Government rent regimes in place at that time. The current regime for regulated rents allows for increases at RPI plus 0.5 per cent. The Affinity Sutton Group's regulated rental income sensitivity to a 1 per cent. increase or decrease in RPI is circa £2.5 million per annum based on current rental income, which the Group Borrower does not deem material to the Original Borrowers' ability to meet its obligations under its Intra-group Loan Agreement. The Original Borrower has a number of mechanisms in place to mitigate the scenario of negative inflation including control over their cost base and the ability to use treasury instruments such as inflation-linked swaps.

Non-Payment Risks: Some of the tenants of the Original Borrower's properties do not receive housing benefit and are therefore personally responsible for the rental payments on the relevant occupied properties. There is a greater risk of non-payment for those tenants who are not in receipt of full or partial housing benefit. In the event that any such tenants fail to pay rent in full or fail to pay rent in full on a timely basis, this could also affect the ability of the Original Borrower to meet its payment obligations on a timely basis under its Intra-group Loan Agreement.

Shared Ownership and Outright Sales Risk: The Borrowers may also generate revenue from their housing for sale programmes, which includes shared ownership sales and outright sales. Shared ownership income is generated on the initial sale of the "first tranche" and subsequent sales of further "tranches" or "staircasings". There is also the risk that if a tenant of a shared ownership property borrows monies through a mortgage from a commercial lender (having obtained consent from a Borrower) then that lender's mortgage may take priority ahead of the security arrangements in place under the Security Trust Deed. However, if that commercial lender were to enforce its security following a tenant defaulting on its mortgage, such lender could staircase (i.e. purchase a portion of the freehold property) up to 100 per cent. in order to be able to sell the whole leasehold interest in which case a Borrower as landlord could receive such staircasing payments from the commercial lender. If the price for the full 100 per cent. receivable on sale is not sufficient to meet the principal outstanding (plus 12 months interest and other statutorily permitted costs) then the shortfall will remain as a debt due to the landlord from the defaulting leaseholder. Under current Homes and Communities Agency (**HCA**) rules, any shortfall not recovered is borne first by the provider of any grant in respect of the property, and thus the Borrowers are only affected to the extent that the shortfall cannot be covered by grant monies.

Less than three per cent. of the Charged Properties are shared ownership properties.

Housing Grant Risk: The Original Borrower receives (and other Borrowers may receive) grant funding from a variety of sources, including the HCA. Due to the nature of grant funding, there is a risk that the amount of funding available and the terms of grants will vary. Following approval of a grant there is a risk that the HCA may revise the terms of a grant and reduce entitlement, suspend or cancel any instalment of such a grant. In certain circumstances, set out in the HCA regulatory framework, including but not limited to, failure to comply with conditions associated with the grant or a disposal of the property funded by a grant, the grant may be required to be repaid or re-used. Any such reduction in, withdrawal of, repayment or re-use of grant funding could adversely impact the future development of the Borrowers.

Affordable Rent: In 2010, the Government announced a new funding framework – the 2011-2015 Affordable Homes Programme (the **Framework**). The Framework largely replaces the existing social housing grant programme, although outstanding grants agreed under the previous arrangements will be paid to Registered Providers of Social Housing. The Framework is designed to offer more

flexibility to registered housing providers, enabling them to use existing assets to support new development programmes, and to offer a wider range of housing options to people accessing social housing.

Whilst existing social tenancies and rent levels remain unchanged, the Localism Act introduces new provisions that allow Registered Providers of Social Housing to charge intermediate rents up to a maximum of 80 per cent. of the market rent level on both newly developed stock and on an agreed proportion of existing stock for permitted Registered Providers of Social Housing. This new rent is known as Affordable Rent. The option of charging Affordable Rent is only available to Registered Providers of Social Housing with an HCA contract for new development and can only be used on newly developed stock and on new lettings of a proportion of existing stock.

The new delivery model assumes significant reductions in capital grant funding that will be offset by increased debt funding, the costs of servicing of which will be funded by the higher rents.

There is a risk that those tenants on Affordable Rent may find it harder to pay their rent and that this will have a corresponding effect on the ability of a Borrower to meet its payment obligations under the Intra-group Loan Agreement to which it is a party on a timely basis.

However, the new model does provide more flexibility over rent levels, leading to an opportunity to re-focus the services the Original Borrower provides and to start to meet some of the growing demand from those working households unable to access the owner-occupied or social rental market.

The Original Borrower has negotiated a Framework agreement under the 2011-2015 Affordable Homes Programme to deliver around 3,000 new homes, with a grant allocation of £65 million. These homes will be let at rents much closer to market levels, and a proportion of its existing homes will also attract these higher rents as they become vacant.

To address the risks introduced by this new model, the Original Borrower has, among other things: capped rents for larger homes at 65 per cent. of market levels in order to increase affordability; ensured that no rents exceed the LHA limits for benefit availability and developed a new branding and marketing approach for homes which will be let to working households. It has also stress-tested financial plans to assess the impact of any requirement by a future government to reduce Affordable Rent levels back to "target rent" levels.

The Original Borrower has also introduced comprehensive procedures to enable it to monitor the progress of the new model in order to keep its continued involvement under review. Any adverse movements in delivering against the initial targets may lead the Original Borrower to reduce the scale of the programme in order to protect its financial position.

Regulatory Risk: The Localism Act 2011 significantly amended parts of the Housing and Regeneration Act 2008 (which established the objectives and certain powers of the social housing regulator) and established the Regulation Committee of the HCA (the **Regulator**) as a separate committee of the HCA to undertake this regulatory role which has been appointed by the Secretary of State. This new arrangement and a new regulatory framework came into force on 1st April, 2012. The statutory powers available to the HCA, as regulator, are largely unchanged from those previously in place. The HCA provides economic regulation for Registered Providers of Social Housing in order to ensure they are financially viable and well governed and to support the confidence of private lenders to provide funds at competitive rates. The existing regulatory standards, which covered tenant involvement and empowerment; quality of accommodation; allocations, rent and tenure; neighbourhood management; value for money; and governance and financial viability have been enhanced with a greater advocacy role for tenants' panels, councillors, MPs and the Ombudsmen in dealing with consumer issues and a revised standard which places an increased onus on boards to develop and deliver a clear strategy to drive value for money improvements.

The Original Borrower has addressed the new standards applying to Registered Providers of Social Housing through an enhanced governance structure which now includes resident board members on the board of its principal landlord subsidiary, regional residents panels, and a national residents council which has direct access to the main board to advise on service delivery. Value for money is being driven by significant efficiency savings targets supported by a strong focus on procurement.

Development and Operational Risk: Residential property investment is subject to varying degrees of market, development and operational risk. Market risks which may impact upon both the rental market and the development of residential properties include the risk of changes to Government regulation, including, but not limited to, regulation relating to planning, taxation, landlords and tenants and welfare benefits. Furthermore, the maintenance of existing properties, development of existing sites and acquisition of additional sites may be subject to the availability of finance facilities and the costs of facilities, interest rates and inflation may also have an effect.

Among other things, these market risks may impact upon the expenses incurred by a Borrower associated with existing residential properties, rental income produced by these properties, the value of its existing investments, its ability to develop land that it has acquired, its ability to sell shared ownership properties and its ability to acquire additional sites. This could, in turn, impact upon a Borrower's cash flow and its ability to satisfy any asset cover covenants which it is required to maintain pursuant to the terms of existing facility arrangements.

Operational risks may result from major systems failure or breaches in systems security (although each of the Group Borrower and the Original Borrower has prepared business continuity plans in order to mitigate against this, they are dependent upon their technologies in order to deliver business processes) and the consequences of theft, fraud, health and safety and environmental issues, natural disaster and acts of terrorism. These events could result in financial loss to the Borrowers and hence the Group Borrower and the Issuer.

Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Affinity Sutton Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

Pensions Risk: Affinity Sutton Group Limited and its subsidiaries (including the Original Borrower) participate in five defined benefit final salary schemes among them. Each of these is closed to new entrants. As at 31st March, 2012, the fair value of the assets in the five closed schemes was £103 million, compared to the value of their liabilities which was £143 million.

The Social Housing Pensions Scheme is an industry-wide multi-employer scheme with a number of different benefit structures. The Affinity Sutton Group participates in the final salary section, which is closed to new entrants, and a career average revalued earnings section which is open to new entrants. It is not possible, in the normal course of events, to identify readily the share of the underlying assets and liabilities attributable to each individual employer participating in this arrangement. The Affinity Sutton Group has limited its employers' contribution to 15 per cent. of pensionable pay with any shortfall being made up by employees.

As with all defined benefit pension schemes, there may be certain circumstances in which the sponsoring employers of the pension arrangements listed above are required to make good a funding deficit in short order.

Litigation Risk: There can be no assurance that the Affinity Sutton Group will not, in the future, be subject to a claim which may have a material impact upon its revenue or business. To date, claims made against the Original Borrower have not had a material impact on the revenue or business of the Affinity Sutton Group.

Furthermore, the Affinity Sutton Group has the benefit of insurance for, among others, employer's liability, directors' liability, public liability, and professional indemnity at a level which the management of the Affinity Sutton Group considers to be prudent for the type of business in which the Affinity Sutton Group is engaged.

Housing Market Downturn Risk: The latest figures from the Nationwide House Price Index show that there has been little change in the generally weaker buyer demand for the UK housing market with a typical UK property price increasing by a seasonally adjusted 1.3 per cent. month on month for August 2012. The overall trend does not indicate any significant improvement in housing market conditions. On an annual basis, house prices are 0.7 per cent. lower in August 2012 than for the same period last year. The figures seem to indicate that the property market remains fragile. It remains to be seen whether this trend will be sustained.

The Affinity Sutton Group's strategy has been to develop principally affordable rental housing valued on an existing use-basis. Therefore, the fall in property prices since 2008 has not had a significant effect. As part of its provision of affordable housing, the Affinity Sutton Group has developed a number of shared ownership properties where a percentage share of a property is sold and an affordable rent is charged on the unsold portion to the buyer. This market has been affected by the downturn both in terms of falling property values and a reduction in the availability of mortgages. The Affinity Sutton Group's sales performance has been strong in 2011/12 with properties selling in (on average) 8.9 weeks, compared with its 12 week target.

The Affinity Sutton Group has approximately 40 completed unsold shared ownership properties of which only two have been unsold for more than six months.

The Affinity Sutton Group has had a policy not to develop new build general needs schemes which are reliant on cross subsidy from sales profits on housing for sale. The majority of the Affinity Sutton Group's planned investment in housing for sale is via risk sharing joint venture arrangements. The developments are phased and the arrangements allow construction programmes to be varied to ensure that sales pipeline is managed. The Affinity Sutton Group's remaining exposure to housing for sale is for 281 units across 8 schemes. Currently the Affinity Sutton Group has approximately 100 schemes in development, in total, of which 56 are within the current 4 year National Affordable Housing programme.

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

Liability under the Bonds: The Bonds are obligations of the Issuer only and do not establish any liability or other obligation of any other person mentioned in this Offering Circular. The Bonds will constitute direct, general, secured obligations of the Issuer and will rank equally among themselves.

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

Redemption prior to maturity: In the event that the Bonds become repayable prior to maturity either following the Loan becoming repayable as a result of an ASFL Default (which includes, *inter alia*, failure by the Group Borrower to make payments of interest under the Loan Agreement) or a Borrower ceasing to be a Registered Provider of Social Housing (other than following, or as part of, a Permitted Reorganisation or if such Borrower regains its status as a Registered Provider of Social Housing or ceases to be a Borrower within 180 days), an Event of Default (as defined in Condition 12 (*Events of Default and Enforcement*)) or due to taxation (pursuant to Condition 9.3 (*Early Redemption for Tax Reasons*)), the Bonds will be redeemed in full at their principal amount, plus accrued interest. In such circumstances it may not be possible for an investor to reinvest the redemption proceeds at an effective rate of interest as high as the interest rate on the Bonds. Furthermore, the optional

redemption feature of the Bonds is likely to limit their market value as the market value generally will not rise substantially above the price at which they can be redeemed.

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

The Terms and Conditions of the Bonds and the Bond Trust Deed also provide that the Bond Trustee may, without the consent of Bondholders (i) agree to any modification (except as stated in the Bond Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of Bonds or (ii) determine without the consent of the Bondholders that any Event of Default shall not be treated as such or (iii) agree to the substitution of another company, industrial and provident society or other entity as principal debtor under the Bonds in place of the Issuer, in the circumstances described in the Terms and Conditions, provided, in each case, that the Bond Trustee is of the opinion that to do so would not be materially prejudicial to the interest of Bondholders.

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

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

Change in Law: The structure of the issue of the Bonds is based on English law, regulatory and administrative practice in effect as at the date of this Offering Circular, and has due regard to the expected tax treatment of all relevant entities under United Kingdom tax law and the published practice of HM Revenue & Customs in force or applied in the United Kingdom as at the date of this Offering Circular. No assurance can be given as to the impact of any possible change to English law, regulatory or administrative practice in the United Kingdom, or to United Kingdom tax law, or the interpretation or administration thereof, or to the published practice of HM Revenue & Customs as applied in the United Kingdom after the date of this Offering Circular.

European Monetary Union: It is possible that, prior to the repayment in full of the Bonds, the United Kingdom may become a participating member state in the European Economic and Monetary Union and that the Euro will become the lawful currency of the United Kingdom. The introduction of the Euro could be accompanied by a volatile interest rate environment which could adversely affect holders of the Bonds. It cannot be said with certainty what effect the adoption of the Euro by the United Kingdom (if it occurs) will have on the holders of the Bonds.

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

Taxation: Under the Terms and Conditions of the Bonds (see Condition 10 (*Taxation*) below), the Issuer may, but will not be obliged to, gross up payments in respect of the Bonds if any deduction or withholding on account of tax is imposed. In the event that any deduction or withholding on account of tax is imposed and the Issuer does not opt to gross up payments in respect of the Bonds (or, if having previously opted to gross up notifies the Bond Trustee and the Bondholders of its intention to cease grossing up payments in respect of the Bonds), the Bonds will be redeemed in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*). In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds. In addition, any amounts in respect of accrued interest which fall due on any such redemption of the Bonds (and, where the redemption follows the next following Interest Payment Date, such Interest Payment Date) shall be paid subject to the required withholding or deduction and the Issuer shall not be obliged to pay any additional amounts in respect thereof. The Bondholders will therefore bear the risk of any such withholding or deduction in respect of the period from the previous Interest Payment Date to the date of redemption.

The Loan Agreement and the Intra-group Loan Agreements require that if any withholding or deduction is required by law to be made by the Group Borrower or any Borrower thereunder, the amount of the payment due from the Group Borrower or such Borrower, as the case may be, shall be increased to an amount which (after making the tax deduction) leaves an amount equal to the payment which would have been due if no tax deduction had been required.

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

EU Savings Directive: Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive.

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

Exchange rate risks and exchange controls: The Issuer will pay principal and interest on the Bonds in Sterling. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the **Investor's Currency**) other than Sterling. These include the risk that exchange rates may significantly change (including changes due to devaluation of Sterling or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Sterling would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Legal investment considerations may restrict certain investments: The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Bonds are legal investments for it, (2) the Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Bonds under any applicable risk-based capital or similar rules.

Risks Relating to the Security of the Bonds

Considerations relating to the Issuer Security and the Underlying Security: The Bonds will be secured by the Issuer Security granted in favour of the Bond Trustee for the benefit of itself, the Bondholders and the other Secured Parties. Such Issuer Security will include security over the Loan Agreement, the Security Trust Deed and the Security Agreements. The Security Agreements each include a guarantee by the Borrower which is a party thereto in respect of the Group Borrower's obligations under the Loan Agreement and the Underlying Security created pursuant to the Security Trust Deed and the Security Agreements includes first legal mortgages, first fixed charges and assignments over the property and rights set out in the relevant Security Agreement given by each Borrower in favour of the Security Agent for the benefit of itself and, *inter alios*, the Issuer.

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

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

In addition, the presence of hazardous or toxic substances, or the failure to adequately remedy adverse environmental conditions at a Charged Property, may adversely affect the market value of the Charged Property, as well as the relevant Borrower's ability to sell, lease or refinance the Charged Property. Any environmental liability imposed on such Borrower could also affect the ability of such Borrower to meet its payment obligations under the Intra-group Loan Agreement to which it is a party.

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

Investment of Retained Proceeds in Permitted Investments: For so long as any part of the net proceeds of the issue of the Bonds remains undrawn pursuant to the Loan Agreement, the Issuer may

invest such amounts in Permitted Investments in accordance with the Custody Agreement. The Issuer may also invest the Charged Cash in Permitted Investments in accordance with the Custody Agreement.

Although Permitted Investments are limited to highly rated securities which satisfy certain specified criteria (which, other than with respect to any investment in the Benchmark Gilt (as defined in Condition 9.2 (*Early Redemption*))), includes a requirement that the investments have a maturity date which is no later than 8th October, 2042), the Issuer may be required to liquidate such Permitted Investments (a) prior to the enforcement of the Issuer Security, (in the case of the Permitted Investments purchased with Retained Proceeds) to fund advances to the Group Borrower pursuant to the Loan Agreement or to fund redemptions of the Bonds in accordance with the Conditions or (b) following the enforcement of the Issuer Security, to make payments in accordance with the Post-enforcement Priority of Payment, in either case at a time when the disposal proceeds of such Permitted Investments is less than the price paid by the Issuer upon the acquisition thereof.

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

In the event that the enforcement of the Issuer Security takes place prior to Charged Properties being allocated to the Issuer's Apportioned Part with an aggregate Minimum Value equal to the principal amount of the Bonds and/or at a time when the Permitted Investments have been acquired with the Charged Cash, the value of the proceeds of enforcement of the Underlying Security, together with such amounts, may be insufficient to enable the Issuer to pay its obligations under the Bonds in full. There is no limit as to the proportion of the Asset Cover Test which may be satisfied by Permitted Investments in the form of Retained Proceeds and/or Charged Cash.

Change of apportionment basis of Charged Properties: The Loan Agreement provides that the properties over which security is to be apportioned pursuant to the Security Trust Deed (the **Charged Properties**) is to be apportioned on a "Numerical Apportionment Basis". The Security Trust Deed provides that, where Numerical Apportionment Basis is specified as the basis for apportionment, a specific number of units within the portfolio of Charged Properties is designated to each Beneficiary as agreed between the Group Borrower and such Beneficiary (in the case of the Loan Agreement, the Issuer). Where Numerical Apportionment Basis is specified as the apportionment basis, a Beneficiary in respect thereof is entitled to change its basis of apportionment to "Specific Apportionment Basis" only in the limited circumstances and in accordance with the procedures specified in the Security Trust Deed. For so long as a Beneficiary's security is apportioned on a Numerical Apportionment Basis, the value of its security will be determined by reference to a percentage of the total value of the portfolio of Charged Properties that are apportioned on a Numerical Apportionment Basis. In addition, in the event that following an enforcement of security a Beneficiary requests a specific apportionment of those Charged Properties allocated to them on a Numerical Apportionment Basis in circumstances where the other Beneficiaries have elected to continue with an apportionment on a

Numerical Apportionment Basis, then the Security Agent will be required to appoint a valuer to propose an allocation of the properties and this may result in a timing delay in recovery.

Merger of Borrowers: A Borrower may merge, amalgamate or enter into a transfer of engagements with another entity at any time without the consent of the Issuer. In such circumstances, if following any such merger, amalgamation or transfer, the credit risk of the Borrower or any successor entity created thereby were weaker than that of the Borrower prior to such merger, amalgamation or transfer, the Issuer would become subject to this increased credit risk. Other members of the Affinity Sutton Group (including, for the avoidance of doubt, the Group Parent) may also merge, amalgamate enter into a transfer of engagements with another entity or entities at any time without the consent of the Issuer (other than, in the case of the Group Borrower, the Issuer's consent to the transfer or novation of the Loan Agreement). In both cases, however, any such merger, amalgamation or transfer would only be entered into with the approval of the Group Parent. The Group Borrower and the Issuer are both subsidiaries of the Group Parent and, as such, the Issuer expects that their interests will be aligned in respect of any proposed merger, amalgamation or transfer.

Additions of new Borrowers and Resignation of Borrowers: The Group Borrower may at any time enter into an Intra-group Loan Agreement with a new Borrower, provided that (a) such new borrower is a charity and a Registered Provider of Social Housing, (b) such new borrower enters into a Security Agreement in substantially the same terms as that entered into by the Original Borrower and (c) Moody's or any successor thereto which has assigned a solicited rating of the Bonds at such time has confirmed that the addition of such new borrower would not adversely affect the then current rating of the Bonds. In such circumstances, if the new Borrower's credit risk were weaker than that of the rest of the Borrowers, the Issuer would become subject to increased credit risk in respect of the Borrowers as a whole. A Borrower may, upon request, cease to be a Borrower at any time provided that the resignation of such Borrower will not result in a breach of the asset cover ratios set out in the Loan Agreement and Moody's or any successor thereto which has assigned a solicited rating of the Bonds at such time has confirmed that the resignation of such Borrower would not adversely affect the then current rating of the Bonds.

The Issuer's ability to meet its obligations under the Bonds after enforcement under the Loan: Following default by the Group Borrower, and in the event that the Borrowers have not satisfied the obligations of the Group Borrower pursuant to the Security Agreements, the Security Agent will be entitled to call for payments of any unpaid sums by the Group Borrower under and in accordance with the terms of the Security Agreements. If the Guarantors do not make payment of amounts due to the Issuer pursuant to the Security Agreements, the Security Agent may enforce the Underlying Security in respect of the Borrowers and appoint a Receiver in respect of the defaulting Borrower pursuant to its powers under the Security Trust Deed.

The Issuer's ability to continue to pay principal and interest on the Bonds following default by the Group Borrower under the Loan is dependent upon the ability of the Issuer to receive through the Security Agreements, or from the Security Agent pursuant to the collection of rental income or a disposal of the Underlying Security, sufficient funds to make such payment.

Fixed charges may take effect under English law as floating charges: Pursuant to the Bond Trust Deed, the Issuer has purported to grant fixed charges over, amongst other things, all rights and benefits under the Transaction Account, the Cash Security Account and the Initial Cash Security Account. The law of England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than assignment of security) may take effect under English law only as floating charges if, for example, it is determined that the Bond Trustee does not exert sufficient control over the charged assets for the security to be said to "fix" over those assets. If the charges take effect as floating charges instead of fixed charges, then the claims of the Bond Trustee will be subject to claims which are given priority over a floating charge by

law, including, amongst other things, prior charges, certain subsequent charges, the expenses of any winding up or administration and the claims of preferential creditors.

Claims of Creditors of the Issuer other than Secured Parties: Under English law, any creditor (who has not entered into non-petition clauses) would (save where an administrator has been appointed) be able to commence insolvency or winding up proceedings against the Issuer in respect of any unpaid debt. If this occurred, the security would be realised to meet the Issuer's payment obligations, but there is a risk that the security may be insufficient to satisfy all the Issuer's payment obligations in full. However, to minimise the risk of the premature insolvency or winding up of the Issuer, it will undertake not to incur any debt or liability or enter into any other transaction other than as provided in, or contemplated by, the Transaction Documents.

Mortgagee in Possession Liability: There is a risk that the Security Agent may be deemed to be a mortgagee in possession if it physically enters into possession of a Charged Property or performs an act of control or influence which may amount to possession, such as submitting a demand direct to tenants requiring them to pay rents to the Security Agent. The consequence of being a mortgagee in possession would be that the Security Agent may be obliged to account to the relevant Borrower for the income obtained from the Charged Property, be liable for any damage to the Charged Property, have a limited liability to repair the Charged Property and, in certain circumstances, may be obliged to make improvements or incur financial liabilities in respect of the Charged Property. A mortgagee in possession may also be liable to a tenant for any mismanagement of the relevant property and may incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), the liabilities of a property owner. Pursuant to Clause 16 of the Loan Agreement, the Group Borrower is required to indemnify the Security Agent on demand against any loss or liability incurred in connection with the Loan Agreement and pursuant to Clause 15 of the Security Trust Deed the Group Borrower is required to indemnify the Security Agent on demand against all liabilities and expenses properly incurred by it in the execution of its powers and trusts contained in the Security Trust Deed and against all actions, proceedings, costs, claims and demands in respect of any matter or thing done or omitted to be done in any way relating to the Security Trust Deed.

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

Risks Relating to the Market Generally

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

Global economic disruption: Bondholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of

liquidity in the secondary market for instruments similar to the Bonds, concerns over the liquidity of major banks and building societies and the consequent effects on the general economy and the housing market. The Issuer cannot predict when these circumstances will change and, if and when they do, whether conditions of general market illiquidity for the Bonds and instruments similar to the Bonds will return in the future.

Credit ratings may not reflect all risks: It is expected that the Bonds will be rated "Aa2" by Moody's. This rating may not reflect the potential impact of all risks related to the structure, market and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the assigning rating agency at any time. In particular, on 15th February, 2012, Moody's took action in respect of selected European sub-sovereign issuers (including amending the outlook for rated Registered Providers of Social Housing) due to influences on them from financial, operational and economic linkages with sovereign debt; the relevant ratings themselves remain unchanged. As with any rated entity, the rating of the Group Borrower or any other member of the Affinity Sutton Group (and, accordingly, the rating of the Bonds) may be susceptible to further adjustments (whether upward or downward) and in particular any adjustments which may be made as a result of a rating agency's methodology as applied to the Group Borrower or any other member of the Affinity Sutton Group.

As of the date of this Offering Circular, Moody's is established in the European Union and is registered under Regulation (EU) No 1060/2009 (as amended) (the **CRA Regulation**). As such Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

OVERVIEW

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

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

Issuer:	Affinity Sutton Capital Markets plc
Description of the Bonds:	£250,000,000 4.25 per cent. Secured Bonds due 2042 (the Bonds) to be issued by the Issuer on 8th October, 2012 (the Issue Date).
Use of Proceeds:	The net proceeds of the issue of the Bonds will be applied by the Issuer to provide finance for certain members of the Affinity Sutton Group.

Subject as described in "*Initial Cash Security Account*" below, the Issuer will lend such proceeds to the Group Borrower pursuant to the Loan Agreement which will in turn on-lend such funds to the Original Borrower under an Intra-group Loan Agreement to be applied in the achievement of the Original Borrower's objects. The Group Borrower may also on-lend some or all of the proceeds of the Loan Agreement after the Issue Date to other Borrowers, to be applied in the achievement of such Borrowers' objects, to the extent that the Original Borrower has repaid any amounts received by it under its Intra-group Loan Agreement or the Issuer has made further advances to the Group Borrower under the Loan Agreement in respect of Retained Proceeds or following a further issue of bonds. As at the date of this Offering Circular, the Original Borrower is the only Borrower.

Each of the Borrowers will act as a Guarantor under a Security Agreement pursuant to which each Guarantor will guarantee the performance of the obligations of the Group Borrower under the Loan Agreement on an immediate recourse basis.

The Loan Agreement, the Intra-group Loan Agreements and the assets comprising the Issuer Security (see "*Issuer Security*" below) have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Bonds.

The Issuer may from time to time invest the funds held in the Initial Cash Security Account and the Cash Security Account in Permitted Investments until such time as such funds are on-lent to the Group Borrower or returned to a Guarantor, as the case may be, pursuant to the Loan

Agreement.

Issue Price:	98.912 per cent.
Form of the Bonds:	The Bonds will be issued in bearer form as described in <i>"Form of the Bonds and Summary of Provisions relating to the Bonds while in Global Form"</i> .
Interest:	The Bonds will bear interest at a fixed rate of 4.25 per cent. per annum payable semi-annually in arrear in equal instalments on 8th April and 8th October of each year, from (and including) the Issue Date to (but excluding) 8th October, 2042 (the Maturity Date), subject to adjustment in accordance with Condition 8.5 (<i>Payment Day</i>) (each, an Interest Payment Date).
Final Redemption:	Unless previously redeemed or purchased and cancelled in accordance with Condition 9 (<i>Redemption and Purchase</i>), the Bonds will be redeemed at their principal amount on the Maturity Date.
Early Redemption:	Subject as described in <i>"Mandatory Early Redemption"</i> below, the Bonds may be redeemed in whole or in part at any time prior to the Maturity Date upon the optional prepayment by the Group Borrower of the loan (the Loan) or a part thereof in accordance with the terms of the Loan Agreement at the higher of their principal amount and an amount calculated by reference to the sum of (i) the yield on the relevant outstanding United Kingdom government benchmark gilt having the nearest maturity date to that of the Bonds and (ii) 0.20 per cent., together with accrued interest.
Early Redemption for Tax Reasons:	The Issuer shall redeem the Bonds in whole, but not in part, at their principal amount, together with any interest accrued, if as a result of any actual or proposed change in tax law, the Issuer determines that it would be required to make a withholding or deduction on account of tax in respect of payments to be made by it in respect of the Bonds and the Issuer does not opt to pay additional amounts pursuant to Condition 10.2 (<i>No obligation to pay additional amounts</i>) or, having so opted, notifies the Bond Trustee of its intention to cease paying such additional amounts.
Mandatory Early Redemption:	<p>The Bonds shall be redeemed in full at their principal amount, plus accrued interest, upon the mandatory prepayment of the Loan following one or more of the Borrowers ceasing to be a Registered Provider of Social Housing (other than following, or as part of, a Permitted Reorganisation or if such Borrower regains its status as a Registered Provider of Social Housing or ceases to be a Borrower within 180 days).</p> <p>In addition, if the Loan becomes repayable as a result of an ASFL Default the Bonds shall be redeemed in full at their</p>

principal amount, plus accrued interest.

An **ASFL Default** includes non-payment, breach of other obligations, cross-acceleration, winding-up, cessation of business, insolvency, unlawfulness and breach of certain asset cover ratios, in each case as set out in Clause 14 (*ASFL Default*) of the Loan Agreement and described further in "*Description of the Loan Agreement*".

Purchases:

The Group Borrower or any Borrower may at any time purchase Bonds in the open market or otherwise at any price. Any Bonds so purchased may be surrendered to the Issuer for cancellation in consideration for an amount equal to the principal amount of the Bonds being surrendered being deemed to be prepaid under the Loan Agreement or, to the extent that no Loan is then outstanding, an amount of the Undrawn Commitment equal to the principal amount of the Bonds being deemed to be cancelled.

The Issuer may not at any time purchase Bonds.

Events of Default:

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

The Events of Default include, *inter alia*, non-payment of any principal and interest due in respect of the Bonds, failure of the Issuer to perform or observe any of its other obligations under the Conditions and the Bond Trust Deed, insolvency, unlawfulness and acceleration, or non-payment, in respect of other indebtedness in an aggregate amount equal to or in excess of £15,000,000 (or its equivalent).

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

Issuer Security:

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

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

Initial Cash Security Account:

For so long as insufficient security has been granted by the Borrowers in favour of the Issuer to permit the drawing of the Original Commitment in full or the Group Borrower has not otherwise drawn any part of the Original Commitment, the amount of the Original Commitment that remains undrawn (the **Retained Proceeds**) shall be retained in a charged account (the **Initial Cash Security Account**) of the Issuer (and may be invested in Permitted Investments) in accordance with the terms of the Security Account Agreement and the Custody Agreement. For the avoidance of doubt, in the event that the Group Borrower has not drawn any part of the Original Commitment on the Issue Date, the Retained Proceeds at that date shall be the entire amount of the Original Commitment. Any Retained Proceeds shall be advanced to the Group Borrower at a later date pursuant to the Loan Agreement to the extent that Properties (as defined in the Loan Agreement) of a corresponding value have been charged as NAB Charged Properties (as defined in "*Description of the Loan Agreement*" below) and allocated as part of the Issuer's Apportioned Part (as defined in "*Description of the Loan Agreement*" below).

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

Pursuant to the Loan Agreement, the Group Borrower shall pay to the Issuer a commitment fee in respect of the

Retained Proceeds on each Loan Payment Date in an amount equal to the aggregate of the interest payable by the Issuer under the Bonds on the following Interest Payment Date less (a) the aggregate of the interest received or to be received by the Issuer from the Group Borrower under the Loan Agreement on such Loan Payment Date and (b) the interest otherwise received by the Issuer during the relevant Loan Interest Period (including, but not limited to, any income received in respect of any Permitted Investments in which any Retained Proceeds are, for the time being, invested) (see "*Description of the Loan Agreement*" below).

Cash Security Account:

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

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

Moneys standing to the credit of the Cash Security Account may be withdrawn only to the extent that such withdrawal will not cause a breach of the Asset Cover Test.

Permitted Investments:

Permitted Investments shall consist of (a) direct obligations of the United Kingdom or of any agency or instrumentality of the United Kingdom which are guaranteed by the United Kingdom, (b) demand and time deposits in, certificates of deposit of and bankers' acceptances issued by any depository institution or trust company with a maturity of no more than 360 days subject to, *inter alia*, such debt obligation having a long term debt credit rating of not less than "AA" from S&P and "Aa2" from Moody's or a short term debt or issuer (as applicable) credit rating of not less than "A-1" from S&P and "P-1" from Moody's (or, in each case, any other equivalent rating given by a credit rating agency registered under the CRA Regulation (an **Equivalent Rating**)), (c) securities bearing interest or sold at a discount to the face amount thereof issued by any corporation having a long term credit rating of not less than "AA" from S&P and "Aa2" from Moody's (or an Equivalent Rating), and (d) commercial paper or other short-term obligations which, *inter alia*, have a short term credit rating of not less than "A-1" from S&P

and "P-1" from Moody's (or an Equivalent Rating),

provided that such investment shall be an investment which is an obligation of the United Kingdom or a company incorporated in the United Kingdom, and in all cases, such investment shall be an investment (i) the maturity of which is no later than 8th October, 2042 and (ii) which is denominated in Sterling.

In the event that any Permitted Investments are sold to fund an advance to the Group Borrower pursuant to the Loan Agreement and such sale results in a loss realised by the Issuer, the Issuer shall advance monies to the Group Borrower at a discount in an amount equal to the Actual Advance Amount.

In the event that any Permitted Investments are sold to fund an advance to the Group Borrower pursuant to the Loan Agreement and such sale results in a gain realised by the Issuer (such gain, the **Permitted Investment Profit**), the Issuer shall advance monies to the Group Borrower at the principal amount requested and may (but shall not be obliged to) make a gift aid payment to a charitable member of the Affinity Sutton Group (a **Charitable Group Member**) in an amount no greater than the Permitted Investment Profit.

Immediately prior to the end of each accounting period, to the extent that the Issuer would otherwise be required to recognise a profit for tax purposes in respect of its Permitted Investments as a result of the movement in the fair value recognised in its accounts of such Permitted Investments for that accounting period, the Issuer shall sell Permitted Investments in an aggregate amount equal to (i) the amount required to offset or discharge any corporation tax liability (either by the payment of such corporation tax liability or by making a gift aid payment to a Charitable Group Member equal to the Accounting Profit Offset Amount (as defined below) or a combination thereof) in respect of the Accounting Profit (as defined below) less (ii) any retained profits of the Issuer (which, for the avoidance of doubt, does not include any amounts required to meet any payment obligations of the Issuer under the Conditions or any Transaction Documents) available to the Issuer (after all taxes thereon have been paid) and which it intends to apply in respect of such gift aid payment and/or corporation tax liability. In the same accounting period the Issuer will (if applicable) make a gift aid payment to a Charitable Group Member in an amount equal to the Accounting Profit Offset Amount (see "*Description of the Loan Agreement – Facility*" below).

Transaction Account Agreement,
Security Account Agreement and
Custody Agreement:

The Issuer has appointed National Westminster Bank public limited company as its Transaction Account Bank pursuant to the Transaction Account Agreement and has appointed The Bank of New York Mellon, London Branch as its Security Account Bank and Custodian pursuant to the Security Account Agreement and the Custody Agreement, respectively, in relation to the issue of the Bonds.

Pursuant to the Transaction Account Agreement, the Transaction Account Bank shall maintain the Transaction Account for the Issuer in respect of the Bonds. Pursuant to the Transaction Account Agreement and the Bond Trust Deed, the Issuer has entered into certain covenants in respect of the monies which may be credited to and debited from the Transaction Account.

Pursuant to the Security Account Agreement, the Security Account Bank shall maintain two accounts for the Issuer in respect of the Bonds: the Initial Cash Security Account and the Cash Security Account. Pursuant to the Security Account Agreement and the Bond Trust Deed, the Issuer has entered into certain covenants in respect of the monies which may be credited to and debited from each such account.

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

Guarantee and Underlying Security:

The Group Borrower's obligations in respect of the Loan Agreement are secured pursuant to the Security Trust Deed and the Security Agreements in favour of the Issuer, the rights, title and interest in respect of which the Issuer has secured in favour of the Bond Trustee pursuant to the Bond Trust Deed.

Pursuant to the Security Trust Deed, the Original Borrower has (and each other Borrower, upon becoming a Borrower in accordance with the terms of the Security Trust Deed, will have) irrevocably and unconditionally:

- (a) guaranteed to the Issuer the punctual performance by the Group Borrower of all its obligations under, inter alia, the Loan Agreement, the Security Trust Deed and the other Security Agreements;

- (b) undertaken with the Issuer that, whenever the Group Borrower does not pay any amount when due under, *inter alia*, the Loan Agreement, the Security Trust Deed and the other Security Agreements, it must, immediately on demand by the Security Agent, pay that amount as if it were the principal obligor; and
- (c) agreed to indemnify the Issuer immediately on demand against any loss or liability suffered by the Issuer if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal; the amount of the loss or liability under the indemnity will be equal to the amount the Issuer would otherwise have been entitled to recover.

In addition, the Original Borrower has (and each other Borrower, if agreed with the Group Borrower and following such entity becoming a Borrower in accordance with the terms of the Security Trust Deed, will have):

- (a) created fixed security in favour of the Security Agent for the benefit of itself and, *inter alios*, the Issuer over certain of its properties, fixed plant and machinery, benefits in respect of the Insurances and benefit of all present and future licences, consents and authorisations (statutory or otherwise) held in connection with its business so far as it relates to the Security Assets; and
- (b) assigned to the Security Agent for the benefit of itself and, *inter alios*, the Issuer all of its rights, title and interest in and to certain agreements and covenants held by such Borrower,

together, the **Underlying Security**.

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

Priorities of Payments:

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

- (a) first, in payment of any taxes due and owing by the Issuer to any taxing authority (insofar as they relate to the Bonds);
- (b) second, in payment of any unpaid fees, costs, charges, expenses and liabilities incurred by the Bond Trustee (including remuneration payable to it)

in carrying out its functions under the Bond Trust Deed;

- (c) third, in payment of any unpaid fees and expenses of the Issuer owing to the Paying Agents under the Agency Agreement, the Security Account Bank under the Security Account Agreement and the Custodian under the Custody Agreement on a *pro rata* and *pari passu* basis;
- (d) fourth, in payment of any unpaid fees and expenses of the Issuer owing to the Transaction Account Bank under the Transaction Account Agreement;
- (e) fifth, in payment of any other unpaid fees and expenses of the Issuer (insofar as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (f) sixth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (g) seventh, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (h) eighth, in payment to the Group Borrower of any amount due and payable under the terms of the Loan Agreement; and
- (i) ninth, in payment of (i) an amount equal to any Accounting Profit Offset Amount (as defined in "*Terms and Conditions of the Bonds*" below) and (at the option of the Issuer) an amount no greater than any Permitted Investment Profit to any Charitable Group Member and/or (ii) any taxes due and owing by the Issuer to any taxing authority in respect of any Accounting Profit or Permitted Investment Profit.

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

- (a) first, in payment or satisfaction of any unpaid fees, costs, charges, expenses and liabilities incurred by the Bond Trustee or any receiver in preparing and executing the trusts under the Bond Trust Deed (including the costs of realising any Issuer Security and the Bond Trustee's and such receiver's remuneration);

- (b) second, in payment of all amounts owing to the Paying Agents under the Agency Agreement, the Security Account Bank under the Security Account Agreement and the Custodian under the Custody Agreement on a *pro rata* and *pari passu* basis;
- (c) third, in payment of all amounts owing to the Transaction Account Bank under the Transaction Account Agreement;
- (d) fourth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (e) fifth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (f) sixth, in payment of any other unpaid fees and expenses of the Issuer (in each case insofar as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (g) seventh, in payment to the Group Borrower of any amount due and payable under the terms of the Loan Agreement; and
- (h) eighth, in payment of (i) an amount equal to any Accounting Profit Offset Amount and (at the option of the Issuer) an amount no greater than any Permitted Investment Profit to any Charitable Group Member and/or (ii) any taxes due and owing by the Issuer to any taxing authority in respect of any Accounting Profit or Permitted Investment Profit.

Status of the Bonds:

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

Covenants:

Pursuant to Condition 6 (*Covenants*), the Issuer has covenanted not to engage in any activity or do anything other than carry out the business of a company which has as its purpose raising finance and on-lending such finance for the benefit of the members of the Affinity Sutton Group, without the consent of the Bond Trustee.

The Issuer has also covenanted to deliver to the Bond Trustee and, upon request by a Bondholder to the Issuer, to make available to any of the Bondholders, a copy of the Compliance Certificate received from the Group Borrower pursuant to the terms of the Loan Agreement and a copy of the annual reports of the Group Borrower and each of the Borrowers following publication of the same. In addition to the rights of Bondholders to convene a meeting pursuant to

Condition 17 (*Meetings of Bondholders, Modification and Waiver*), at the request of the requisite majority of the Bondholders, the Issuer shall hold a meeting of the Bondholders to discuss the financial position of the Issuer and the Affinity Sutton Group, provided that the Issuer shall not be required to hold any such meeting more than once in any calendar year.

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

Taxation:

All payments in respect of the Bonds will be made without withholding or deduction for or on account of any taxes unless a tax deduction is required by law. In the event that any such withholding or deduction is required, the Issuer may at its option, but will not be obliged to, pay to Bondholders such additional amounts as may be necessary in order that the net amounts received by the Bondholders after such withholding or deduction will equal the amounts of principal and interest which would have been received in respect of the Bonds in the absence of such withholding or deduction. In the event that the Issuer does not opt to pay, or opts to pay and thereafter notifies the Bond Trustee of its intention to cease paying, such additional amounts the Bonds shall be redeemed at their principal amount, together with any accrued interest, in accordance with Condition 9.3 (*Early Redemption for Tax Reasons*).

Meetings of Bondholders:

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

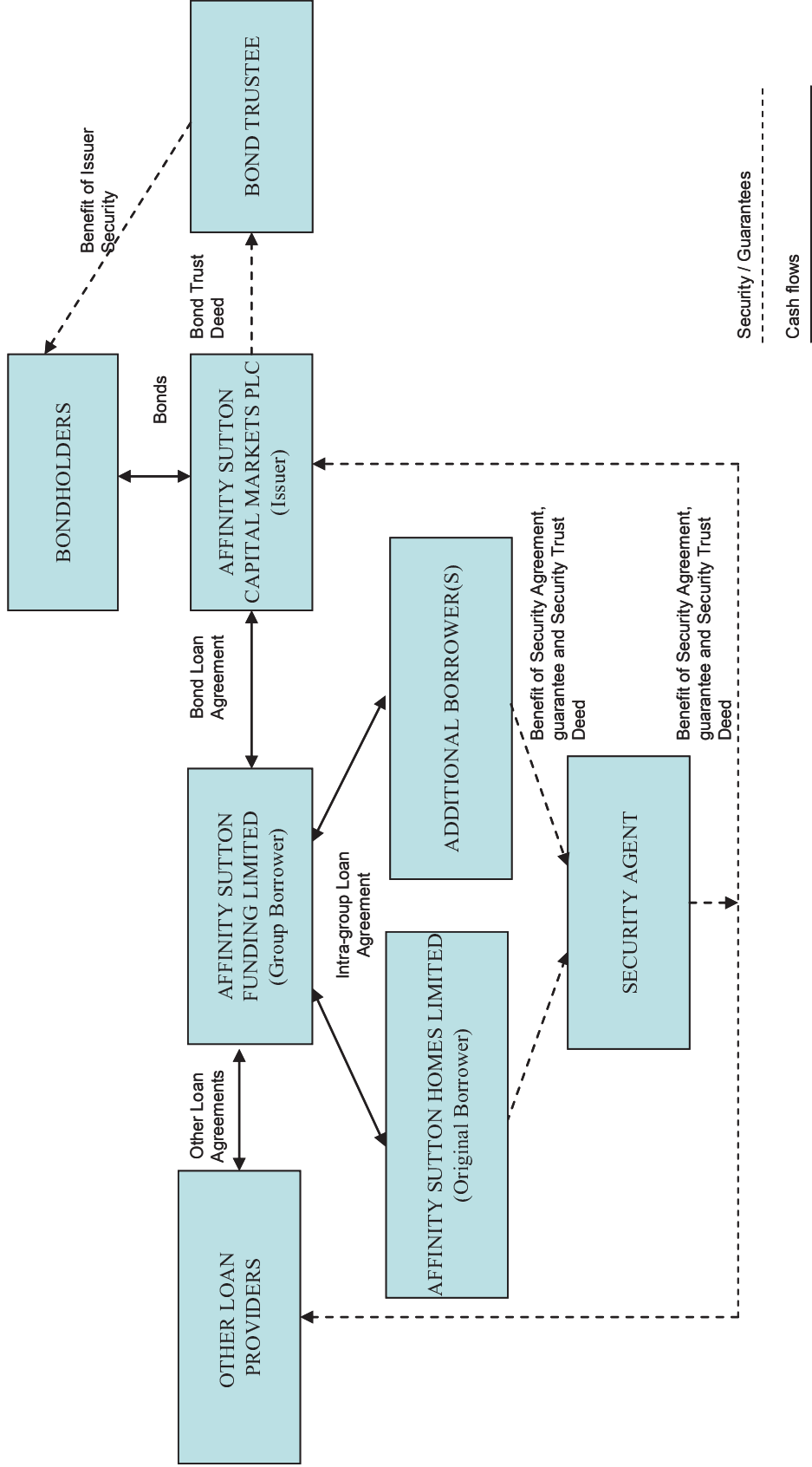
Risk Factors:

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Bonds. These are set out under "*Risk Factors*" below and include factors which may affect the Issuer, the Group Borrower and/or the Borrowers' ability to fulfil their obligations under the Bonds, the Loan Agreement and the Intra-group Loan Agreements and the Security Agreements respectively, factors which are material for the purpose of assessing the market risks associated with the Bonds, risks relating to the security for the Bonds and risks relating the market generally.

See "*Risk Factors*" below.

Rating:	<p>It is expected that the Bonds will be rated "Aa2" by Moody's.</p> <p>As of the date of this Offering Circular, Moody's is established in the European Union and is registered under Regulation (EU) No 1060/2009 (as amended) (the CRA Regulation). As such Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.</p>
Listing and admission to trading:	Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on the London Stock Exchange's regulated market.
Joint Bookrunners:	<p>Barclays Bank PLC</p> <p>Lloyds TSB Bank plc</p> <p>RBC Europe Limited</p>
Principal Paying Agent:	The Bank of New York Mellon, London Branch
Security Account Bank:	The Bank of New York Mellon, London Branch
Transaction Account Bank:	National Westminster Bank public limited company
Custodian:	The Bank of New York Mellon, London Branch
Bond Trustee:	Prudential Trustee Company Limited
Group Borrower:	Affinity Sutton Funding Limited
Borrowers and Guarantors:	<p>Affinity Sutton Homes Limited,</p> <p>and such other members of the Affinity Sutton Group to which the Group Borrower may on-lend the proceeds of the Loan Agreement in accordance with the terms thereof.</p>
Security Agent:	Prudential Trustee Company Limited
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Bonds in the United States and the United Kingdom, see " <i>Subscription and Sale</i> ".
Governing Law:	The Bonds and any non-contractual obligations arising out of or in connection with them shall be governed by, and construed in accordance with, English law.

STRUCTURE DIAGRAM OF TRANSACTION



The issue proceeds of the Bonds will, subject to the satisfaction of certain conditions precedent, be on-lent by the Issuer to the Group Borrower which will, in turn, on-lend such funds to the Original Borrower. In accordance with the terms of the Security Trust Deed and the Loan Agreement, additional Borrowers may accede to the above structure after the Issue Date. Following the addition of any additional Borrower, the Group Borrower may on-lend funds received by it from the Issuer (in respect of any Retained Proceeds or proceeds of further bonds), to such additional Borrower.

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

Form of the Bonds

Form, Exchange and Payments

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

The Bonds are intended upon issue to be deposited with The Bank of New York Mellon, London Branch as common safekeeper for Euroclear and Clearstream, Luxembourg. Although the Bonds are issued in NGN form, this does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Bondholders should note that the European Central Bank has recently announced an intention to apply a temporary extension of Eurosystem eligibility to Sterling denominated securities. However, should this extension not become effective or cease at any time during the life of the Bonds, the Bonds will not be in a form which can be recognised as eligible collateral. In addition, in order for the Bonds to be recognised as eligible collateral, either Euroclear or Clearstream, Luxembourg would need to be appointed as common safekeeper in respect of the Bonds.

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

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

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

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

The Permanent Global Bond will be exchangeable (free of charge), in whole but not in part, for definitive Bonds with interest coupons and talons attached only upon the occurrence of an Exchange Event. For these purposes, **Exchange Event** means that (i) an Event of Default (as defined in

Condition 12) has occurred and is continuing, or (ii) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system satisfactory to the Bond Trustee is available or (iii) the Issuer has or will become subject to adverse tax consequences which would not be suffered were the Bonds represented by the Permanent Global Bond in definitive form. The Issuer will promptly give notice to Bondholders in accordance with Condition 15 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 the Permanent Global Bond) or the Bond Trustee may give notice to the Principal Paying Agent requesting exchange and, in the event of the occurrence of an Exchange Event as described in (iii) above, the Issuer may also give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

Legend concerning United States persons

The following legend will appear on all Bonds and on all interest coupons relating to the Bonds:

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

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

Summary of Provisions relating to the Bonds while in Global Form

Notices

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

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

Accountholders

For so long as any of the Bonds is represented by a Global Bond held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of such Bonds (the **Accountholder**) (in which regard any certificate or

other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Bonds standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated as the holder of such principal amount of such Bonds for all purposes other than with respect to the payment of principal or interest on such principal amount of such Bonds, for which purpose the bearer of the relevant Global Bond shall be treated as the holder of such principal amount of such Bonds in accordance with and subject to the terms of the relevant Global Bond and the expressions **Bondholder** and **holder of Bonds** and related expressions shall be construed accordingly. In determining whether a particular person is entitled to a particular principal amount of Bonds as aforesaid, the Bond Trustee may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

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

Prescription

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

Cancellation

Cancellation of any Bond represented by a Global Bond and required by the Conditions of the Bonds to be cancelled following its redemption or purchase will be effected by entry in the records of Euroclear or Clearstream, Luxembourg, as the case may be.

Partial Redemption

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

TERMS AND CONDITIONS OF THE BONDS

The following are the Terms and Conditions of the Bonds which will be incorporated by reference into each Bond in definitive form (if issued).

The £250,000,000 4.25 per cent. Secured Bonds due 2042 (the **Bonds**) of Affinity Sutton Capital Markets plc (the **Issuer**) are constituted by a Bond Trust Deed (as modified and/or supplemented and/or restated from time to time, the **Bond Trust Deed**) dated 8th October, 2012 made between the Issuer and Prudential Trustee Company Limited (the **Bond Trustee**, which expression shall include any successor as Bond Trustee) as trustee for the holders of the Bonds (the **Bondholders**) and the holders of the interest coupons appertaining to the Bonds (the **Couponholders** and the **Coupons** respectively, which expressions shall, unless the context otherwise requires, include the talons for further interest coupons (the **Talons**) and the holders of the Talons).

The Bonds have the benefit of an Agency Agreement (as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 8th October, 2012 and made between the Issuer, the Bond Trustee, The Bank of New York Mellon, London Branch as principal paying agent (the **Principal Paying Agent**, which expression shall include any successor agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents).

Copies of the Bond Trust Deed, the Agency Agreement, the Loan Agreement, the Security Agreements and the Security Trust Deed are available for inspection during normal business hours at the registered office for the time being of the Bond Trustee being at the date of the issue of the Bonds at Laurence Pountney Hill, London EC4R 0HH and at the specified office of each of the Paying Agents. The Bondholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Bond Trust Deed and the Agency Agreement. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Bond Trust Deed, which includes the form of the Bonds.

1. DEFINITIONS

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

In these Conditions:

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

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

Affinity Sutton Group means Affinity Sutton Group Limited, the Group Borrower, the Borrowers and any other present or future, direct or indirect, subsidiaries of Affinity Sutton Group Limited (which includes, for the avoidance of doubt, any entity with which Affinity Sutton Group Limited may merge or be consolidated with at any time);

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

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

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

Borrowers means Affinity Sutton Homes Limited and such other members of the Affinity Sutton Group to which the Group Borrower may on-lend the proceeds of the Loan Agreement in accordance with the terms thereof;

Business Day means, for the purpose of Condition 9 (*Redemption and Purchase*), a day (other than a Saturday, Sunday or public holiday) on which commercial banks are open for general business in London;

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

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

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

Charitable Group Member means a charitable member of the Affinity Sutton Group;

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

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

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

Custody Agreement means the Custody Agreement dated 8th October, 2012 and made between the Issuer, the Bond Trustee and the Custodian, as amended and/or supplemented and/or restated from time to time;

Group Borrower means Affinity Sutton Funding Limited, as borrower under the Loan Agreement;

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

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

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

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

Loan Agreement means the Loan Agreement dated on or about the date of issue of the Bonds between the Issuer, the Group Borrower and the Security Agent;

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

Permitted Investment Profit has the meaning given to it in the Loan Agreement;

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

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

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

Relevant Date means, in relation to any payment, the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Bond Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Bondholders by the Issuer in accordance with Condition 15 (*Notices*);

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

Retained Proceeds means, at any time, an amount of the net issue proceeds of the Bonds which is not advanced to the Group Borrower pursuant to the Loan Agreement at such time (if any);

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

Security Account Agreement means the Security Account Agreement dated 8th October, 2012 and made between the Issuer, the Bond Trustee and the Security Account Bank, as amended and/or supplemented and/or restated from time to time;

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

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

Security Agreements means each Security Agreement entered into between, *inter alios*, the Group Borrower and a Borrower pursuant to which such Borrower, *inter alia*, guarantees the obligations of the Group Borrower to the Issuer under the Loan Agreement;

Security Trust Deed means the Security Trust Deed dated 20th December, 2005 between, *inter alios*, the Group Borrower, the Borrowers and the Security Agent (as amended from time to time);

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

Transaction Account Agreement means the Transaction Account Agreement dated 8th October, 2012 and made between the Issuer, the Bond Trustee and the Transaction Account Bank, as amended and/or supplemented and/or restated from time to time;

Transaction Account Bank means National Westminster Bank public limited company as transaction account bank pursuant to the Transaction Account Agreement or any successor transaction account bank appointed thereunder;

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

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

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

Undrawn Commitment has the meaning given to it in the Loan Agreement.

2. FORM, DENOMINATION AND TITLE

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

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

3. STATUS

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

4. SECURITY

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

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

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

5. ORDER OF PAYMENTS

5.1 Pre-enforcement

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

- (a) first, in payment of any taxes due and owing by the Issuer to any taxing authority (insofar as they relate to the Bonds);
- (b) second, in payment of any unpaid fees, costs, charges, expenses and liabilities incurred by the Bond Trustee (including remuneration payable to it) in carrying out its functions under the Bond Trust Deed;
- (c) third, in payment of any unpaid fees and expenses of the Issuer owing to the Paying Agents under the Agency Agreement, the Security Account Bank under the Security Account Agreement and the Custodian under the Custody Agreement on a *pro rata* and *pari passu* basis;
- (d) fourth, in payment of any unpaid fees and expenses of the Issuer owing to the Transaction Account Bank under the Transaction Account Agreement;

- (e) fifth, in payment of any other unpaid fees and expenses of the Issuer (insofar as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (f) sixth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (g) seventh, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (h) eighth, in payment to the Group Borrower of any amount due and payable under the terms of the Loan Agreement; and
- (i) ninth, in payment of (i) an amount equal to any Accounting Profit Offset Amount and (at the option of the Issuer) an amount no greater than any Permitted Investment Profit to any Charitable Group Member and/or (ii) any taxes due and owing by the Issuer to any taxing authority in respect of any Accounting Profit or Permitted Investment Profit.

5.2 Post-enforcement

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

- (a) first, in payment or satisfaction of any unpaid fees, costs, charges, expenses and liabilities incurred by the Bond Trustee or any receiver in preparing and executing the trusts under the Bond Trust Deed (including the costs of enforcing and/or realising any Issuer Security and the Bond Trustee's and such receiver's remuneration);
- (b) second, in payment of all amounts owing to the Paying Agents under the Agency Agreement, the Security Account Bank under the Security Account Agreement and the Custodian under the Custody Agreement on a *pro rata* and *pari passu* basis;
- (c) third, in payment of all amounts owing to the Transaction Account Bank under the Transaction Account Agreement;
- (d) fourth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any interest due and payable in respect of the Bonds;
- (e) fifth, in payment, on a *pro rata* and *pari passu* basis, to the Bondholders of any principal due and payable in respect of the Bonds;
- (f) sixth, in payment of any other unpaid fees and expenses of the Issuer (in each case insofar as they relate to the Bonds) on a *pro rata* and *pari passu* basis;
- (g) seventh, in payment to the Group Borrower of any amount due and payable under the terms of the Loan Agreement; and
- (h) eighth, in payment of (i) an amount equal to any Accounting Profit Offset Amount and (at the option of the Issuer) an amount no greater than any Permitted Investment Profit to any Charitable Group Member and/or (ii) any taxes due and owing by the Issuer to any taxing authority in respect of any Accounting Profit or Permitted Investment Profit.

6. COVENANTS

6.1 General Covenants

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

- (a) carry out the business of a company which has as its purpose raising finance and on-lending such finance for the benefit of the members of the Affinity Sutton Group; and
- (b) perform any act incidental to or necessary in connection with (a) above.

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

6.2 Information Covenants

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

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

6.3 Loan Agreement Consents Covenant

For so long as any of the Bonds remain outstanding, the Issuer covenants that it shall not consent to any waiver, amendment or modification of, or take any action or direct the Security Agent to take any action pursuant to, the Loan Agreement except with the prior consent of the

Bond Trustee. The Bond Trustee may seek the consent of the Bondholders in accordance with the Bond Trust Deed prior to giving any such consent.

7. INTEREST

7.1 Interest Rate and Interest Payment Dates

The Bonds bear interest from (and including) 8th October, 2012 at the rate of 4.25 per cent. per annum, payable semi-annually in arrear in equal instalments on 8th April and 8th October in each year (each, an **Interest Payment Date**).

7.2 Interest Accrual

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

7.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full half year, it shall be calculated on the basis of (a) the actual number of days in the period from (and including) the date from which interest begins to accrue (the **Accrual Date**) to (but excluding) the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to (but excluding) the next following Interest Payment Date multiplied by two, and multiplying this by the rate of interest specified in Condition 7.1 and the relevant principal amount of the Bonds.

8. PAYMENTS

8.1 Payments in respect of Bonds

Payments of principal and interest in respect of each Bond will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Bond, except that payments of interest on an Interest Payment Date will be made against presentation and surrender (or in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

8.2 Method of Payment

Payments will be made by credit or transfer to an account in Sterling maintained by the payee with, or, at the option of the payee, by a cheque in Sterling drawn on, a bank in London.

8.3 Missing Unmatured Coupons

Each Bond should be presented for payment together with all relative unmatured Coupons (which expression shall, for the avoidance of doubt, include Coupons falling to be issued on exchange of matured Talons), failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date in respect of the relevant Bond (whether or not the

Coupon would otherwise have become void pursuant to Condition 11 (*Prescription*)) or, if later, five years after the date on which the Coupon would have become due, but not thereafter.

8.4 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Bonds are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment.

8.5 Payment Day

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

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

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

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

8.6 Initial Paying Agents

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

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which so long as the Bonds are admitted to official listing on the London Stock Exchange shall be London or such other place as the UK Listing Authority may approve; and
- (c) the Issuer undertakes to maintain a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices will be given to the Bondholders promptly by the Issuer in accordance with Condition 15 (*Notices*).

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

9. REDEMPTION AND PURCHASE

9.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as specified below, the Bonds will be redeemed by the Issuer at their principal amount on 8th October 2042.

9.2 Early Redemption

If in accordance with the Loan Agreement, the Group Borrower elects to prepay the Loan in whole or in part prior to the repayment date specified in the Loan Agreement, then the Issuer shall redeem the Bonds in whole or, in respect of a prepayment in part, in an aggregate principal amount equal to the principal amount of the Loan to be repaid on the date which is two Business Days after that on which payment is made by the Group Borrower under the Loan Agreement (the **Loan Prepayment Date**).

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

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

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

For the purposes of this Condition:

Benchmark Gilt means the 4½% Treasury Gilt 2042 or such other conventional (i.e. not index-linked) UK Government Gilt as the Issuer (with the advice of the Nominated Financial Adviser) may determine (failing such determination, as determined by the Bond Trustee with such advice) to be the most appropriate conventional UK Government Gilt;

Determination Date means 3 Business Days prior to the Loan Prepayment Date; and

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

9.3 Early Redemption for Tax Reasons

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

9.4 Mandatory Early Redemption

If the Loan becomes repayable:

- (a) as a result of an ASFL Default; or
- (b) following one or more of the Borrowers ceasing to be a Registered Provider of Social Housing (other than following, or as part of, a Permitted Reorganisation resulting from a transfer of all of its assets and liabilities to another Borrower which is itself a Registered Provider of Social Housing or if such Borrower regains its status as a Registered Provider of Social Housing or ceases to be a Borrower within 180 days),

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

9.5 Notice of Early Redemption

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

In the case of a partial redemption of Bonds, Bonds to be redeemed will be selected in such place as the Bond Trustee may approve and in such manner and at such time as the Bond Trustee may deem appropriate and fair. Notice of any such selection will be given by the Issuer to the Bondholders as promptly as practicable. Each notice will specify the date fixed for redemption, the early redemption amount and the aggregate principal amount of the Bonds to be redeemed, the serial numbers of the Bonds called for redemption, the serial numbers of Bonds previously called for redemption and not presented for payment and the aggregate principal amount of the Bonds which will be outstanding after the partial redemption.

9.6 Calculations

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

9.7 Purchase of Bonds by the Group Borrower or the Borrowers

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

9.8 Purchase of Bonds by the Issuer

The Issuer may not at any time purchase Bonds.

9.9 Cancellation of purchased or redeemed Bonds

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

10. TAXATION

10.1 Payments without withholding

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

10.2 No obligation to pay additional amounts

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

Notwithstanding the foregoing, in the event that the Issuer would, on the next Interest Payment Date, be required to make a withholding or deduction in respect of tax (other than in

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

11. PRESCRIPTION

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

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

12. EVENTS OF DEFAULT AND ENFORCEMENT

12.1 Events of Default

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

- (a) if default is made in the payment of any principal or interest due in respect of the Bonds or any of them and the default continues for a period of seven days in the case of principal and 14 days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under the Conditions or the Bond Trust Deed and (except in any case where, in the opinion of the Bond Trustee, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Bond Trustee on the Issuer of notice requiring the same to be remedied; or
- (c) (A) any other present or future indebtedness of the Issuer for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (C) the Issuer fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant

indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (c) have occurred equals or exceeds £15,000,000 or its equivalent in other currencies (as reasonably determined by the Bond Trustee); or

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

12.2 Enforcement

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

The Bond Trustee may refrain from taking any action, step or proceeding in any jurisdiction if the taking of such action, step or proceeding in that jurisdiction would, in its opinion based upon legal advice in the relevant jurisdiction (upon which the Bond Trustee may rely absolutely and without liability to any person), be contrary to any law of that jurisdiction. Furthermore, the Bond Trustee may also refrain from taking such action, step or proceeding if it would otherwise render it liable to any person in that jurisdiction or if, in its opinion based upon such legal advice, it would not have the power to do the relevant thing in that jurisdiction by virtue of any applicable law in that jurisdiction or if it is determined by any court or other competent authority in that jurisdiction that it does not have such power.

No Bondholder, Couponholder or any Secured Party (other than the Bond Trustee) shall be entitled to proceed directly or take any step or action against the Issuer unless the Bond Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

13. REPLACEMENT OF BONDS, COUPONS AND TALONS

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

14. EXCHANGE OF TALONS

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

15. NOTICES

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

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

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

16. SUBSTITUTION

The Bond Trust Deed contains provisions permitting the Bond Trustee to, subject to any required amendment of the Bond Trust Deed, without the consent of the Bondholders or the Couponholders or any Secured Party (other than, in respect of the novation or assignment of the Loan Agreement, the Group Borrower), agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Bonds, the Coupons and the Bond Trust Deed of another company, industrial and provident society or other entity subject to certain conditions set out in the Bond Trust Deed being complied with.

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

17. MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

17.1 Meetings of Bondholders

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

17.2 Modification, Waiver, Authorisation and Determination

The Bond Trustee may agree, without the consent of the Bondholders, Couponholders or any Secured Party, to any modification (except as stated in the Bond Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds, the Bond Trust Deed, any Security Agreement or any other Transaction Document, or determine, without any such consent as aforesaid, that any Event of Default shall not be treated as such, where, in any such case, it is not, in the opinion of the Bond Trustee, materially prejudicial to the interests of the Bondholders so to do or may agree, without any such consent as aforesaid, to any modification which is, in the opinion of the Bond Trustee, of a formal, minor or technical nature or to correct a manifest error. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders, the Couponholders and the Secured Parties and (unless the Bond Trustee agrees otherwise) shall be notified to the Bondholders in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

17.3 Bond Trustee to have regard to interests of Bondholders as a class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Bond Trustee shall have regard to the general interests of the Bondholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Bondholders or Couponholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Bondholders or Couponholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Bond Trustee shall not be entitled to require, nor shall any Bondholder or Couponholder be entitled to claim, from the Issuer, the Bond Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders or Couponholders.

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

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

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

The Bond Trustee shall not be bound to take any step or action in connection with the Bond Trust Deed or the Bonds or obligations arising pursuant thereto or pursuant to the other

Transaction Documents, where it is not satisfied that it is indemnified and/or secured and/or prefunded against all its liabilities and costs incurred in connection with such step or action and may demand, prior to taking any such step or action, that there be paid to it in advance such sums as it considers (without prejudice to any further demand) shall be sufficient so as to indemnify it.

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

19. FURTHER ISSUES

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

20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

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

21. GOVERNING LAW AND SUBMISSION TO JURISDICTION

21.1 Governing Law

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

21.2 Submission to Jurisdiction

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

USE OF PROCEEDS

Subject as set out below, the net proceeds from the issue of the Bonds will be advanced by the Issuer to the Group Borrower pursuant to the Loan Agreement and the Group Borrower will in turn on-lend such funds to the Original Borrower pursuant to an Intra-group Loan Agreement to be applied in the achievement of the Original Borrower's objects. The Group Borrower may also on-lend the proceeds of the Loan Agreement after the Issue Date to other Borrowers, to be applied in the achievement of such Borrowers' objects, to the extent that the Original Borrower has repaid any amounts received by it under its Intra-group Loan Agreement or the Issuer has made further advances to the Group Borrower under the Loan Agreement in respect of Retained Proceeds or following a further issue of bonds.

For so long as insufficient security has been granted by the Borrowers in favour of the Issuer to permit the drawing of the Original Commitment in full or the Group Borrower has not otherwise drawn any part of the Original Commitment, the Retained Proceeds shall be retained in the Initial Cash Security Account in accordance with the terms of the Security Account Agreement and the Custody Agreement (and may be invested in Permitted Investments). For the avoidance of doubt, in the event that the Group Borrower has not drawn any part of the Original Commitment on the Issue Date, the Retained Proceeds at that date shall be the entire amount of the Original Commitment. Any Retained Proceeds shall be advanced to the Group Borrower at a later date pursuant to the Loan Agreement to the extent that sufficient security has been granted by the Borrowers in favour of the Issuer. In addition, in the event that any losses are made in respect of any Retained Proceeds which have been invested in Permitted Investments, each drawing to be made by the Group Borrower pursuant to the Loan Agreement shall be advanced at a discount in an amount equal to the Actual Advance Amount (as defined in the Loan Agreement).

DESCRIPTION OF THE LOAN AGREEMENT

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

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

Facility

Subject to the provisions of the bond loan agreement (the **Loan Agreement**) dated on or around the Issue Date between the Issuer, the Group Borrower and the Security Agent, the Issuer shall commit to make a loan to the Group Borrower in the principal amount of £250,000,000 (the **Original Commitment** and, together with any further commitments, the **Commitment**). The **Loan** is the principal amount of the Commitment that has been advanced to the Group Borrower or the outstanding balance thereof.

The Original Commitment may be drawn in one or more drawings and the maximum principal amount of each drawing shall be an amount which corresponds to the Minimum Value of the NAB Charged Properties multiplied by the Issuer's Security Percentage (in each case, as at the date of such drawing), less the aggregate amount of the Original Commitment which has previously been drawn.

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

The Original Commitment may not be drawn (i) in respect of the first drawing, until the Group Borrower has satisfied the conditions set out in Clause 2(c) (*Facility*) of the Loan Agreement and (ii) in respect of any subsequent drawings of amounts of the Original Commitment which exceed the Minimum Value of the NAB Charged Properties multiplied by the Issuer's Security Percentage on the relevant date may not be made until (x) the Borrowers have charged further Properties as part of the Residual Charged Properties and satisfied the conditions set out in clause 2.3 (*Additional Charged Properties*) of the Security Trust Deed in relation to the charging of any Properties and the Lender's Apportioned Part is increased pursuant to the Security Trust Deed or (ii) the Issuer's Security Percentage is increased pursuant to the Security Trust Deed, in each case such that the Asset Cover Test is satisfied immediately following such drawing.

The Group Borrower shall acknowledge that the Issuer may invest all or any part of the Retained Proceeds in Permitted Investments in accordance with the Custody Agreement and that, as a result of any losses made by the Issuer in respect of such Permitted Investments, the amount of Retained Proceeds held by the Issuer, at the time of any drawdown request, may be less than the Undrawn Commitment. In such circumstances, each drawing shall be advanced at a discount in an amount equal to the Actual Advance Amount.

For this purpose, **Actual Advance Amount** means, in respect of each drawing funded from Retained Proceeds, the principal amount of such drawing multiplied by the result of dividing (i) the amount of Retained Proceeds held by the Issuer at the time of the drawdown request (for the avoidance of doubt, excluding any Permitted Investment Profit) by (ii) the Undrawn Commitment (including, for the

avoidance of doubt, the principal amount of such drawing) which is to be funded from such Retained Proceeds.

For the avoidance of doubt:

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

The Issuer and the Group Borrower shall agree that:

- (a) where the Issuer is required to sell any Permitted Investments to fund a drawing under the Loan Agreement and such sale results in a Permitted Investment Profit, such drawing shall be advanced at the principal amount requested and the Issuer may (but is not obliged to) make a gift aid payment to a Charitable Group Member in an amount no greater than the Permitted Investment Profit; and
- (b) immediately prior to the end of each accounting period, to the extent that the Issuer would otherwise be required to recognise a profit for tax purposes in respect of its Permitted Investments as a result of the movement in the fair value recognised in its accounts of such Permitted Investments for that accounting period, the Issuer shall sell Permitted Investments in an aggregate amount equal to (i) the amount required to offset or discharge any corporation tax liability (either by the payment of such corporation tax liability or by making a gift aid payment to a Charitable Group Member equal to the Accounting Profit Offset Amount or a combination thereof) in respect of the Accounting Profit less (ii) any retained profits of the Issuer (which, for the avoidance of doubt, does not include any amounts required to meet any payment obligations of the Issuer under the Conditions or any Transaction Documents) available to the Issuer (after all taxes thereon have been paid) and which it intends to apply in respect of such gift aid payment and/or corporation tax liability. In the same accounting period the Issuer will (if applicable) make a Gift Aid Payment to a Charitable Group Member in an amount equal to the Accounting Profit Offset Amount.

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

Purpose

The proceeds of the Loan may only be used by the Group Borrower for on-lending by the Group Borrower to the Original Borrower and any other member of the Affinity Sutton Group (subject as set out in "*Addition of Guarantors*" below) (together, the **Borrowers** and the **Guarantors**) to be applied in the achievement of the relevant Guarantor's objects.

Interest

Rate of Interest

The Loan will carry interest from (and including) 8th October, 2012 at the rate of 4.25 per cent. per annum, payable in arrear by equal half yearly instalments on each Loan Payment Date (being four Business Days prior to each Interest Payment Date).

Interest Periods

Notwithstanding the fact that interest is payable on each Loan Payment Date, interest will accrue daily on the Loan from (and including) an Interest Payment Date (or, in the case of the first interest period of the Loan, 8th October, 2012) to (but excluding) the immediately following Interest Payment Date (each, a **Loan Interest Period**).

Commitment Fee

The Group Borrower shall pay to the Issuer a commitment fee in respect of the Undrawn Commitment on each Loan Payment Date in an amount equal to the aggregate of the interest payable by the Issuer under the Bonds on the following Interest Payment Date less the aggregate of (a) the interest received or to be received by the Issuer under the Loan Agreement on such Loan Payment Date and (b) the interest otherwise received by the Issuer in respect of the Retained Proceeds in the relevant Loan Interest Period (including, but not limited to, any income received by the Issuer in respect of any Permitted Investments in which any Retained Proceeds are, for the time being, invested). Accrued commitment fee is payable on each Loan Payment Date and, in respect of the amount of the affected Undrawn Commitment, on each other date on which a redemption of Bonds occurs where such redemption is funded out of some or all of the Undrawn Commitment. The commitment fee shall accrue on a daily basis.

Repayment, Purchase and Prepayment

Repayment

The Group Borrower must repay the Loan in full four Business Days prior to the Interest Payment Date in October 2042 (the **Loan Maturity Date**).

Bond Purchase Option

The Group Borrower and each Guarantor may at any time purchase Bonds on the London Stock Exchange, by tender (available to all Bondholders alike) or by private treaty at any price. Following any such purchase, the Group Borrower or the relevant Guarantor, as the case may be, may (but is not obliged to) surrender the Bonds to the Issuer to be cancelled. An amount of the outstanding balance of the Loan equal to the outstanding balance of the Bonds surrendered shall be deemed to be prepaid (or, to the extent that no Loan is then outstanding, then an amount of the Undrawn Commitment equal to the outstanding balance of the Bonds surrendered shall be deemed to be cancelled for the purposes of the Loan Agreement and an amount of the Retained Proceeds equal to the Cancelled Retained Proceeds shall be paid by the Issuer to the Group Borrower or the relevant Guarantor, as the case may be).

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

Optional Prepayment

Pursuant to Clause 5.3 (*Optional Prepayment*) of the Loan Agreement, the Group Borrower may, at any time before the Loan Maturity Date, by giving not less than 45 nor more than 60 days' notice in writing to the Issuer and the Security Agent, prepay the whole or (as the case may be) any part of the outstanding balance of the Loan, together with any interest accrued up to and including the date of prepayment, at a price which shall be the higher of the following:

- (a) par; and
- (b) for so long as any Bonds are outstanding, the price as notified to the Group Borrower by the Issuer as being the price determined under the Bond Trust Deed for the redemption of a corresponding principal amount of the applicable Bonds.

Mandatory Prepayment – Redemption of Bonds

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

Mandatory Prepayment – Cancellation of Status

Pursuant to Clause 5.6 (*Mandatory Prepayment – Cancellation of Status*) of the Loan Agreement, the Group Borrower shall promptly notify the Issuer and the Security Agent if it becomes aware that a Borrower ceases to be a Registered Provider of Social Housing. Within 180 days of such notification, the Group Borrower shall prepay the whole of the outstanding balance of the Loan, together with any interest and commitment fee accrued up to and including the date of prepayment, provided however, that (i) if the relevant Borrower either ceases to be a Borrower or regains its status as a Registered Provider of Social Housing within such period of 180 days or (ii) if the relevant Borrower has ceased to be a Registered Provider of Social Housing following, or as part of, a Permitted Reorganisation resulting from a transfer of all of its assets and liabilities to another Borrower which is itself a Registered Provider of Social Housing, the Group Borrower shall no longer be required to prepay the Loan in accordance with Clause 5.6 (*Mandatory Prepayment – Cancellation of Status*) of the Loan Agreement.

A **Registered Provider of Social Housing** is defined for the purpose of the Loan Agreement as meaning a person listed in the register of providers of social housing established under Chapter 3 of Part 2 of the Housing and Regeneration Act 2008 (as amended from time to time) or any replacement or successor legislation thereto, provided that if such legislation is repealed and not replaced or succeeded, the term Registered Provider of Social Housing shall be given such meaning as the Bond Trustee (after consultation with the Issuer) considers to correspond to such meaning as at the date that such legislation is repealed.

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

In the event that the Group Borrower elects to, or is otherwise required to, prepay the whole of the outstanding balance of the Loan and the Issuer is required to notify the Group Borrower of the price determined under the Conditions for the redemption of a corresponding principal amount of the Bonds, then the Issuer shall be entitled to also take account of the redemption of such principal amount of the Bonds that shall correspond to the Retained Proceeds Par Amount (being an amount equal to the Retained Proceeds at the time of calculation and, where any Retained Proceeds are at that time invested in Permitted Investments, the amount of such Retained Proceeds shall be taken as the purchase price of the relevant Permitted Investments, ignoring any gains or losses in respect of those

Permitted Investments since the date of purchase), and the price notified to the Group Borrower shall be increased accordingly.

Apportionment Basis

The Charged Properties securing the obligations of the Group Borrower under the Loan Agreement shall be apportioned on the Numerical Apportionment Basis (subject to the rights of the Beneficiaries to require the Specific Apportionment Basis to apply in limited circumstances after the occurrence of an Event of Default in accordance with the terms of the Security Trust Deed). See "*Description of the Issuer Security and the Underlying Security*" below.

The Issuer shall confirm that it shall agree (and shall be deemed to have confirmed to the Security Agent under the Security Trust Deed its agreement) to any apportionment (or adjustment to any apportionment) of its Apportioned Properties that are apportioned on a Numerical Apportionment Basis provided that the Group Borrower would continue to be in compliance with the Asset Cover Test immediately after such apportionment (or adjustment to any apportionment).

Warranties and Covenants

The Group Borrower shall make various warranties and covenants pursuant to Clause 9 (*Warranties and Covenants by ASFL*) of the Loan Agreement. These warranties and covenants include, *inter alia*, the following:

Information Covenants

The Group Borrower must supply to the Issuer and the Security Agent not later than seven months after the end of each financial year copies of (i) the audited consolidated financial statements of Affinity Sutton Group Limited for such financial year; (ii) the audited financial statements of the Group Borrower and each Guarantor (together, the **Obligors**) for such financial year; and (iii) a certificate setting out, among other things, calculations in respect of the financial covenants substantially in the form set out in the Loan Agreement (the **Compliance Certificate**) signed by an authorised signatory of the Group Borrower.

Negative Pledge

The Group Borrower shall procure that no Obligor shall create or allow to exist any Security Interest on any of its assets which are Security Assets, except as set out in Clause 9.2(c)(ii) (*Negative Pledge*) of the Loan Agreement which includes the Security Interests created pursuant to, *inter alia*, the Security Trust Deed and the Security Agreements.

No Other Business

The Group Borrower must not carry on any other business or own any assets other than incurring indebtedness to the extent permitted by the Finance Documents (as defined in the Security Trust Deed) including the entering into of derivative transactions in connection with protection against or to benefit from fluctuations in any rate, price, currency, index or credit rating, and the making of loans and guarantees to other members of the Affinity Sutton Group and matters related thereto, each in its capacity as a group finance vehicle for the Affinity Sutton Group and/or the entry into the Finance Documents to which it is a party and all matters contemplated therein.

Charged Properties

The Group Borrower shall procure that each Guarantor obtains any authorisation or licence required in order to enable the Security Agent pursuant to the powers of enforcement conferred on it by the

Security Documents to sell vacant Charged Properties and maintains insurances on and in relation to its Charged Properties.

Covenants

The Group Borrower shall (unless the Security Agent otherwise agrees in writing) procure that each Guarantor complies with any covenants or restrictive covenants relating to a Charged Property which are binding on it.

Intra-group Loan Agreements

The Group Borrower undertakes to ensure that a sufficient rate of interest is charged under the Intra-group Loan Agreements (taken as a whole) to ensure that the Group Borrower is able to meet its obligation to pay interest under, *inter alia*, the Loan Agreement.

Financial Covenants

Asset Cover Ratio

Pursuant to Clause 10.1 (*Asset Cover Ratio*) of the Loan Agreement, the Group Borrower shall procure that at all times:

- (a) the sum of:
 - (i) the Minimum Value of the NAB Charged Properties multiplied by the Issuer's Security Percentage;
 - (ii) the Retained Proceeds Par Amount; and
 - (iii) the Charged Cash,will not be less than the aggregate amount of the Outstanding Commitment under the Loan Agreement; and
- (b) the total number of Units comprising Residual Charged Properties shall not fall below the total number of Units comprising NAB Charged Properties.

In the event that the basis of the Issuer's apportionment of security in respect of the Group Borrower's obligations under the Loan Agreement is changed to the Specific Apportionment Basis in the limited circumstances permitted under the Security Trust Deed, the Loan Agreement provides that the Asset Cover Test and each of the provisions relating to the release, addition, substitution and apportionment of Charged Properties under the Loan Agreement shall be construed accordingly.

Charged Cash

The Group Borrower may, at any time, deposit, or arrange for the deposit, of money into the Cash Security Account for the purpose of satisfying the Asset Cover Test.

Subject to the delivery by the Group Borrower to the Issuer and the Bond Trustee of a Compliance Certificate demonstrating that, immediately upon the release of all or any portion of the Charged Cash, the Asset Cover Test will be satisfied, the Issuer shall, upon the request of the Group Borrower, release the Charged Cash (or the relevant portion thereof) to such account as the Group Borrower shall specify.

The Group Borrower shall acknowledge that all sums standing to the credit of the Cash Security Account shall be charged in favour of the Bond Trustee pursuant to the terms of the Bond Trust Deed.

The Group Borrower shall further acknowledge that the Issuer may invest all or any part of the Charged Cash in Permitted Investments in accordance with the Custody Agreement and that, as a result of any gains or losses made by the Issuer in respect of such Permitted Investments and any income received thereon (which shall, for the avoidance of doubt, be credited to the Cash Security Account), the amount of such Charged Cash may be greater or less than the amount deposited in the Cash Security Account by the relevant Obligor. The Group Borrower shall also acknowledge that neither it, nor any other Obligor, shall have any recourse to the Lender in respect of any losses realised by the Issuer in respect of the Charged Cash as a result of investment in any Permitted Investments.

Interpretation

For these purposes:

Charged Properties means all estates and interests in any freehold or leasehold property which are mortgaged or charged to the Security Agent pursuant to a Security Agreement and all buildings, fixtures, fittings (other than tenants' fixtures and fittings) and fixed plant and machinery from time to time thereon;

Issuer's Apportioned Part means the number of units allocated to the Issuer under the Numerical Apportionment Basis from time to time;

Issuer's Security Percentage means the Issuer's Apportioned Part divided by the total number of NAB Charged Properties (expressed as a percentage);

Minimum Value means:

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

where:

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

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

NAB Charged Properties means the aggregate number of units comprising the Charged Properties which have been apportioned to beneficiaries on a Numerical Apportionment Basis;

Retained Proceeds Par Amount means an amount equal to the Retained Proceeds at the time of calculation and, for this purpose, where any Retained Proceeds are at that time invested in Permitted Investments, the amount of such Retained Proceeds shall be taken as the purchase price of the relevant Permitted Investments ignoring any gains or losses in respect of those Permitted Investments since the date of purchase; and

Value means, at any time and in relation to the Charged Properties, the value of those properties as shown in the then latest Full Valuation, Desk Top Valuation or Rolling Valuation on the basis of EUV-SH or, as the case may be, MV-ST (provided that if any Charged Property or part thereof is sold pursuant to a Right to Buy, the Value of the relevant Charged Property shall, for the purposes of this definition and with effect from the date of the relevant sale or release, be zero (if the entire relevant

Charged Property has been sold) or (if only part of the relevant Charged Property has been sold) shall be the proportion of the value of the Charged Property which has not been sold pursuant to the relevant Right to Buy).

Substitution and Release of Charged Properties and Statutory Disposals

Substitution

At the request and expense of the relevant Obligor (acting through the Group Borrower), the Security Agent shall (and the Issuer shall be deemed to direct the Security Agent to) release from the relevant Security Documents such of the NAB Charged Properties and substitute such of the Properties (each, a **Substitute Property**) as may be selected by the relevant Obligor (acting through the Group Borrower), provided that the Group Borrower delivers to the Issuer and the Security Agent a completed Substitute Property Certificate certifying that, *inter alia*, the relevant Substitute Property is a residential property of a type and nature that is usually owned by Registered Providers of Social Housing and, immediately following such release, the Asset Cover Test will not be breached as a result of the substitution of the relevant Properties.

Subject to the delivery by the Group Borrower to the Issuer and the Security Agent of a completed Substitute Property Certificate, the Issuer shall be deemed to have confirmed to the Security Agent under the Security Trust Deed its satisfaction with the conditions of Clause 2.3 (Additional Charged Properties) of the Security Trust Deed in relation to the Substitute Properties (see "*Additional Charged Properties*" below).

Release

At the request and expense of the relevant Obligor (acting through the Group Borrower), the Security Agent shall release (and the Issuer shall be deemed to direct the Security Agent to release) from the relevant Security Documents such of the NAB Charged Properties as may be selected by the relevant Obligor (acting through the Group Borrower) provided that the Group Borrower delivers to the Issuer and the Security Agent a completed Property Release Certificate, certifying that, immediately following such release, the Asset Cover Test will not be breached as a result of the release of the relevant NAB Charged Properties.

Statutory Disposals

Each Obligor shall have the right to withdraw Property from the Residual Charged Property pursuant to any Statutory Disposal, provided that the Group Borrower delivers to the Issuer and the Security Agent a completed Statutory Disposal Certificate, certifying that the relevant withdrawal relates to a Statutory Disposal and that, immediately following such release, the Asset Cover Test will not be breached as a result of the release of the relevant Charged Properties.

Approval of New Properties

Subject to the delivery by the Group Borrower to the Issuer and the Security Agent of a property approval certificate confirming that, *inter alia*, the proposed New Properties are residential properties of a type and nature that are usually owned by Registered Providers of Social Housing, and that a Valuation Report has been delivered to the Security Agent pursuant to the Security Trust Deed, the Issuer shall be deemed to have confirmed to the Security Agent under the Security Trust Deed its satisfaction with the conditions of Clause 2.3 (*Additional Charged Properties*) of the Security Trust Deed (see "*Additional Charged Properties*" below).

Valuations

Full Valuations and Desk Top Valuations

In accordance with Clause 12.1 (*Full Valuations and Desk Top Valuations*) of the Loan Agreement and subject to the provisions below, the Group Borrower shall deliver, or procure the delivery, to the Issuer and the Security Agent of:

- (a) a full valuation which values all Charged Properties on a full valuation basis at least once in every period of five calendar years (a **Full Valuation**), where the first such Full Valuation must be delivered in the period between 31st March, 2016 and the date falling 120 days thereafter (or, at the option of the Group Borrower, within the same period in any prior calendar year) and, unless the Issuer, Group Borrower and Security Agent agree otherwise, thereafter within 120 days of each consecutive fifth anniversary of the date on which the Full Valuation was previously provided; and
- (b) a valuation which values all the Charged Properties on a "desk-top" basis (a **Desk Top Valuation**) in the period between 31st March and the date falling 120 days thereafter in each year other than a year in respect of which such Charged Properties have been valued on a full valuation basis through the delivery of a Full Valuation in accordance with paragraph (a) above, where the first such Desk Top Valuation must be delivered within 120 days of 31st March, 2013.

Rolling Valuations

In accordance with Clause 12.2 (*Rolling Valuations*) of the Loan Agreement and notwithstanding the above, the Group Borrower may elect to deliver, or procure the delivery of, a rolling valuation, instead of a Full Valuation and Desk Top Valuation as described above, to the Issuer and the Security Agent in the period between 31st March and the date falling 120 days thereafter in each year whereby the Valuer values:

- (a) not less than 20 per cent. of the Charged Properties on a full valuation basis (such Charged Properties being Charged Properties which have not been the subject of a full valuation in either a Full Valuation (other than a Full Valuation prepared pursuant the provisions above)) or a Rolling Valuation prepared in the preceding two years and such that 100 per cent. of Charged Properties are valued on a full valuation basis in any five year period following the election by the Group Borrower to deliver, or procure the delivery of, Rolling Valuations taking into account any additions, substitutions and withdrawals of Charged Properties in accordance with the Loan Agreement unless otherwise agreed between the Issuer, the Group Borrower and the Security Agent); and
 - (b) the remaining Charged Properties on a "desk-top" basis,
- (each such valuation, a **Rolling Valuation**).

If the Group Borrower elects to deliver, or procure the delivery of a Rolling Valuation in accordance with the above paragraph, the Group Borrower will not be required to deliver, or procure the delivery of, a Full Valuation every five years and a Desk Top Valuation in each year in which a Full Valuation is not produced.

Loan Events of Default and Enforcement

ASFL Default

Each of the following (set out in more detail in Clause 14 (*ASFL Default*) of the Loan Agreement) shall be an ASFL Default:

- (a) **Non-payment:** An Obligor does not pay on the due date any amount payable by it under the Finance Documents in the manner required under the Finance Documents, unless the non-payment continues for a period of not more than seven days in the case of principal and not more than 14 days in the case of interest.
- (b) **Breach of other obligations:** An Obligor fails to perform or observe any of its obligations under the Finance Documents (other than as referred to in (a) above and (h) below) and (except in any case where, in the opinion of the Security Agent, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by the Security Agent on the relevant Obligor of notice requiring the same to be remedied.
- (c) **Other non-payment:** (A) Any other present or future indebtedness of an Obligor for or in respect of moneys borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (B) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (C) an Obligor fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned in (A), (B) or (C) above in this paragraph (c) have occurred equals or exceeds £15,000,000 or its equivalent in other currencies (as reasonably determined by the Security Agent) and provided, further, for the avoidance of doubt, that the amounts mentioned in this paragraph (c) shall exclude the amount of any Public Sector Subsidy except for any Public Sector Subsidy which is or becomes due and payable to the relevant grant making body or organisation.
- (d) **Winding-Up:** Any order is made by any competent court or resolution passed for the winding up or dissolution of an Obligor save for the purposes of a Permitted Reorganisation or other reorganisation on terms previously approved in writing by the Security Agent.
- (e) **Cessation of Business:** An Obligor ceases or threatens to cease to carry on the whole or, as determined by the Security Agent, a substantial part of its business, save for the purposes of a Permitted Reorganisation or other reorganisation on terms previously approved in writing by the Security Agent, or an Obligor stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent.
- (f) **Insolvency:** Any of the insolvency related events occurs or proceedings are taken in accordance with Clause 14.7 (*Insolvency*) or Clause 14.8 (*Insolvency Proceedings*) of the Loan Agreement, respectively (which exclude any Permitted Reorganisation or reorganisation on terms previously approved in writing by the Security Agent).
- (g) **Unlawfulness:** It is or becomes unlawful for an Obligor to perform any of its material obligations under the Finance Documents to which it is a party.

- (h) ***Breach of Asset Cover Test:*** The Group Borrower fails to perform its obligations under Clause 10.1 (*Asset Cover Ratio*) of the Loan Agreement and (except in any case where, in the opinion of the Security Agent, the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 60 days next following the service by the Security Agent on the Group Borrower of notice requiring the same to be remedied.

For these purposes, **Permitted Reorganisation** means (a) any amalgamation, merger, consolidation or transfer of engagements (including, for the avoidance of doubt, any statutory procedure as provided for under the Industrial and Provident Societies Act 1965) made between Obligor (other than the Group Borrower); and/or (b) any amalgamation, merger, consolidation or transfer of engagements (including, for the avoidance of doubt, any statutory procedure as provided for under the Industrial and Provident Societies Act 1965) made between the Parent and one or more Guarantors.

Obligation to Notify the Issuer and the Security Agent

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

ASFL Default Notice

Following the occurrence of an ASFL Default (and in the case of the happening of any of the events described in paragraphs (b) (*Breach of other obligations*) to (d) (*Winding-Up*) (other than the winding up or dissolution of the Group Borrower) and (e) (*Cessation of Business*) to (g) (*Unlawfulness*) (other than unlawfulness in respect of the Group Borrower) inclusive above, only if the Security Agent shall have certified in writing to the Group Borrower that such event is, in its opinion, materially prejudicial to the interests of the Issuer), the Security Agent at its discretion may, and shall, upon and in accordance with the request of the Issuer, declare by notice to the Group Borrower either:

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

Enforcement

If the security constituted under any Security Documents for the benefit of the Issuer becomes enforceable as a result of the service of a notice pursuant to Clause 14.12 (*ASFL Default Notice*) of the Loan Agreement, then the Security Agent or any Receiver (where appropriate) shall hold the monies arising from any sale, calling in, collection or conversion under, or otherwise arising from the exercise of, the powers of conversion contained in the Security Documents after the security has become enforceable upon trust to apply the same:

- (a) first, in payment or retention of all costs, charges, expenses and liabilities incurred in or about the exercise of such powers or otherwise in accordance with the Security Documents and payments made by the Security Agent or any Receiver in accordance with the Security

Documents and of all remuneration payable to the Security Agent or any Receiver in accordance with the Security Documents with interest thereon as provided in the Security Documents;

- (b) second, in or towards payment to the Issuer of all interest and commitment fees then due and remaining unpaid on the Loan;
- (c) third, in or towards payment to the Issuer of all principal and premium (if any) then due and remaining unpaid in respect of the Loan; and
- (d) fourth, in or towards payment to the Issuer of all other amounts then due and remaining unpaid under the Loan Agreement.

Addition and Resignation of Guarantors

Addition of Guarantors

Pursuant to Clause 21.4 (*Addition of New Guarantors*) of the Loan Agreement, the Group Borrower may procure that any other member of the Affinity Sutton Group becomes a Guarantor provided that such member is a Charity and a Registered Provider of Social Housing, has entered into a Security Agreement on substantially the same terms as those entered into by the Original Borrower, has delivered a Guarantor Accession Agreement (as defined in the Loan Agreement) to the Security Agent and the Security Agent has received written confirmation from Moody's that the accession of the proposed additional Guarantor would not adversely affect the then current credit rating of the Bonds.

Resignation of Guarantors

Pursuant to Clause 21.5 (*Resignation of a Guarantor*) of the Loan Agreement, a Guarantor may cease to be a Guarantor, upon request by the Group Borrower, provided that the Group Borrower provides a Guarantor Resignation Letter (as defined in the Loan Agreement) confirming that the Asset Cover Test will not be breached by reason of the acceptance of such Guarantor Resignation Letter and the Security Agent has received written confirmation from Moody's that the resignation of the such Guarantor would not adversely affect the then current credit rating of the Bonds.

Clauses 21.4 and 21.5 do not, however, prohibit a Permitted Reorganisation (but without prejudice to "*Mandatory Prepayment – Cancellation of Status*" above).

Taxes

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

If a deduction or withholding from any such payment is required by law to be made by the Group Borrower, the amount of the payment due from the Group Borrower shall be increased to an amount which (after making such deduction or withholding) leaves an amount equal to the payment which would have been due if no deduction or withholding had been required.

If as a result of any actual or proposed change in tax law, the Issuer determines (in its reasonable commercial judgement) that it would on the next following Interest Payment Date be required to make a withholding or deduction in respect of payments to be made by the Issuer to the Bondholders pursuant to the Conditions (other than as a result of a Bondholder Specific Withholding), the Group Borrower may (but, for the avoidance of doubt, shall not be obliged to), in its sole discretion, pay to

the Issuer such additional amounts as will enable the Issuer (after such withholding or deduction) to pay to the Bondholders the amounts of principal and interest which they would have received in respect of the Bonds in the absence of such withholding or deduction. The Group Borrower shall continue to pay such additional amounts to the Issuer unless and until the Group Borrower delivers to the Issuer a notice stating that it shall cease to make such additional payments with effect from the next following Interest Payment Date.

Governing Law

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

DESCRIPTION OF THE INTRA-GROUP LOAN AGREEMENTS

The following description of the Intra-group Loan Agreements consists of a summary of certain provisions of the Intra-group Loan Agreements and is qualified by reference to the detailed provisions thereof. The Intra-group Loan Agreements are not, however, incorporated by reference into, and therefore do not form part of, this Offering Circular.

Definitions used in this section but not otherwise defined in this Offering Circular have the meanings given to them in the Intra-group Loan Agreements.

The Original Borrower has entered into, and each of the other Borrowers will enter into, an Intra-group Loan Agreement with the Group Borrower.

Facility

Subject to the provisions of the Intra-group Loan Agreements, the Group Borrower has agreed to make available to the Original Borrower (and will agree to make available to each of the other Borrowers) sterling term loan facilities and revolving credit facilities in a maximum aggregate principal amount not exceeding £1,700,000,000 or such other higher or lower amount as may from time to time be agreed between the Group Borrower and such Borrowers (the **Facility**).

Purpose

The Borrowers may use the proceeds of the Facility only in the achievement of their respective objects.

Interest

The rate of interest applicable to an advance during each relevant period shall be the rate per annum determined by the Group Borrower to cover the Group Borrower's average cost of funding (including, for the avoidance of doubt, margin and/or any mandatory cost) under the Loan Agreement, and any other loan agreements entered into by the Group Borrower, and adjusted by reference to the weighted average debt outstanding as between the Group Borrower and the relevant Borrower. Such amount shall be determined and notified to each Borrower on drawdown of each advance and thereafter on a quarterly basis by the Group Borrower.

Repayment

Each advance shall be repaid by each Borrower in full on the earlier of:

- (a) the Repayment Date relating thereto; and
- (b) the date certified by the Group Borrower to each Borrower as being the date on which the Group Borrower is required to make a repayment of an amount equal to or greater than the relevant advance under the Loan Agreement or any other loan agreement entered into by the Group Borrower.

Governing Law

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

DESCRIPTION OF THE SECURITY AGREEMENTS AND THE SECURITY TRUST DEED

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

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

Definitions used in this section but not otherwise defined in this Offering Circular have the meanings given to them in the Security Agreements and/or the Security Trust Deed.

SECURITY AGREEMENTS

Guarantee and Indemnity

The Original Borrower has (and each of the other Borrowers (together with the Original Borrower, each a **Guarantor** and, together, the **Guarantors**) shall have), pursuant to a Security Agreement to be entered into with the Group Borrower and the Security Agent (each a **Security Agreement** and, together, the **Security Agreements**), irrevocably and unconditionally:

- (a) guaranteed to the Issuer the punctual performance by the Group Borrower of all its obligations under, *inter alia*, the Loan Agreement, the Security Trust Deed and the other Security Agreements;
- (b) undertaken with the Issuer that, whenever the Group Borrower does not pay any amount when due under, *inter alia*, the Loan Agreement, the Security Trust Deed and the other Security Agreements, it must, immediately on demand by the Security Agent, pay that amount as if it were the principal obligor; and
- (c) agreed to indemnify the Issuer immediately on demand against any loss or liability suffered by the Issuer if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal.

First Fixed Charge

The Original Borrower, as security for the payment and discharge of all Secured Liabilities, has charged (and each of the other Borrowers may charge), pursuant to their respective Security Agreements, in favour of the Security Agent for the benefit of itself and, *inter alios*, the Issuer:

- (a) by way of a first legal mortgage all the property referred to in Schedule 1 thereto together with all buildings and Fixtures thereon, the proceeds of sale of all or any part thereof and (so far as the same are capable of being mortgaged) the benefit of any covenants for title given or entered into by any predecessor in title of such Borrower and any moneys paid or payable in respect of such covenants;

- (b) by way of first fixed charge:
- (i) all fixed plant and machinery now or in the future owned by such Borrower and its interest in any fixed plant or machinery in its possession, in each case which form part of the Mortgaged Property;
 - (ii) all benefits in respect of the Insurances and all claims and returns of premiums in respect thereof;
 - (iii) the benefit of all present and future licences, consents and authorisations (statutory or otherwise) held in connection with its business so far as it relates to the Security Assets or the use of any of the Security Assets specified in paragraph (a) and subparagraph (i) above and the right to recover and receive all compensation which may at any time become payable to it in respect thereof; and
 - (iv) if and in so far as the legal mortgages set forth in paragraph (a) above or the assignments set forth in the section entitled "Assignment" below shall for any reason be ineffective as legal mortgages or assignments, the assets referred to in those clauses.

Assignment

The Original Borrower has assigned (and each of the other Borrowers may assign), as security for payment and discharge of all Secured Liabilities, shall each, pursuant to their respective Security Agreements, to the Security Agent for the benefit of itself and, *inter alios*, the Issuer all of its rights, title and interest in and to:

- (a) each Council Sale Agreement;
- (b) the personal agreements and covenants by the tenants, lessees, licensees or other parties under the Letting Documents and by all guarantors in respect thereof and all security held by such Borrower in respect of the obligations of the tenants, lessees, licensees or other parties under the Letting Documents (including, without limiting the generality of the foregoing, all moneys due and owing to such Borrower or which may become due and owing to such Borrower at any time in the future in connection therewith); and
- (c) all agreements, now or from time to time entered into or to be entered into for the sale, letting or other disposal or realisation of, or in connection with the management, ownership, refurbishment, development, repair, improvement or servicing of, the whole or any part of the Security Assets (including, without limiting the generality of the foregoing, all moneys due and owing to such Borrower or which may become due and owing to such Borrower at any time in the future in connection therewith).

Each Borrower shall, however, until an event of default has occurred and is continuing under any loan agreement which is secured pursuant to the Security Trust Deed (including the Loan Agreement), be entitled to exercise all its rights and claims under or in connection with such agreements.

Representations, Warranties and Undertakings

The Original Borrower has made (and each of the other Borrowers shall make) various representations in respect of the Mortgaged Property including as to ownership, planning permission, covenants and security interests. In addition, the Original Borrower has undertaken (and each of the other Borrowers shall undertake) to repair, insure, pay or procure the payment of taxes in respect of and comply with all leases in respect of, the Mortgaged Property.

Enforcement of Security

Each Security Agreement shall provide that at any time after (i) an event of default has occurred under any loan agreement which is secured pursuant to the Security Trust Deed (including the Loan Agreement) which is continuing and (ii) the service of a demand for payment on a Borrower by the Security Agent under the guarantee and indemnity contained in the relevant Security Agreement, the security created by or pursuant to such Security Agreement will be immediately enforceable and the Security Agent may, without notice to such Borrower or any prior authorisation from any court, in its absolute discretion:

- (a) enforce all or any part of that security (at the times, in the manner and on the terms it thinks fit) and take possession of and hold or dispose of all or any part of the Security Assets; and
- (b) whether or not it has appointed a Receiver, exercise all or any of the powers, authorities and discretions conferred by the Law of Property Act 1925 (as varied or extended by the Security Agreement) on mortgagees and by the Security Agreement on any Receiver or otherwise conferred by law on mortgagees or Receivers.

After the security constituted by the Security Agreement has become enforceable, the Security Agent may in its absolute discretion enforce all or any part of such security in such manner as it sees fit in accordance with the provisions of the Security Trust Deed.

Each Security Agreement shall further entitle the Security Agent and, *inter alios*, the Issuer to be indemnified out of the Security Assets in respect of all liabilities and expenses properly incurred by them in the execution of the powers, authorities or discretions vested in them pursuant to, *inter alia*, the Security Trust Deed or the Security Agreements.

Any moneys received by the Security Agent pursuant to the enforcement of the Security Agreements shall be applied by the Security Agent in accordance with the Security Trust Deed.

Governing Law

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

SECURITY TRUST DEED

The benefit of the guarantees and security created by the Borrowers pursuant to the Security Agreements shall be held by the Security Agent on trust for the benefit of itself and, *inter alios*, the Issuer on the terms of the Security Trust Deed.

Division of Security Assets

Division of Charged Properties and Related Security Assets

The Loan Agreement shall specify that the Charged Property is to be apportioned on a "Numerical Apportionment Basis". The Security Trust Deed provides that, where Numerical Apportionment Basis is specified as the basis for apportionment, a specific number of units within the portfolio of Charged Properties is designated to each Beneficiary (each, a **NAB Beneficiary**) as agreed between the Group Borrower and, in the case of the Loan Agreement, the Issuer.

Where Numerical Apportionment Basis is specified as the apportionment basis, a Beneficiary in respect thereof is entitled to change its basis of apportionment to "Specific Apportionment Basis" only

in the limited circumstances and in accordance with the procedures specified in the Security Trust Deed.

In the event that the apportionment basis is changed to Specific Apportionment Basis the apportioned part of the Charged Properties shall be as selected and notified to the Issuer in accordance with the terms of the Security Trust Deed.

Disposals of Charged Properties

Pursuant to the terms of the Loan Agreement, the Guarantors shall be permitted to dispose of or have released to them Charged Properties subject to the requirements set out therein (see "*Description of the Loan Agreement*" above).

Such disposals and releases are permitted pursuant to the terms of the Security Trust Deed, provided that the Group Borrower remains in compliance with the asset cover ratios and debt service ratios set out in the Loan Agreement and any other loan agreement it has entered into and the disposal or release of such Charged Property will not result in the Group Borrower breaching any of such undertakings and no ASFL Default has occurred and is outstanding or would occur as a result of such adjustment and such Charged Property shall, upon disposal or release, be withdrawn from the Charged Properties (except that any disposal or release pursuant to a Right-to-Buy or Shared Ownership Sale in accordance with the Loan Agreement shall not be subject to the above proviso).

Additional Charged Properties

Pursuant to Clause 2.3 (*Additional Charged Properties*) of the Security Trust Deed, at the request and expense of the relevant Guarantor, the Security Agent shall accept any additional Property (and Related Security Assets) into charge as may be selected by the relevant Guarantor, subject to the requirements as to the nature of the Property, valuations in respect thereof and documentation relating thereto as set out therein.

Application of Proceeds

Application of Proceeds relating to the Residual Charged Properties

Any moneys received by the Security Agent in respect of the Residual Charged Properties (being Charged Properties which have not been apportioned on a Specific Apportionment Basis) (together with any Related Security Assets) less the relevant proportion of any costs and expenses of the Security Agent shall, in accordance with the Security Trust Deed, be applied in the following order of priorities:

- (a) first, in payment of any Specific Expenses relating to the Residual Charged Properties;
- (b) second, by allocating the balance among the NAB Beneficiaries by reference to their NAB Security Percentages so that the amount allocated to each NAB Beneficiary shall be applied in satisfaction when due of the Secured Liabilities owed to such NAB Beneficiary arising under or in connection with each loan agreement which is secured pursuant to the Security Trust Deed to which such NAB Beneficiary is a party (each a Residual Loan Agreement) in the order of priority set out therein (deducting for its own account, where appropriate, any Valuer's Expenses from the relevant NAB Beneficiary's allocation) (and so that, in each case, any surplus remaining after payment of all such Secured Liabilities shall be re-allocated among the remaining NAB Beneficiaries mutatis mutandis in accordance with the foregoing provisions). For the avoidance of doubt, no surplus amounts shall be reallocated by the Security Agent until all Secured Liabilities have been fully discharged in connection with the relevant Residual Loan Agreement;

- (c) third, in satisfaction when due of the Secured Liabilities owed to each Other Beneficiary arising under or in connection with the Other Loan Agreements in accordance with the paragraph below; and
- (d) fourth, in payment of any surplus to the relevant Obligor.

Application of Other Proceeds

In addition to the above, the Security Trust Deed provides for the application of proceeds in respect of, *inter alia*, moneys received in respect of specifically apportioned properties and monies received in respect of the guarantee and indemnity contained in each Security Agreement after the enforcement of any security under the Security Documents.

Governing Law

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

DESCRIPTION OF THE TRANSACTION ACCOUNT AGREEMENT, THE SECURITY ACCOUNT AGREEMENT AND THE CUSTODY AGREEMENT

The Issuer shall appoint National Westminster Bank public limited company, a company incorporated under the laws of England and Wales and having its registered office at 135 Bishopsgate, London EC2M 3UR, as its Transaction Account Bank pursuant to the Transaction Account Agreement and The Bank of New York Mellon, a banking corporation organised under the laws of the State of New York and operating through its branch in London at One Canada Square, London E14 5AL, United Kingdom, as its Security Account Bank and its Custodian pursuant to the Security Account Agreement and the Custody Agreement, respectively, in relation to the issue of the Bonds.

NatWest

National Westminster Bank public limited company (**NatWest**) is a wholly owned subsidiary of The Royal Bank of Scotland plc, which in turn is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc (the **RBS Group**). NatWest is registered in England and Wales with registered number 929027. Its registered office is at 135 Bishopsgate, London EC2M 3UR, and it is authorised and regulated by the Financial Services Authority. NatWest is entered in the FSA's Register and its Register number is 121878. NatWest's registered VAT number is GB 243852752.

The RBS Group is a large banking and financial services group, and NatWest has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

The Bank of New York Mellon

The Bank of New York Mellon, a wholly owned subsidiary of The Bank of New York Mellon Corporation, is incorporated, with limited liability by Charter, under the Laws of the State of New York by special act of the New York State Legislature, Chapter 616 of the Laws of 1871, with its head office at One Wall Street, New York, NY 10286, USA and having a branch registered in England and Wales with FC Number 005522 and BR Number 000818 with its principal office in the United Kingdom at One Canada Square, London E14 5AL.

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

The Bank of New York Mellon Corporation is a global financial services company focused on helping clients manage and service their financial assets, operating in 34 countries and serving more than 100 markets. The company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset management and wealth management, asset servicing, issuer services, clearing services and treasury services through a worldwide client-focused team. It has more than \$23 trillion in assets under custody and administration and more than \$1.1 trillion in assets under management. Additional information is available at www.bnymellon.com.

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

Definitions used in this section but not otherwise defined in this Offering Circular have the meanings given to them in the Transaction Account Agreement, the Security Account Agreement and the Custody Agreement.

TRANSACTION ACCOUNT AGREEMENT

Transaction Account

The Transaction Account Bank shall maintain the Transaction Account for the Issuer in respect of the Bonds.

Initial Deposits

Pursuant to the Transaction Account Agreement, the Issuer shall on the issue date of the Bonds credit the Transaction Account with the net issue proceeds of the Bonds less the Retained Proceeds (if any) to the extent that such amount is not paid directly to the Group Borrower pursuant to, and in accordance with, the Loan Agreement.

Future Deposits and Withdrawals

Pursuant to the Bond Trust Deed and the Transaction Account Agreement, the Issuer shall covenant that no payments from the Transaction Account will be made other than in accordance with the Conditions and shall undertake to procure that amounts are paid into and out of the Transaction Account only in accordance with the Conditions, the Transaction Account Agreement and the Agency Agreement.

Interest

Any monies standing to the credit of the Transaction Account will earn interest at the rate(s) agreed from time to time between the Transaction Account Bank and the Issuer.

Pursuant to the Transaction Account Agreement, interest accrued on the Transaction Account shall be credited to the Transaction Account.

Change of Transaction Account Bank

The appointment of the Transaction Account Bank may, with the prior written approval of the Bond Trustee, be terminated upon 45 days' written notice (subject to the appointment of a replacement Transaction Account Bank) or forthwith at any time the Transaction Account Bank is adjudged bankrupt or insolvent.

The Transaction Account Bank may resign its appointment upon giving at least 90 days' written notice (subject to the appointment of a replacement Transaction Account Bank).

Pursuant to the Transaction Account Agreement, the appointment of any replacement Transaction Account Bank shall be subject to the prior written approval of the Bond Trustee and be on substantially the same terms as the Transaction Account Agreement.

SECURITY ACCOUNT AGREEMENT

Accounts

The Security Account Bank shall maintain two accounts for the Issuer in respect of the Bonds: the Initial Cash Security Account and the Cash Security Account.

Initial Deposits

Pursuant to the Security Account Agreement, the Issuer shall on the issue date of the Bonds credit the Initial Cash Security Account with the Retained Proceeds, to the extent that such amount is not invested directly in Permitted Investments which are deposited in the Initial Cash Security Custody Sub-Account (as defined in the Custody Agreement).

The Issuer shall, upon receipt, credit to the Cash Security Account all amounts received from the Borrower pursuant to Clause 10.2 (*Cash Security Account*) of the Loan Agreement.

Future Deposits and Withdrawals

The Issuer shall covenant, pursuant to the Bond Trust Deed, that:

- (a) prior to the enforcement of the Issuer Security, payments from the Initial Cash Security Account may only be made to fund:
 - (i) the Original Commitment (as defined in the Loan Agreement) pursuant to, and in accordance with the terms of, the Loan Agreement;
 - (ii) payment to the Group Borrower or a Borrower in respect of any Bonds surrendered for cancellation in accordance with the Loan Agreement;
 - (iii) the purchase of Permitted Investments pursuant to the Custody Agreement; or
 - (iv) redemptions of the Bonds in accordance with the Conditions; and
- (b) prior to the enforcement of the Issuer Security, payments from the Cash Security Account may only be made to the Group Borrower or a Borrower pursuant to, and in accordance with the terms of, the Loan Agreement or to purchase Permitted Investments pursuant to the Custody Agreement.

Interest

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

Pursuant to the Security Account Agreement, the Issuer will instruct the Security Account Bank in writing on a quarterly basis to transfer any interest accrued on the Initial Cash Security Account to the Transaction Account and interest accrued on the Cash Security Account shall be credited to the Cash Security Account.

Change of Security Account Bank

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

The Security Account Bank may resign its appointment upon giving at least 45 days' written notice (subject to the appointment of a replacement Security Account Bank).

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

CUSTODY AGREEMENT

Custody Account

Pursuant to the Custody Agreement, the Custodian shall, subject to receipt of such documents as it may require, open, in the name of the Issuer, the Cash Security Custody Sub-Account and the Initial Cash Security Custody Sub-Account (the **Custody Sub-Accounts**) and the Cash Security Cash Sub-Account and the Initial Cash Security Cash Sub-Account (the **Cash Sub-Accounts** and, together with the Custody Sub-Accounts, the **Custody Account**).

Payments and Delivery

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

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

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

- (c) to transfer all Distributions credited to the Initial Cash Security Cash Sub-Account (other than those to be credited to the Transaction Account pursuant to (b) above) to the Initial Cash Security Account,

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

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

Interest

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

Change of Custodian

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

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

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

DESCRIPTION OF THE ISSUER

Incorporation and Status

Affinity Sutton Capital Markets plc (the **Issuer**) is a public limited company incorporated in England and Wales on 20th August, 2008 under the Companies Act 1985.

The registered address of the Issuer is Level 6, 6 More London Place, Tooley Street, London SE1 2DA. The telephone number of its registered address is 0300 100 0303. The Issuer has no subsidiaries.

Principal Activities of the Issuer

The Issuer has been established as a special purpose vehicle for the purpose of issuing asset backed securities, including the Bonds, (and incurring other indebtedness (including other secured indebtedness but subject to the covenant set out in Condition 6.1 (*General Covenants*))) and lending the proceeds thereof to the Group Borrower for on-lending to the Borrowers to be applied in the achievement of the relevant Borrower's objects.

Directors

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

Name	Other Principal Activities
Clare Miller	Company Secretary and Executive Director of Affinity Sutton Group Limited
Matthew Cooper	Director of Treasury and Corporate Finance, Affinity Sutton Group Limited

The business address of each of the directors is Level 6, 6 More London Place, Tooley Street, London SE1 2DA.

The secretary of the Issuer is Clare Miller whose business address is at Level 6, 6 More London Place, Tooley Street, London SE1 2DA.

There are no potential conflicts of interest between any duties to the Issuer of the directors of the Issuer and their private interests and/or duties.

The Issuer has no employees but has available to it the treasury and business resources of the Affinity Sutton Group to enable it to administer its business and perform its obligations.

Share Capital and Major Shareholders

The entire issued share capital of the Issuer comprises 50,000 ordinary shares (the **Ordinary Shares**) of £1 each, all of which are fully paid up.

The Issuer is a subsidiary of Affinity Sutton Funding Limited which holds 49,999 of the Ordinary Shares in the Issuer and a subsidiary of Affinity Sutton Group Limited which holds one Ordinary Share in the Issuer.

Affinity Sutton Funding Limited exercises control over the Issuer through the legal controls reserved to it in the constitution of the Issuer, and through contractual arrangements made between the Issuer and the other members of the Affinity Sutton Group.

Operations

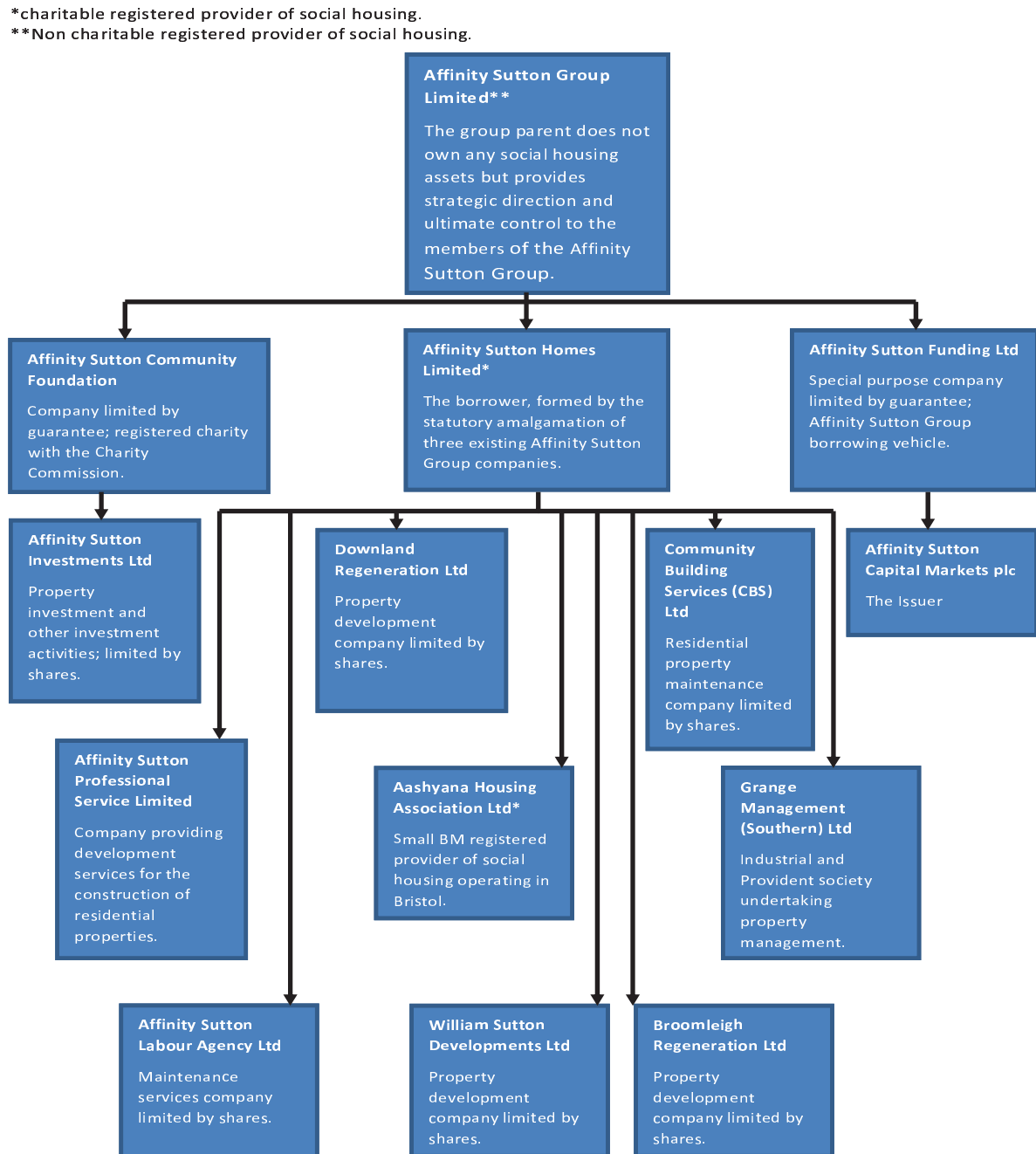
The Issuer completed a £250 million 30-year, fixed rate bond transaction with a coupon of 5.981 per cent. on 17th September, 2008. The net proceeds of this bond transaction was, and continues to be, on-lent to the Group Borrower. Since that transaction, the Issuer's financial performance has related solely to the ongoing maintenance payments. In the 2010/2011 financial year, the Issuer's turnover was £14.9 million, which represented interest received from the Group Borrower, and interest expenses of £14.9 million were incurred.

DESCRIPTION OF THE AFFINITY SUTTON GROUP

Introduction

The Affinity Sutton Group (the **Affinity Sutton Group**) currently consists of Affinity Sutton Group Limited (the **Group Parent**), its direct subsidiaries (currently being Affinity Sutton Funding Limited, Affinity Sutton Homes Limited, Affinity Sutton Community Foundation and the Issuer (in respect of one nominee share)) and its indirect subsidiaries.

The following diagram shows each of the Affinity Sutton Group's main companies and their immediate subsidiaries:



AFFINITY SUTTON GROUP LIMITED

Principal Activities of the Affinity Sutton Group

The Affinity Sutton Group is one of the largest housing groups in the country. It is a business for social purpose with a mission to use its heritage, fresh thinking and commitment to help people put down roots.

The Affinity Sutton Group's vision is to be the leading provider of affordable housing in England by delivering excellent services to its residents, maintaining its properties to the highest standards, developing new homes across different tenures, involving residents in decision making and investing in its people and communities.

Affinity Sutton Group Limited operates a group structure. It is an industrial and provident society (under registration number 28038R) and a non-asset holding Registered Provider of Social Housing (with registration number LH4087) which provides a wide range of services to operating companies (including developing new homes), sets the Affinity Sutton Group's strategic direction and provides ultimate control of strategy and governance. Seven of the Affinity Sutton Group's operating companies provide a range of housing management and associated specialist services. Affinity Sutton Funding Limited raises and oversees the Affinity Sutton Group's funding requirements.

The Affinity Sutton Group's property portfolio is made up of over 56,000 homes, including 1,090 homes which were completed in 2011/2012, with an overall value of over £2 billion (valued on an existing use basis) and circa £7.5 billion (valued on a vacant possession basis). These properties are located in more than 100 local authority areas across England, with the largest number in London and the South East. The properties are maintained to a high standard and all meet the government's Decent Homes Standard as a result of planned investment and major works programmes which saw investment of over £106.7 million in 2011/2012.

The Affinity Sutton Group is committed to delivering excellent services to residents, which is reflected in customer satisfaction levels at over 80 per cent. for Affinity Sutton Homes Limited (which is the primary asset-holding company in the Affinity Sutton Group). This performance is amongst the strongest in the sector.

Despite the current difficult economic climate, the Affinity Sutton Group remains financially robust as demonstrated by a "Aa2" rating by Moody's, which was affirmed on 18th September, 2012. In 2011/2012, the Affinity Sutton Group achieved a surplus of just over £46 million on a turnover of £273 million.

As of the date of this Offering Circular, Moody's is established in the European Union and is registered under Regulation (EU) No 1060/2009 (as amended) (the **CRA Regulation**). As such Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Group Board

The Board of Management of the Group Parent (the **Group Board**) sets strategy and policies across the Affinity Sutton Group and coordinates the Affinity Sutton Group's activities.

The directors of the Affinity Sutton Group Limited and their principal activities outside the Affinity Sutton Group, where these are significant with respect to the Affinity Sutton Group, are as follows:

Name	Principal activities outside the Group Parent
Neil Goulden (Chairman)	Formerly executive chairman, Gala Coral Non-executive director, Marstons plc Member of the Low Pay Commission
Mike Herring	Chairman, Affinity Sutton Homes Limited Retired house builder executive
Jonathan Paine	Chairman, Global Media Group, Rothschilds
Colin Sturgeon	Deputy chairman, Channel Capital Advisors LLP Former deputy chairman, RBC Europe Limited (formerly Royal Bank of Canada Europe Limited)
Helen Bailey	CEO of Local Partnerships
Sue Killen	CEO of St John Ambulance
Keith Exford	Formerly chief executive of Broomleigh Housing Association Chairman of G15 group of large London housing associations Non-executive director of The Housing Finance Corporation Former board member of the National Housing Federation
Mark Washer	Board member of the National Housing Federation Former chair of the G15's Finance Directors' Group National board member and treasurer of Citizens' Advice
Kerry Kyriacou	Qualified architect and member of the Royal Institute of British Architects Board member of the Housing Forum

The Group Board exercises control over the Group Borrower and the Original Borrower through the legal controls reserved to it in the constitutions of the Group Borrower and the Original Borrower, respectively, and through contractual arrangements made between the Group Borrower and the Original Borrower. Further controls and delegations are set out in the standing orders for group members including, in particular, the right reserved to the Group Board to approve the annual business plan of the Original Borrower.

The Group Board is responsible for maintaining and reviewing the Affinity Sutton Group's system of internal control. The Affinity Sutton Group has an audit committee which is accountable to the Group Board for monitoring this system and reporting on its effectiveness.

The operation of the Affinity Sutton Group

The Affinity Sutton Group and the Original Borrower are part of a group structure arrangement that meets the regulatory requirements of the Regulator and the Original Borrower is a subsidiary of the Group Parent for the purposes of Section 60 of the Housing Act 1996. Parental control is exercised through powers contained in the rules of the Original Borrower and in an intra group agreement (IGA) which together enable the Group Parent to remove or appoint all or any board members and to

approve business, operational and other financial plans of the Original Borrower. The IGA also provides for dispute resolution between the parties.

Corporate Governance

The Group's latest published regulatory judgment was in January 2011. The judgment confirmed that the Group continued to meet the regulatory expectations for governance and financial viability. The Group Board is of the view that the Affinity Sutton Group complies with the National Housing Federation's Code of Governance.

AFFINITY SUTTON FUNDING LIMITED

Incorporation and Status

Affinity Sutton Funding Limited (the **Group Borrower**) was incorporated with limited liability with registered number 5589011 on 11th October, 2005 under the Companies Act 1985. On 9th July, 2008 the Group Borrower changed its name from Affinity Funding Limited to Affinity Sutton Funding Limited.

The registered address of Affinity Sutton Funding Limited is Level 6, 6 More London Place, Tooley Street, London SE1 2DA. The telephone number of its registered address is 0300 100 0303. The Group Borrower has no subsidiaries, other than the Issuer.

Principal Activities of the Group Borrower

The Group Borrower does not own any social housing assets but provides financial services to the members of the Affinity Sutton Group.

Directors

The directors of the Group Borrower and their principal activities outside the Group Borrower, where these are significant with respect to the Group Borrower, are as follows:

Name	Principal activities outside the Group Borrower
Colin Sturgeon (Chairman)	Deputy chairman, Channel Capital Advisors LLP Former deputy chairman, RBC Capital Markets, Europe
Keith Exford	Group chief executive, Affinity Sutton Group Limited Formerly chief executive of Broomleigh Housing Association Chairman of G15 group of large London housing associations Non-executive director of The Housing Finance Corporation Former board member of the National Housing Federation
Nicholas Jones	Director, Human Fertilisation and Embryology Foundation Former vice chairman, William Sutton Housing Association Former board member, East Thames Housing Association
Simon Neville	Former executive vice president, CEVA Group Former treasury director, Tesco plc
Nick Preston	Director, Railway Finance Limited Former director of Marketing and Origination at Standard and Poor's

Mark Washer

Group finance director, Affinity Sutton Group Limited
Board member of the National Housing Federation
Former chair the G15's Finance Directors' Group
National board member and treasurer of Citizens' Advice

The business address of each of the directors is Affinity Sutton Funding Limited, Level 6, 6 More London Place, Tooley Street, London, SE1 2DA.

The secretary of the Group Borrower is Clare Miller whose business address is at Affinity Sutton Funding Limited, Level 6, 6 More London Place, Tooley Street, London, SE1 2DA.

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

Share Capital and Major Shareholders

The Group Borrower is a private company limited by guarantee with no share capital. The Group Borrower's sole member is Affinity Sutton Group Limited.

Recent Developments

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

AFFINITY SUTTON HOMES LIMITED

Incorporation and Status

Affinity Sutton Homes Limited (the **Original Borrower**) was formed by the statutory amalgamation of three existing Affinity Sutton Group companies, Broomleigh Housing Association Limited, Downland Housing Association Limited and William Sutton Housing Association Limited pursuant to clause 60 of the Industrial and Provident Societies Act 1965 on 30th September, 2011.

The Original Borrower is incorporated with limited liability under the Industrial and Provident Societies Act 1965 (with registered number 31412R) and is a Registered Provider of Social Housing (with registered number 4673). It is also affiliated to the National Housing Federation and has charitable status.

The registered address of the Original Borrower is Level 6, 6 More London Place, Tooley Street, London SE1 2DA. The telephone number of its registered address is 0300 100 0303.

Principal Activities of the Original Borrower

The Original Borrower's primary business objects are to provide a wide range of products and services in the housing sector including the development of new homes at affordable rents, and for open market and affordable residential property sales. New homes developed are predominantly in London and the South East, reflecting higher levels of demand in these regions compared to others regions where the Original Borrower operates.

Any surpluses which result from the Original Borrower's operations are reinvested in the Affinity Sutton Group.

The Original Borrower is active in over 100 local authority areas and work in partnership with a wide range of statutory and voluntary organisations to deliver a locally responsive service, backed by the expertise and financial strength of the Affinity Sutton Group. This is demonstrated by the broad scope of the Original Borrower's activities, which include:

- the management and maintenance of quality, affordable housing for families, couples and single people;
- investment in new development, large scale regeneration and conversion schemes;
- community investment activities;
- low cost home ownership initiatives; and
- the development of residential property for sale on the open market.

Directors

The directors of the Original Borrower and their principal activities outside the Original Borrower, where these are significant with respect to the Original Borrower, are as follows:

Name	Principal activities outside the Original Borrower
Mike Herring (Chairman)	Former chairman, William Sutton Housing Association Retired house builder executive
Judy Abbott	Former board member, Downland Housing Association Former Citizens' Advice Bureau manager
Pam Bardouille	Community Centre Manager Former board member, William Sutton Housing Association
Peter Buckland	Retired publican Former board member, Broomleigh Housing Association
Peter Fortune	Executive Support Assistant to the Portfolio Holder for Environment Local ward councillor for Bromley Former-board member, Broomleigh Housing Association
Delilah Hesling	Former-board member, Broomleigh Housing Association Nurse
Nicholas Jones	Director, Human Fertilisation and Embryology Authority Former Vice Chairman, William Sutton Housing Association Former board member, East Thames Housing Association
Chris Kinnear	Retired management consultant and chartered accountant Former board member, Downland Housing Association Former board member, Hanover Housing Association
Neil McCall	Operations Director, Affinity Sutton Group Limited

Ken Shipman	Proprietor, Shipman Sales and Lettings Chairman, Community Building Services (CBS) Limited Former board member, Wherry Housing Association Former board member, Circle Anglia
Paul Smith	Former Finance Director, Ford Motor Company Holds non-executive position on a NHS Primary Care Trust Holds non-executive position on the Institute of Chartered Accountants of England and Wales Former board member, William Sutton Housing Association
Kate Warlow-Hughes	Chair, Bancroft Community Association

The business address of each of the above directors is Affinity Sutton Homes Limited, Level 6, 6 More London Place, Tooley Street, London, SE1 2DA.

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

Share Capital and Major Shareholders

The entire issued share capital of the Original Borrower comprises 67 shares of £1 each.

The Original Borrower is a subsidiary of Affinity Sutton Group Limited.

Recent Developments

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

INFORMATION RELATING TO THE FINANCIAL STATEMENTS OF THE ORIGINAL BORROWER

Registered Providers of Social Housing are required to follow certain requirements in respect of financial reporting specified by the Regulator. One of these requirements is to state whether or not their financial statements have been prepared in accordance with statements of recommended practice. The most recent audited financial statements of Broomleigh Housing Association Limited, Downland Housing Association Limited and William Sutton Housing Association Limited (which have now been amalgamated into the Original Borrower and which are therefore being included as a basis for comparison against the accounts of the Original Borrower) are for the financial year ended 31st March, 2011, for which the Statement of Recommended Practice Accounting by Registered Social Landlords 2008 (the **2008 SORP**) was applicable. For the first financial statements of the Original Borrower, prepared for the financial year ended 31st March, 2012, the Statement of Recommended Practice Accounting by Registered Social Housing Providers Update 2010 (the **2010 SORP**) was applicable. The 2010 SORP changes a number of accounting and disclosure items from those set out in the 2008 SORP.

The most significant change relates to the application of a different method of accounting for expenditure on housing properties known as "component accounting". Under component accounting, where tangible fixed assets have two or more major components with substantially different useful economic lives, each component is accounted for separately for depreciation purposes and depreciated over its individual useful economic life. As a result of this change in policy, the surplus of the Original Borrower that would otherwise have applied for the year ended 31st March, 2011 (for which the figures were restated in line with the 2010 SORP) was reduced by £5,698,000 and the total reported revaluation reserves of the Group Parent (substantially all of which comprise the revaluation reserves of the Original Borrower) were reduced from £1,042,000,000 to £7,000,000. The Original Borrower is of the opinion that this does not constitute a significant change in its financial or trading position or prospects.

The 2010 SORP also required another change in accounting policy in relation to previous acquisitions of other entities. Previously, under the 2008 SORP, where the fair value of the net assets of such acquired entities was greater than the fair value of the consideration paid, such excess was included within a separate reserve which was amortised within reserves to the income and expenditure account reserve. The 2010 SORP changed this treatment so that in most circumstances a separate reserve was no longer required. This change in accounting policy had no material impact on the financial statements of the Original Borrower.

A description of the adjustments made as a result of the application of SORP 2010 is set out in the notes to the relevant financial information in the financial statements of the Original Borrower prepared for the financial year ended 31st March, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the audited non-consolidated financial statements for the Issuer, including the reports of the auditors, for the financial years ended 31st March, 2011 and 31st March, 2012 (prepared in accordance with UK GAAP);
- (b) the audited non-consolidated financial statements for the Group Borrower, including the reports of the auditors, for the financial years ended 31st March, 2011 and 31st March, 2012 (prepared in accordance with UK GAAP);
- (c) the audited non-consolidated financial statements for the Original Borrower, including the report of the auditors, for the financial year ended 31st March, 2012 (prepared in accordance with UK GAAP);
- (d) the audited non-consolidated financial statements for Broomleigh Housing Association Limited, including the report of the auditors, for the financial year ended 31st March, 2011 (prepared in accordance with UK GAAP);
- (e) the audited non-consolidated financial statements for Downland Housing Association Limited, including the report of the auditors, for the financial year ended 31st March, 2011 (prepared in accordance with UK GAAP);
- (f) the audited non-consolidated financial statements for William Sutton Housing Association Limited, including the report of the auditors, for the financial year ended 31st March, 2011 (prepared in accordance with UK GAAP); and
- (g) the audited consolidated financial statements for Affinity Sutton Group Limited, including the reports of the auditors, for the financial years ended 31st March, 2011 and 31st March, 2012 (prepared in accordance with UK GAAP).

Copies of documents incorporated by reference in this Offering Circular can be obtained from the registered office of the Issuer and from the specified office of the Principal Paying Agent for the time being in London.

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

VALUATION REPORT

The Bonds are secured by, *inter alia*, an allocation of charged properties from a shared security pool. On an ongoing basis, the Security Agent apportions such number of parts of the Charged Properties between all the Beneficiaries (including the Issuer) as is appropriate. The following valuation report (the **Valuation Report**) therefore relates to the total shared security pool, an appropriate part of which will be allocated to secure the Bonds, such part as is required to enable the Group Borrower to satisfy the Asset Cover Test (see the section entitled "*Description of the Loan Agreement*" above).

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

The Valuer has no material interest in the Issuer, the Group Borrower or the Original Borrower.

Summary of valuations

A summary of the values of the Charged Properties in the total shared security pool set out in the Valuation Reports is set out below:

EUV-SH or, where appropriate, MV-ST				Total
Units	EUV-SH is appropriate	Units	MV-ST is appropriate	
No.	£	No.	£	£
30,551	£1,681,253,000	5,868	£319,420,000	£2,000,673,000

Issuer's Apportioned Part

Of the 36,419 units which comprise the total shared security pool, 5,073 units will be apportioned to the Issuer as lender under the Loan Agreement. The Issuer's Security Percentage for the purpose of calculating the Asset Cover Test is therefore approximately 13.93 per cent.

As at the Issue Date, for the purpose of the Asset Cover Test, the Minimum Value of the NAB Charged Properties multiplied by the Issuer's Security Percentage is £261,729,114.33.



Real value in a changing world

Valuation *Advisory*

Valuation of 36,421 Affordable Housing Units Owned by Affinity Sutton Homes Limited

Loan Security Purposes

3 October 2012

Barclays Bank plc
5 The North Colonnade
Canary Wharf
London, E14 4BB

Lloyds TSB Bank plc
10 Gresham Street
London, EC2V 7AE

RBC Europe Limited
Riverbank House
2 Swan Lane
London, EC4R 3BF

Prudential Trustee Company Limited (in its capacity as
Security Agent and Bond Trustee)
Laurence Pountney Hill
London, EC4R 0HH

Affinity Sutton Capital Markets plc as Issuer
Affinity Sutton Funding Limited as Group Borrower
Affinity Sutton Homes Limited as Original Borrower

Level 6, 6 More London Place
Tooley Street
London
SE1 2DA

FAO: Matt Cooper

Your ref
Our ref FJD/MN/
Direct line 020 7087 5973
Direct fax 020 7087 5291
fiona.davies@eu.jll.com

3 October 2012

Dear Sir

Affinity Sutton Capital Markets plc: £250,000,000 4.25 per cent. Secured Bonds due 2042 (the "Bonds")

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

This Report is issued for the benefit and use of the addressees and for inclusion in the Offering Circular for the Bonds to be issued by Affinity Sutton Capital Markets plc (the "Issuer") and may only be used in connection with the transaction referred to in this Report and for the purposes of the Offering Circular.

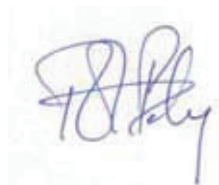
We hereby give consent to the publication of this Report within the Preliminary Offering Circular and the Offering Circular and accept responsibility for the information contained in this Report.

To the best of our knowledge (having taken all reasonable care to ensure that such is the case) the information given in this Report is in accordance with the facts and does not omit anything likely to affect the import of such information.

Before the Report or any part of it is reproduced or referred to in any document, circular or statement (other than the Preliminary Offering Circular and the Offering Circular in respect of the Bonds to be issued by Affinity Sutton Capital Markets plc), our written approval as to the form and context of such publication must be obtained.

If you have any questions about this Report, or require further information, please contact Fiona Davies or Mark Nevett.

Yours faithfully



Richard Petty
Director

T 020 7087 5971 (Direct)
M 07767 413 631 (Mobile)
richard.petty@eu.jll.com

Yours faithfully



Mark Nevett
Associate Director

T 020 7087 5976 (Direct)
M 07773 286 157 (Mobile)
mark.nevett@eu.jll.com

Executive Summary

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

Introduction

The date of this Report is 3 October 2012.

Jones Lang LaSalle has been instructed to value a portfolio of 36,421 properties for loan security purposes (the "Portfolio") which are to be charged as security in favour of Prudential Trustee Company Limited (the "Security Agent") for itself and, amongst others, the Issuer. The Portfolio is broken down as follows (section 3):

- 11,101 former Broomleigh Housing Association ("BHA") properties which have been valued on the basis of EUV-SH (section 4);
- 8,680 former Downland Housing Association ("DHA") properties which have been valued on the basis of EUV-SH (section 4);
- 10,770 former William Sutton Housing Association ("WWSA") properties which have been valued on the basis of EUV-SH (section 4);
- 5,868 former WSHA properties which have been valued on the basis of MV-T (section 4); and
- 2 units which have been included at nil value as set out in this report.

This report addresses those units which carry a value for the purpose of this exercise and consequently refers to the valuation of 36,419 units only. However, a schedule of all 36,421 units is included in Appendix 2.

In accordance with our instructions we have inspected approximately 20% of the Portfolio this year. (section 2).

Valuations

The Valuation Date is 3 October 2012.

Our valuation of all 30,551 properties being valued on the basis of EUV-SH, in aggregate (Section 8), is:

£1,681,253,000

(one billion, six hundred and eighty one million, two hundred and fifty three thousand pounds)

Our valuation of all 5,868 properties being valued on the basis of MV-T, in aggregate, (Section 8) is:

£319,420,000

(three hundred and nineteen million, four hundred and twenty thousand pounds)

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

Stock Count

The stock being valued (i.e. not including the units valued at nil) is summarised as follows:

Valuation Category	Unit Count
Former BHA General Needs	8,199
Former BHA Sheltered	862
Former BHA Lewisham Stock Transfer	552
Former BHA High-rise	183
Former BHA PRC	363
Former BHA Keyworker	325
Former BHA Market Rented	121
Former BHA Shared Ownership	342
Former BHA Hanover Park	154
Former DHA General Needs	7,259
Former DHA GN Leasehold	108
Former DHA Shared Ownership	350
Former DHA Special Needs	949
Former DHA Keyworker	14
Former WSHA General Needs	16,418
Former WSHA Shared Ownership	220

We have been informed by Affinity Sutton Homes Limited that the gross annual rent receivable for the portfolio is £179,648,000. We have relied on this information as being accurate, and have not verified the rent roll otherwise.

A summary of our assumptions for the main cashflows is provided in the tables overleaf. The former WSHA estates have been valued in individual cashflows and we have therefore provided a summary of the range of assumptions used in these cashflows.

Valuation Category	DCR Income	DCR Sales	Management costs	Repairs	Sales Rate (25% tranches)			Voids
					Year 1	Years 2-25	Year 26+	
Former BHA Shared Ownership	5.5%	8.25%	6%	Fully Recovered	Various	Various	Various	N/A
Former DHA Shared Ownership	5.5%	8.25%	6%	Fully Recovered	Various	Various	Various	N/A
Former WSHA Shared Ownership Estates	5.5-5.75%	7.75-8%	5-6%	Fully Recovered	Various	Various	Various	N/A

EUV-SH Units	DCR Income	Management costs Year 1	Repairs Year 1	Relet Rate			Voids
				House	Flat	Sheltered	
Former BHA GN units	5.5%	£525	£1,925		4-5%		3%
Former BHA Sheltered units	6.0%	£525	£2,000		4-5%		3%
Former DHA GN units	5.5%	£550	£1,300		3-4%		2%
Former WSHA Estates (EUV-SH units)	5.5%-6.75%	£550-£625	£1,175-£1,375		3-5%		2-5%
Former WSHA Borehamwood only	5.5%	£600	£2,200		3-5%		3%

MV-T Units	DCR Income	DCR Sales	Sales Rate		Management costs %	Repair Costs Year 1	Years to MR	Voids		
			House	Flat				Year 1-3	Year 4-5	Year 6+
Former WSHA Estates (MV-T)	7.5%-8.75%	9.25%-10.75%	3%	5%	10%	£1,000-£1,750	3	6-10%	4-8%	4-5%

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

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Appendix 1.....Letter of Instruction

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1 Introduction

1.1 Background

- 1.1.1 Affinity Sutton Group (hereafter “ASG”) has instructed Jones Lang LaSalle (“JLL”) to prepare a valuation of 36,421 properties owned by its subsidiary, Affinity Sutton Homes Limited (“ASH”) (“the Portfolio”).
- 1.1.2 We understand that Bonds to be issued by the Issuer will be secured by part of the Portfolio. The Prudential Trustee Company Limited will act as the Security Agent in respect of this security on behalf of the Beneficiaries, including the Issuer. This valuation is required to assess the level of security which the Portfolio provides.
- 1.1.3 This Report has been prepared by Fiona Davies MRICS (Valuer Number 0099707) a Director of JLL and Mark Nevett MRICS (Valuer Number 1197767) under the supervision of Richard Petty MRICS (Valuer number: #0089005), Head of Affordable Housing and a Director of JLL.
- 1.1.4 Our valuations have been prepared in accordance with Royal Institution of Chartered Surveyors’ RICS Valuation - Professional Standards, March 2012 (commonly known as the “Red Book”).
- 1.1.5 The date of valuation is 3 October 2012.
- 1.1.6 We can confirm that no conflict of interest has occurred as a result of our production of this Report.
- 1.1.7 For the avoidance of doubt, we confirm that it would not be appropriate or possible to compare this valuation with any values appearing in ASG's accounts. This Report has been prepared in accordance with the Red Book. The valuations are prepared on this basis so that we can determine the value recoverable if the charges over the properties were enforced at the date of this Report. We understand that values given in ASG's accounts are prepared on a historic cost basis which considers how much the properties have cost and will continue to cost ASG. This is an entirely different basis of valuation from that used for loan security purposes.

1.2 Instructions

Our Report is prepared in accordance with ASG's formal instructions, a copy of which is attached as Appendix 1 to this Report.

- 1.2.1 We have been instructed to prepare our valuations on the following bases:
- Existing Use Value for Social Housing (“EUV-SH”); and
 - Market Value subject to existing Tenancies (“MV-T”).
- 1.2.2 We have valued the Portfolio on these bases, unless otherwise stated in this Report. In addition, and for guidance only (and specifically not to be relied on or represented for any purpose connected with loan security or similar purposes), we are instructed to provide our opinion of value on the basis of Market Value assuming Vacant Possession (MV-VP).

1.3 Compliance

- 1.3.1 This valuation qualifies as a Regulated Purpose Valuation ("RPV") as defined by the Red Book. A RPV is a valuation which is intended for the information of third parties in addition to the addressees. It is a requirement of UKVS 4.3 of the Red Book in relation to disclosures that we declare our prior involvement with ASG, or the properties being valued, to ensure that there is no conflict of interest.
- 1.3.2 We confirm that the total fee income earned from ASG is substantially less than 5% of the fee income earned by JLL in our last financial year (ending 31 December 2011) and that we do not anticipate this situation changing in the foreseeable future.

1.4 Status of Valuer

- 1.4.1 In preparing this Report, we confirm that JLL is acting as an external valuer as defined in the Red Book. We can also confirm that we consider ourselves to be independent for the purposes of this instruction.
- 1.4.2 We confirm that we valued the properties in March 2012 for ASG annual requirements under its loan covenants. After the appropriate due diligence, we consider that we do not have any conflict of interest in providing the advice that you have requested.
- 1.4.3 In accordance with RICS guidance, and our own rotation policy, we recommend that a rotation of overall responsibility is considered no later than the end of 2019.

1.5 Portfolio

The Portfolio comprises the following properties as described in section 3, schedules of which form Appendix 2:

- 30,551 units which have been valued on the basis of EUV-SH; and
 - 5,868 units which have been valued on the basis of MV-T.
- 1.5.1 In addition there are 2 units in the Portfolio which are sold on long leases. ASH's interest in these properties is considered to be de minimis for the purpose of this exercise (or treated as being such) and so they are included at nil value. Please note that these units are not included in any unit counts or other statistics in this Report (with the exception of the front cover of the report), but are listed in Appendix 2.
- 1.5.2 Consequently, the valuation and summaries included hereafter refer to the 36,419 units being valued.
- 1.5.3 The portfolio is formed from ASG's three former subsidiary companies: being William Sutton Housing Association Limited ('WSHA'), Broomleigh Housing Association Limited ('BHA'), and Downland Housing Association Limited ('DHA'), now amalgamated into Affinity Sutton Homes Limited. The breakdown between the three former subsidiaries is as follows:
- 11,101 former BHA Properties;
 - 8,680 former DHA Properties; and
 - 16,638 former WSHA properties.

1.6 Affordable Rent

- 1.6.1 As you will know, the Affordable Rent framework has been introduced by the Government and Homes and Communities Agency in an effort to improve delivery of affordable housing whilst reducing grant subsidy from the public purse. This model provides Registered Providers (“RPs”) with more flexibility in the length of tenancies issued, and the level of rent which they charge to tenants. The contracts allow RPs to let properties at a level of up to 80% of Market Rent inclusive of service charge (although the actual level is different in each contract and there are substantial regional variations.)
- 1.6.2 However, the investment contracts are individual to each RP and the terms therein will not be bound to the land or title. Nor will the details of the contracts be disclosed to the market. This has ramifications for the value of properties which are owned by RPs because it follows that, in a bidding situation, the value which the vendor could achieve when selling a Portfolio will be related to the rent level which the eventual purchaser could charge future tenants, rather than the level set out in the vendor’s contract.
- 1.6.3 This introduces uncertainty in the assumptions which we make about the rental income which could be realised in the future after a hypothetical transfer of stock (the concept upon which all valuations are based). Funders are very wary about lending money against security with such valuations attributed to them and, in light of this and in accordance with our instructions, we have valued the Portfolio on the assumption that the properties are never let on Affordable Rents. We have assumed that the Portfolio is rented in line with the Rent Influencing Regime into perpetuity, with no uplift in value which could be achieved by virtue of the adoption of Affordable Rents.
- 1.6.4 Our Report now follows and is divided into five main parts:
- Methodology;
 - Commentaries;
 - Valuation;
 - Bases of Valuation; and
 - Sources and Verification of Information.

2 Methodology

2.1 Valuation Model

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

2.2 Information Provided

- 2.2.1 The principal source of background data for the Portfolio has been the rent roll for each property provided by ASG. This detailed the number and type of units, the rent payable, and equity retained by the association (where applicable).
- 2.2.2 This information was supplemented with our market research and other data we have gathered from similar instructions undertaken recently and involving comparable stock.
- 2.2.3 From these sources we have collated information on the following:
- Rents;
 - Bad debts, voids and arrears;
 - Cost of maintenance and repairs; and
 - Management and administration expenses.
- 2.2.4 A location plan of the Portfolio is provided as Appendix 3.

2.3 Inspections

- 2.3.1 We understand that, under the terms of the existing loan agreements, ASG must deliver a Full Valuation Report to the Facility Agent and the Security Agent at least once in every period of five calendar years.
- 2.3.2 The portfolio comprises over 36,000 properties, which, in line with the loan agreement, are required to be inspected by a valuer every 5 years. The logistics of inspecting this number of units in one year would be time consuming and costly. It has been agreed that we will inspect 20% of the properties every year, so over a 5-year period all of the properties will have been inspected. The division of the portfolio for inspection was set geographically, which in some cases has coincided with the geography of the former operational companies. The months in which we inspected each portfolio is set out in section 3.2.1.
- 2.3.3 We inspected the interior of a representative sample of the Portfolio when they were inspected.

2.3.4 Analysis of the Portfolio is provided at Appendix 4.

2.3.5 A representative selection of photographs of the Borehamwood and former BHA properties is provided as Appendix 5.

2.4 Market Research

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

- Researching local vacant possession values through conversations with local estate agents together with internet research and using Hometrack, a bespoke tool for comparable evidence;
- Examining local benchmark affordable rents and comparing these with ASH's rents; and
- Analysing data provided by ASG.

3 General Commentary

3.1.1 Schedules summarising the following data for each property within the Portfolio form Appendix 2 of this Report:

- Address;
- Unit Type;
- Equity retained; and
- Gross weekly and annual rent.

3.2 Stock Numbers

3.2.1 ASG has provided us with a summary of the housing stock as at today's date, upon which we have based our valuations. This data is summarised below. All of the Portfolio is now owned by ASH but for the purposes of the valuation we have broken it down into its former subsidiaries and these are identified below:

Estate	Category	Basis of Value	2012 Units	Date of Inspection
ASH (formerly known as Broomleigh)				
	General Needs	EUV-SH	8,199	August 2012
	Sheltered	EUV-SH	862	August 2012
	Lewisham Stock Transfer	EUV-SH	552	August 2012
	High Rise (non-PRC)	EUV-SH	183	August 2012
	PRC other	EUV-SH	363	August 2012
	Keyworker	EUV-SH	325	August 2012
	Market Rent	EUV-SH	121	August 2012
	Shared Ownership	EUV-SH	342	August 2012
	Hanover Park	EUV-SH	154	August 2012
Total			11,101	
ASH (formerly known as Downland)				
	General Needs Freehold	EUV-SH	7,259	January 2010
	General Needs Leasehold	EUV-SH	108	January 2010
	Shared Ownership	EUV-SH	350	January 2010
	Special Needs	EUV-SH	949	January 2010
	Keyworker and Rent to Homebuy	EUV-SH	14	January 2010
Total			8,680	
ASH (formerly known as William Sutton)				
				x
Bethnal Green	General Needs	EUV-SH	190	January 2011
City Road	General Needs	MV-T	107	January 2011
Islington	General Needs	EUV-SH	27	January 2011
Islington	General Needs	MV-T	141	January 2011
Kingston-Upon-Thames	General Needs	MV-T	147	January 2011
Rotherhithe	General Needs	EUV-SH	143	January 2011
St Quintin	General Needs	EUV-SH	481	January 2011
Bedford	General Needs	MV-T	59	January 2011

Estate	Category	Basis of Value	2012 Units	Date of Inspection
Bedford Kempston	General Needs	MV-T	33	January 2011
Borehamwood	General Needs	EUV-SH	4,160	August 2012
Borehamwood	Shared Ownership	EUV-SH	151	August 2012
Bracknell	General Needs	EUV-SH	17	January 2011
Chelmsford	General Needs	EUV-SH	188	January 2011
Chelmsford	General Needs	MV-T	252	January 2011
Hemel Hempstead Grovehill	General Needs	MV-T	225	January 2011
Hemel Hempstead Grovehill	General Needs	EUV-SH	110	January 2011
Hitchin	General Needs	EUV-SH	49	January 2011
Leatherhead	General Needs	EUV-SH	25	January 2011
Letchworth	General Needs	EUV-SH	10	January 2011
Letchworth	Shared Ownership	EUV-SH	4	January 2011
Luton	General Needs	EUV-SH	117	January 2011
Milton Keynes	General Needs	EUV-SH	106	January 2011
Milton Keynes	General Needs	MV-T	60	January 2011
Milton Keynes	Shared Ownership	EUV-SH	38	January 2011
Stevenage	General Needs	EUV-SH	302	January 2011
Stevenage	Shared Ownership	EUV-SH	26	January 2011
Barne Barton	General Needs	MV-T	226	January 2011
Barne Barton	General Needs	EUV-SH	33	January 2011
Bradninch	General Needs	EUV-SH	19	January 2011
Bristol	General Needs	MV-T	223	January 2011
Central Plymouth	General Needs	MV-T	43	January 2011
Crownhill Plymouth	General Needs	MV-T	157	January 2011
Exeter	General Needs	EUV-SH	73	January 2011
Exeter	General Needs	MV-T	48	January 2011
Ferndale Road Plymouth	General Needs	MV-T	101	January 2011
Leigham	General Needs	MV-T	188	January 2011
St Budeaux	General Needs	MV-T	382	January 2011
Teignbridge	General Needs	EUV-SH	30	January 2011
Abbey Hulton	General Needs	EUV-SH	355	January 2010
Birmingham	General Needs	EUV-SH	324	January 2010
Kidsgrove	General Needs	EUV-SH	81	January 2010
Leicester	General Needs	EUV-SH	252	January 2010
Nottingham	General Needs	MV-T	125	January 2010
Rugby	General Needs	EUV-SH	391	January 2010
Rugby	Shared Ownership	EUV-SH	1	January 2010
Stafford	General Needs	EUV-SH	154	January 2010
Tamworth	General Needs	EUV-SH	343	January 2010
Trent Vale	General Needs	MV-T	314	January 2010
Bradford	General Needs	MV-T	376	January 2010
Bradford	General Needs	EUV-SH	199	January 2010
Chesterfield	General Needs	EUV-SH	37	January 2010

Estate	Category	Basis of Value	2012 Units	Date of Inspection
Hull	General Needs	EUV-SH	476	January 2010
Hull Central	General Needs	EUV-SH	94	January 2010
Leeds Killingbeck	General Needs	MV-T	227	January 2010
Leeds Selby Road	General Needs	EUV-SH	303	January 2010
Sheffield	General Needs	EUV-SH	333	January 2010
Barrack Road	General Needs	MV-T	138	January 2010
Middlesbrough	General Needs	MV-T	496	January 2010
Middlesbrough Central	General Needs	EUV-SH	148	January 2010
South Shields Cleadon	General Needs	MV-T	453	January 2010
South Shields Cleadon	General Needs	EUV-SH	61	January 2010
South Shields Tyne Dock	General Needs	MV-T	298	January 2010
Bolton Long Lane	General Needs	MV-T	218	January 2010
Bolton Platt Hill	General Needs	MV-T	356	January 2010
Manchester	General Needs	EUV-SH	392	January 2010
Preston	General Needs	EUV-SH	265	January 2010
Salford	General Needs	EUV-SH	157	January 2010
Warrington	General Needs	MV-T	475	January 2010
Widnes	General Needs	EUV-SH	81	January 2010
Supported	General Needs	EUV-SH	24	January 2010
Total			16,638	
Total Valuation			36,419	

3.3 Property Types

3.3.1 The Portfolio has been valued as either rented or shared ownership properties as set out in this Report.

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

3.4 Condition

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

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

3.4.3 Overall we have assumed that each property has a useful economic life of 50 years providing short term compliance with Decent Homes Standards and, beyond that period, that the properties continue to be properly maintained in the future.

3.5 Caveats and Disclaimers

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

- Ground Condition;
- Environmental considerations;
- Planning;
- Tenure;
- Titles; and
- Nominations agreements.

3.5.2 These factors are discussed in Section 11.

4 General Needs and Sheltered Stock Commentary

4.1 Rental Income

- 4.1.1 From the information provided by ASG, we have calculated that the average gross weekly rent receivable from the general needs and sheltered stock are as set out in the table below. All rents are expressed on the basis of 52 rent weeks per annum.

Category	Rent-per-week	Rent-per-week
Secure GN Houses	£119.28	£118.12
Secure GN Flats	£97.03	£87.51
Assured GN Houses	£116.37	£108.87
Assured GN Flats	£96.11	£88.27
Overall Average	£105.17	£102.73

- 4.1.2 We are unable to verify the accuracy of the rent roll provided to us by ASG.
- 4.1.3 The average rents per estate for the properties formerly owned by WSHA are included in the summary schedule at Appendix 1. The average rent for the general needs and sheltered stock is £88.22 per week.
- 4.1.4 The table below sets out a comparison of ASH's average rents with the Tenant Services Authority Continuous Recording System (CORE) data for all general needs lettings in the UK for Quarter Q1 (April to June 2011), the latest figures available. The CORE data does not provide a separate analysis for flats and houses, and the figures shown are therefore averages across both property types. All rents are shown on the basis of 52 weeks.

Property Size (Bedrooms)	CORE (London)	ASH (former BHA stock)	CORE (South-East)	ASH (former DHA stock)
1	£88.48	£88.50	£75.63	£85.42
2	£101.25	£103.53	£87.09	£98.89
3+	£113.17	£118.69	£101.09	£115.52

- 4.1.5 The above comparison shows that rent levels set by ASH are generally above the average levels charged by other RPs in the same local authorities.
- 4.1.6 The most recent available data on gross average earnings for all full-time employees shows that average weekly earnings in London are £708 per week and in the South East they are £505.9 per week (Annual Survey of Hours and Earnings, ONS). Taking the average rent of £105.17 per week across the former BHA general needs portfolio and £102.73 across the former DHA portfolio; these represent approximately 15% and 20% respectively of gross average earnings – a relationship that, in our opinion, means that ASH's rents are affordable.

- 4.1.7 From the information provided for the former WSHA portfolio, we have calculated that the average gross weekly rental levels applicable from 1 April 2012 are as shown in the table below. All rents are expressed on the basis of 52 rent weeks per year. We have compared these rents to the latest TSA Core data for April to June 2011. This suggests that affordable/local reference rents in WSHA's identified regions were as follows:

	ASH's Average Rents	Core Lettings Rents (Assured Tenancies)
North East	£69.00	£71.52
North West	£72.72	£74.93
London	£109.53	£117.53
West Midlands	£73.64	£80.58
Yorkshire and Humberside	£70.19	£75.21
South West	£74.12	£83.49
South East	£109.22	£97.74

- 4.1.8 These figures offer some comfort as it shows that ASH's average rents are, with the exception of the South East, below the average affordable rents provided in the CORE data, and accordingly should not restrict rental growth in the near future.

4.2 Rental Growth

- 4.2.1 As ASG will be aware, the Tenant Services Authority (TSA), formerly the Housing Corporation requires RPs to restructure their rents from current levels to target rents by 2012. Moreover, rent restructuring is to be carried out within the parameters of RPI plus 0.5%, plus or minus £2 per week, until target rents are reached. Thereafter, the normal maximum permissible growth is RPI plus 0.5%.
- 4.2.2 In our valuation models, we have used the target rents for each property as provided by ASH. We have then modelled growth in the average target rent over the remaining period to 31 March 2012 or beyond if necessary, and derived from this an average growth rate to be applied for current rents to reach target rents within that period and within the permitted 5% tolerance.
- 4.2.3 Our valuations take into account the latest guidance on target rent caps from the Tenant Services Authority in the publication titled "Rents, rent differentials and service charges for housing associations 2012-13."
- 4.2.4 On this basis we have assumed that rents grow in line with calculated real rates as shown in the table below, and thereafter at RPI plus 0.5% per annum, in accordance with the Rent Influencing Regime.

Property Type	Restructuring Period (former BHA stock)	Growth Rate (former BHA stock)	Restructuring Period (former DHA stock)	Growth Rate (former DHA stock)
Secure Houses	3 years	-1.00%	1 year	1.60%
Secure Flats	1 years	2.00%	2 years	2.30%
Assured Houses	4 years	-0.90%	1 year	0.70%

Assured Flats	2 years	-0.60%	1 year	0.90%
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4.3 Outgoings

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

- Bad debts and voids;
- Management costs; and
- Repair and maintenance costs.

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

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

4.4 Bad Debts and Voids

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

4.4.2 Any loss of income for void properties is reflected in a deduction made from the gross rental income. Similarly we have also made an allowance for bad debts based on our experience. For the majority of the general needs properties we have adopted rates of 2-3% of net income. For the high rise properties we have adopted a slightly higher rate of 4%. For the valuation of the individual estates we have had regard to current experience of loss of rental income from voids on each of the estates, and have applied our professional judgement as to the likely level of future bad debts and voids based on previous experience. The level of voids adopted in both our EUV-SH and MV-T valuations are set out in Appendix 4 to this report, and range enormously, in line with ASG's current experience.

4.4.3 For our valuation of the individual estates on the basis of MV-T, we have adopted a higher rate of loss of gross income for the first three years when we are assuming the greatest rate of rental growth. In our opinion the sharp increase in rents will inevitably be reflected in a higher level of voids and bad debts. Thereafter we have assumed that the level of voids and bad debts will settle to between 4-5% of gross rental income.

4.5 Management Costs

4.5.1 We have adopted rates for management and administration in our valuation for each region. This is based on our experience of other RPs operating in similar areas to ASG. Our rates are subject to an annual inflator of 1.00% over inflation for the duration of the cashflow reflecting long-term earnings, growth predictions and potential management savings. For our EUV-SH valuations we have adopted rates of between £525 and £625 per unit per annum, and for our MV-T valuations we have adopted a rate of 10% of rental income.

4.6 Repairs and Maintenance

- 4.6.1 Although the properties are generally in good condition, renewal, day-to-day and cyclical maintenance will all be required to keep the stock in its present condition.
- 4.6.2 The following table sets out the various assumptions we have made in our cashflows. Our appraisals assume that these costs per unit will inflate by 1.0% in real terms each year.

Category of Expenditure	ASH (former BHA (GN) stock)	High Rise	ASH (former DHA (GN) stock)
Major repairs and renewals – Year 1	£1,225	£1,275	£575
Cyclical repairs – Year 1	£375	£375	£375
Day-to-day repairs	£325	£375	£350
Total	£1,925	£2,025	£1,300

Category of Expenditure	Estates (EUV-SH)	Estates (MV-T)
Major repairs and renewals – Year 1	£550 - £625	£1,000 - £1,750
Cyclical repairs – Year 1	£300 - £325	£250 - £275
Day-to-day repairs	£325 - £425	£325

- 4.6.3 We have adopted a high level of major repairs in years 1-2 of our MV-T cashflows because we assume that a private landlord would elect to spend a certain amount on redecorating and renewing certain elements of these properties in order to command the best possible market rents.
- 4.6.4 Our cost assumptions for the Borehamwood estate are an exception to the above figures and have been derived from Stock Condition Report data provided to us four years ago, with the costs appropriately unit-sensitised and inflated for this year's valuation. Major repairs and renewals expenditure during the first and second years in our EUV-SH valuation has been calculated at £1,475.

4.7 Relet and Sales Rates

- 4.7.1 In our valuations, we have sought to strike a balance between ASG's recent experience and what we expect to be long-term sustainable rates of re-letting over the 50 years of our cashflow models. We have therefore adopted rates of 3-4% for the houses and 4-5% for the flats.
- 4.7.2 In our MV-T valuation when properties become vacant they are sold rather than relet. We have adopted the following rates of sales in the majority of our MV-T cashflows:
- Houses – 3%
 - Flats – 5%
- 4.7.3 For a small number of the estates we have adopted slightly lower levels of sales. These estates are in London and reflect our opinion that it would be difficult to sell large number of flats in these blocks at the same time.

4.7.4 The frequency of Right-To-Buy sales (RTBs) has declined over the last few years as house prices have become less affordable. It is imprudent to include capital receipts from sales in an existing use valuation. In light of this, we have not included any right to buy sales in the valuation.

4.8 Discount Rate

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

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

4.8.2 The discount rates we have adopted in our models are outlined as follows:

Discount Rate	
General Needs	5.50%
Sheltered	6.00%
Non-traditional	5.75%
High Rise	6.25%

4.8.3 For the estates we have adopted a real discount rate of between 5.50% and 6.75% for our valuations on the basis of EUV-SH. The different discount rates we have used for different estates are detailed in the summary schedule attached as Appendix 4, and reflect our opinion of the relative risk attached to each estate.

4.8.4 In our valuations on the basis of MV-T we have adopted higher rates, of between 7.5% and 8.75% for the income and 9.25% and 10.75% for the sales. We have adopted the higher discount rate for the sales to reflect the greater risk and uncertainty as to the timing and amount of any receipts from the sale of voids.

4.9 House Price Growth

4.9.1 Our model assumes house price growth of 0% (real) for years 1-3 and long term house price growth (real) of 1% per annum. We have applied these rates of growth in all our valuation models.

5 Market Rented Commentary

5.1.1 There are 121 market rented properties within the Portfolio, the majority of which are located in Penge and Beckenham.

Bedroom Number	Total
1 Bed Flat	48
2 Bed Flat	58
3 Bed Flat	7
3 Bed Bungalow	2
3 Bed House	5
4 Bed House	1
Total	121

5.2 Rental Levels

5.2.1 According to the information provided by ASH, the average gross weekly rental levels are as shown in the table below. All rents are expressed on the basis of 52 rent weeks per year.

	Number of units	Rent per week
Houses	8	£242.42
Flats	113	£145.22

5.2.2 We are unable to verify the accuracy of the rent roll provided to us by ASH.

5.3 Rental Growth

5.3.1 We have provided valuations of the market rented properties on the basis of EUV-SH. The levels of growth adopted in our valuations reflect the need to adjust current rents to true market levels. Rents are assumed to grow at RPI plus 0.5% per annum throughout the period of our cashflows.

5.4 Bad Debts and Voids

5.4.1 We have adopted a level of voids and bad debts of 4% per annum for the market rented properties.

5.5 Relet and Sales Rates

5.5.1 In our valuations, we have sought to strike a balance between ASG's recent experience and what we expect to be long-term sustainable rates of re-letting over the 50 years of our cashflow models. We have therefore adopted the following rates of re-letting:

	Sales Rate
Houses	8%
Flats	8%

5.6 Repairs and Maintenance

5.6.1 We have reflected in our valuation models detailed projected expenditure under three headings:

- Major repairs and planned maintenance;
- Cyclical repairs; and
- Day-to-day and responsive repairs.

5.6.2 We have adopted the following costs for repairs for the market rented units

Category of Expenditure	Cost per unit p.a.
Major repairs and renewals – Year 1	£900
Cyclical repairs – Year 1	£275
Day-to-day repairs	£250
Total	£1,425

5.7 Discount Rate

5.7.1 For the market rented properties we have adopted a discount rate of 6.00%.

5.8 Management Costs

5.8.1 We have adopted a rate for management and administration for the market rented properties of £500 per unit per annum. This is based on our experience of other RPs operating in similar areas to ASG. Our rates are subject to an annual inflator of 1.00% over inflation for the duration of the cashflow reflecting long-term earnings, growth predictions and potential management savings.

5.9 House Price Growth

5.9.1 For the market rented properties we have assumed house price growth of -1% (real) for years 1 – 3 and long term house price growth (real) of 1% per annum.

6 Keyworker Commentary

6.1.1 There are 339 keyworker properties in total within the Portfolio all of which are let on assured shorthold tenancies but at sub-market rents. The majority of these properties are located in East Dulwich, Bromley, Camberwell and Kingston-upon-Thames.

6.2 Rental Levels

6.2.1 According to the information provided by ASH, the average gross weekly rental levels applicable at 31 March 2012 are as shown in the table below. All rents are expressed on the basis of 52 rent weeks per year.

Number of units	Rent per week
339	£97.02

6.2.2 We are unable to verify the accuracy of the rent roll provided to us by ASH.

6.3 Rental Growth

6.3.1 In our valuation of the keyworker properties on the basis of EUV-SH, the constraints of rent restructuring do not apply. However, there is a limit on growth, set out in the Homes and Communities Agency's Capital Funding Guide, of RPI + 0.5%, and to not exceed 80% of the local market rent. We have adopted annual rental growth of 0.5% (real) for all years accordingly.

6.4 Bad Debts and Voids

6.4.1 We have adopted a level of voids and bad debts of 3% per annum.

6.5 Relet and Sales Rates

6.5.1 In our valuations we have sought to strike a balance between ASG's recent experience and what we expect to be long-term sustainable rates of re-letting over the 50 years of our cashflow models. We have therefore rates of re-letting of between 3 and 4% for the houses and 5% for the flats.

6.6 Repairs and Maintenance

6.6.1 We have reflected in our valuation models detailed projected expenditure under three headings:

- Major repairs and planned maintenance;
- Cyclical repairs; and
- Day-to-day and responsive repairs.

6.6.2 We have adopted the following costs for repairs for the market rented units

Category of Expenditure	
Major repairs and renewals – Year 1	£500-550
Cyclical repairs – Year 1	£300
Day-to-day repairs	£250 - 300
Total	£1,100

6.7 Discount Rate

6.7.1 For the keyworker properties we have adopted discount rates of 5.75% - 6.00%.

6.8 Management Costs

6.8.1 We have adopted a rate of £550 for management and administration in our valuations. This is based on our experience of other RPs operating in similar areas to ASG. Our rates are subject to an annual inflator of 1.00% over inflation for the duration of the cashflow reflecting long-term earnings, growth predictions and potential management savings.

6.9 House Price Growth

6.9.1 Our model assumes house price growth of 0% (real) for years 1-3 and long term house price growth (real) of 1% per annum. We have applied these rates of growth in all our valuation models.

7 Shared Ownership Commentary

7.1.1 There are a total of 912 shared ownership properties in the Portfolio; broken down geographically into seven cashflows.

7.2 Rental Income

7.2.1 For our valuation of the shared ownership properties, we have prepared separate cashflow models based on the current total annual rental income of £2,461,199.

7.3 Rental Growth

7.3.1 In our valuations of the shared ownership properties, we have limited rental growth to RPI plus 0.5% throughout the period of the cashflows. It will be appreciated that rent restructuring does not apply to shared ownership properties.

7.4 Repairs and Maintenance

7.4.1 We have allowed for a small deduction from the income to cover management costs based on a percentage of the total rent receivable. These costs are variable.

7.4.2 We have assumed that the costs of repairs and property maintenance will be covered by the shared owners, either through internal repairs as outlined in the subleases or through a service charge.

7.5 Rates of Further Staircasing

7.5.1 We understand that, on average, equity of around 55-70% as been retained by ASH, depending on the portfolio. We have allowed in our cashflow for an element of further staircasing, based on the sale of a number of tranches, of 25%, being sold during the 50 years of the cashflow.

7.6 Discount Rates

7.6.1 Depending on the portfolio we have discounted the net rental and staircasing income streams at real rates per annum of between 5.5% and 5.75 for the rental income and between 7.75% and 8.25% for any staircasing receipts. We have added extra risk premiums to the discount rates on sales to reflect the greater uncertainty as to the amount and timing of any staircasing receipts.

In view of ASH's comparatively low retained equity holding in the Borehamwood Estate, we have assessed that tranche sales will not have a significant impact on valuation, particularly bearing in mind that these are likely to be small tranche increases by the lessees, and apportioned over a long period. In light of this, we have ignored capital receipts from prospective staircasing and discounted the net rental income stream at a real rate of 5.75% per annum.

8 Valuation

8.1.1 We have prepared our valuations on the following bases:

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

8.1.2 We have also provided an aggregate valuation of the Portfolio on the basis of Market Value assuming Vacant Possession (MV-VP) for indicative purposes only.

8.1.3 Our valuations have been prepared in accordance with the Royal Institution of Chartered Surveyors' RICS Valuation - Professional Standards, March 2012 (commonly known as the "Red Book").

8.1.4 Apportionments of the valuations have been calculated and are included in the schedules at Appendix 2. These are not valuations of the individual properties, and should not be relied upon or treated as such.

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

8.1.6 The definitions of the bases of valuation are set out in full in section 10 of this Report.

Our opinions of value are as follows:

8.1.7 Our opinion of value of the 11,101 Affinity Sutton Homes Limited units (former BHA units), in aggregate, on the basis of EUV-SH is:

£606,780,000
(six hundred and six million, seven hundred and eighty thousand pounds)

8.1.8 Our opinion of value of the 8,680 Affinity Sutton Homes Limited units (former DHA units), in aggregate, on the basis of EUV-SH is:

£546,130,000
(five hundred and forty six million, one hundred and thirty thousand pounds)

8.1.9 Our opinion of value of the 10,770 Affinity Sutton Homes Limited units (former WSHA units), in aggregate, on the basis of EUV-SH is:

£528,343,000
(five hundred and twenty eight million, three hundred and forty three thousand pounds)

8.1.10 Our opinion of value of the 5,868 Affinity Sutton Homes Limited units (former WSHA units), in aggregate, on the basis of MV-T is:

£319,420,000
(three hundred and nineteen million, four hundred and twenty thousand pounds)

8.1.11 Our indication of the MV-VP of the Portfolio is **£5.63 billion**.

8.1.12 A breakdown of valuations of the properties by former subsidiary and property category (general needs, shared ownership etc.) is included in Appendix I.

8.2 Suitability as Security

8.2.1 Your instructions require us to comment on whether the properties we have valued provide adequate security in respect of the Bonds.

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

8.2.3 However we confirm that, in our opinion, should the Security Agent become a mortgagee in possession of this Portfolio of properties, then it would be possible to achieve a sale to another RP that would be at a price at least equivalent to our valuation on the basis of EUV-SH or, in principle, to a private purchaser at a price equivalent to our valuation on the basis of MV-T as set out in our Report. However, the valuation assumes implicitly that a purchaser could obtain debt finance on commercially viable terms to facilitate a purchase of the Portfolio.

8.2.4 Furthermore, we have identified the following attributes of the Portfolio which should assist the Security Agent in its assessment:

- given the divergence between property prices and local average earnings, demand for these properties should be sustainable in the medium to long term;
- the level of rental income for all areas is broadly in line with other RPs in the respective areas;
- the level of rental income is, in aggregate, below the Local Reference Rents for each region;
- The EUV-SH and MV-T values per unit and percentage relationships to MV-VP, are at levels appropriate to the current climate, having regard to the Portfolio's location and composition; and
- we have made conservative assumptions with regard to the respective rent and sales contributions to the valuations of the shared ownership units and they are not overly dependent on proceeds from sales.

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

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

9 Bases of Valuation

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

9.2 Existing Use Value for Social Housing

9.2.1 The basis of Existing Use Value for Social Housing is defined in UKVS 1.13 of the Red Book as follows:

“Existing use value for social housing (EUV-SH) is the estimated amount for which a property should exchange on the valuation date, between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion - subject to the following special assumptions that:

- *the property will continue to be let by a body pursuant to delivery of a service for the existing use;*
- *At the valuation date any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor’s ability to dispose of the property to organisation intending to manage their housing stock in accordance with that regulatory body’s requirements;*
- *Properties temporarily vacant pending re-letting would be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession; and*
- *Any subsequent sales would be subject to all of the above special assumptions.”*

9.3 Market Value

9.3.1 The basis of Market Value is defined in VS3.2 of the Red Book as follows:

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

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

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

9.4 Expenses

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

9.5 Tax

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

9.6 VAT

Our valuations are exclusive of VAT on disposal.

10 Market Commentary

10.1 UK Housing Market Overview

- 10.1.1 The UK housing market is entering a crucial stage. While the housing market has proved quite resilient and conditions have improved in recent months, a combination of economic, consumer sentiment and housing concerns suggest that the recent residential market rally is likely to come under heavy challenge.
- 10.1.2 However, the UK housing market has certainly improved in recent months. Transaction levels, mortgage lending and house price growth have all moved higher. The market was more active in March when a greater number of purchasers bought before the closing of the first-time-buyer stamp duty holiday on purchases below £250,000 but activity levels have been robust in the few months since and are notably higher than at the same time a year earlier.
- 10.1.3 House prices have increased in most regions during the first five or six months of 2012. They are notably higher in London, slightly higher in southern regions and either similar or slightly lower in midland and northern locations. An improving trend, however, is evident across almost all regions.
- 10.1.4 The development market has been quite stable during the past two years although housing starts slowed from the circa 110,000 pa we have seen during this time down to 105,000 pa in Q1 2012.
- 10.1.5 A little worrying is that there are some very early signs, mainly from survey based sources, that conditions may be starting to weaken. The RICS Housing Market Survey suggests that more surveyors are now seeing house prices fall and that the number of sales per month is also slowing while the latest CML data indicates that June mortgage lending slowed slightly.
- 10.1.6 Couple these trends with weakening UK economic news, further Eurozone worries and diminishing consumer confidence and the outlook for the residential market looks more uncertain. A number of estate agents have suggested that the quieter summer trading season has not only arrived early but with distracting events such as the Olympics activity could be even slower than usual.

11 Sources and Verification of Information

11.1 General

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

11.2 Tenure

- 11.2.1 ASH holds a freehold interest or long leasehold interest with not less than 80 years unexpired in respect of its properties, unless otherwise stated in this Report. We confirm that there will be no material difference in the MV-T and EUV-SH cashflow valuations between these two holding interests and we do not therefore feel that separate summaries are required. This is not in breach of the RICS Valuation Standards.

11.3 Title

- 11.3.1 We have not carried out our own investigations of title and our valuations have assumed good title, free from onerous covenants and other encumbrances other than as set out in this Report.

11.4 Nomination Agreements

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

11.5 Structural Conditions

- 11.5.1 We have not carried out condition surveys of the properties, this being outside the scope of our instructions. The Portfolio comprises a mixture of modern and older properties. From our inspections these appeared to be well maintained, subject to the usual wear and tear one would expect for properties of these ages.
- 11.5.2 In our opinion the economic life of each property should comfortably exceed 50 years providing the properties are properly maintained.
- 11.5.3 We have not carried out a structural survey of the properties, neither have any parts been opened up or examined and those areas which were covered or inaccessible including roofs could not be inspected. No advice can therefore be given with regard to the condition of the property or whether it is free from rot, beetle or other defects.
- 11.5.4 We have been unable to determine whether wood wool slabs, blue asbestos, calcium chloride or other deleterious materials were used in the construction of these properties and therefore our advice regarding condition is given on the assumption that these materials are not present.

11.6 Ground Conditions

11.6.1 Our valuations are prepared on the assumption that there are no adverse ground conditions affecting any of the properties.

11.6.2 In forming our assessment, we have not carried out our own investigations into the presence or otherwise of contaminative substances, or substances which may give rise to contamination in any form whatsoever. We are unable to guarantee or warrant that the sites are not, nor have ever been, subject to contaminative uses or are not contaminated. These are matters upon which the client, or anyone else relying upon this valuation, must satisfy themselves. However, our valuations are prepared on the assumption that no contaminative substances are present on the sites or nearby.

11.6.3 However, if during the normal course of our business we identified obvious environmental or contaminative issues we would bring these to the Security Agent's attention. As far as we are aware, no such issues arise in respect of any properties in the Portfolio.

11.7 Planning

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

11.8 Services

11.8.1 None of the mains services have been tested by us.

11.9 Compliance with Building Regulations and Statutory Requirements

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

11.10 Right to Buy (RTB) and Voluntary Purchase Grants

11.10.1 We understand that the tenants of some of the properties within the Portfolio have either the Right to Buy (RTB) or the Right to Acquire (RTA). However, the level and frequency of RTB sales has declined over the last few years as house prices have become less affordable and discounts have been reduced. Whilst we recognise that RTB is just being reformed, the impact of the changes on the number of sales has yet to be seen. We consider it would be imprudent, therefore, to reflect additional value from capital receipts and we have therefore assumed that neither RTB nor RTA will be exercised.

11.10.2 As far as we are aware there are no applications for Voluntary Purchase Grant.



Real value in a changing world

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Appendix 1

Letter of Instruction

Affinity Sutton Capital Markets – valuation of stock for a bond issue

Further to recent email correspondence, I am writing to confirm your instructions to value and report on a portfolio of stock owned by Affinity Sutton Homes Limited. The valuation is required for security purposes in connection with a secured bond issue. your report should be addressed to the following – each of which is an “Addressee”:

- Barclays Bank plc;
- Lloyds TSB Bank plc;
- RBC Europe Limited;
- Prudential Trustee Company Limited (in its capacity as Security Agent and Bond Trustee);
- Affinity Sutton Capital Markets plc as Issuer;
- Affinity Sutton Funding Limited as Group Borrower; and
- Affinity Sutton Homes Limited as Original Borrower.

You should be aware that:

- following the valuation, the Prudential or third parties such as the UKLA may raise additional queries;
- the valuation report will be disclosed in the prospectus published by Affinity Sutton for the secured bond issue, provided that before the valuation report is so published you will have an opportunity to approve the form and context in which the valuation report will appear;
- the valuation report may be disclosed to any of the Addressee’s affiliates, their officers, directors, employees and legal and professional advisors and those of their affiliates. The valuation report may also be disclosed to, but not relied upon by, Standard & Poors (a division of the McGraw Hill Companies Inc.) and Moody’s Investors Services Inc;
- Prudential Trustee Company Limited may use and rely upon the valuation report in connection with their role in the secured bond issue. Accordingly, subject to the limitations set out in the valuation report, Prudential Trustee Company Limited shall be owed a duty of care with regard to the valuation report and such duty shall be the same as that owed to Affinity Sutton;
- the valuation report shall confirm that the valuation has been considered by the firm’s valuation committee, that the committee has discussed the valuation with the relevant team and is fully satisfied with the report and valuation; and;
- the report must be signed off by at least two valuation partners.

VALUATION BASIS

Your valuation should be carried out in accordance with the current edition of the RICS Valuation Standards (“the Red Book”). The valuation bases required are **Existing Use Value for Social Housing (EUV-SH)** and **Market Value Subject to Tenancies (MV-T)** where definitions as per “the Red Book” are:

Existing Use Value for Social Housing

The basis of Existing Use Value for Social Housing is defined in UKVS 1.13 of the Red Book as follows:

“Existing use value for social housing (EUV-SH) is the estimated amount for which a property should exchange on the valuation date, between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion - subject to the following special assumptions that:

- (i) the property will continue to be let by a body pursuant to delivery of a service for the existing use;*
- (ii) At the valuation date any regulatory body, in applying its criteria for approval, would not unreasonably fetter the vendor’s ability to dispose of the property to organisation intending to manage their housing stock in accordance with that regulatory body’s requirements;*
- (iii) Properties temporarily vacant pending re-letting would be valued, if there is a letting demand, on the basis that the prospective purchaser intends to re-let them, rather than with vacant possession; and*
- (iv) Any subsequent sales would be subject to all of the above special assumptions.”*

Market Value

The Redbook defines Market Value as follows:

“The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Market Value (Subject to Tenancies)

Market Value subject to tenancies is not defined in the Red Book but is in accordance with the above definition, with the addition of point below:

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

A schedule of the **36,474** properties to be valued has already been provided in electronic format. In addition to property address, type and rental date, you have also been provided with the unique property reference numbers (UPRN's) and this reference must be maintained throughout your report.

You will inspect sufficient number of properties you consider appropriate to ensure that it is representative of the whole and you will indicate the basis on which you have selected the sample.

As well as providing a valuation of the total portfolio, you should give an indication of the attributable value per unit. Where voids are shown, you should assume a rent comparable with a similar unit in the same scheme. You should also assume voids will be re-let as opposed to sold.

I would be grateful if you would sign and return one copy of this letter as acceptance of the instruction.

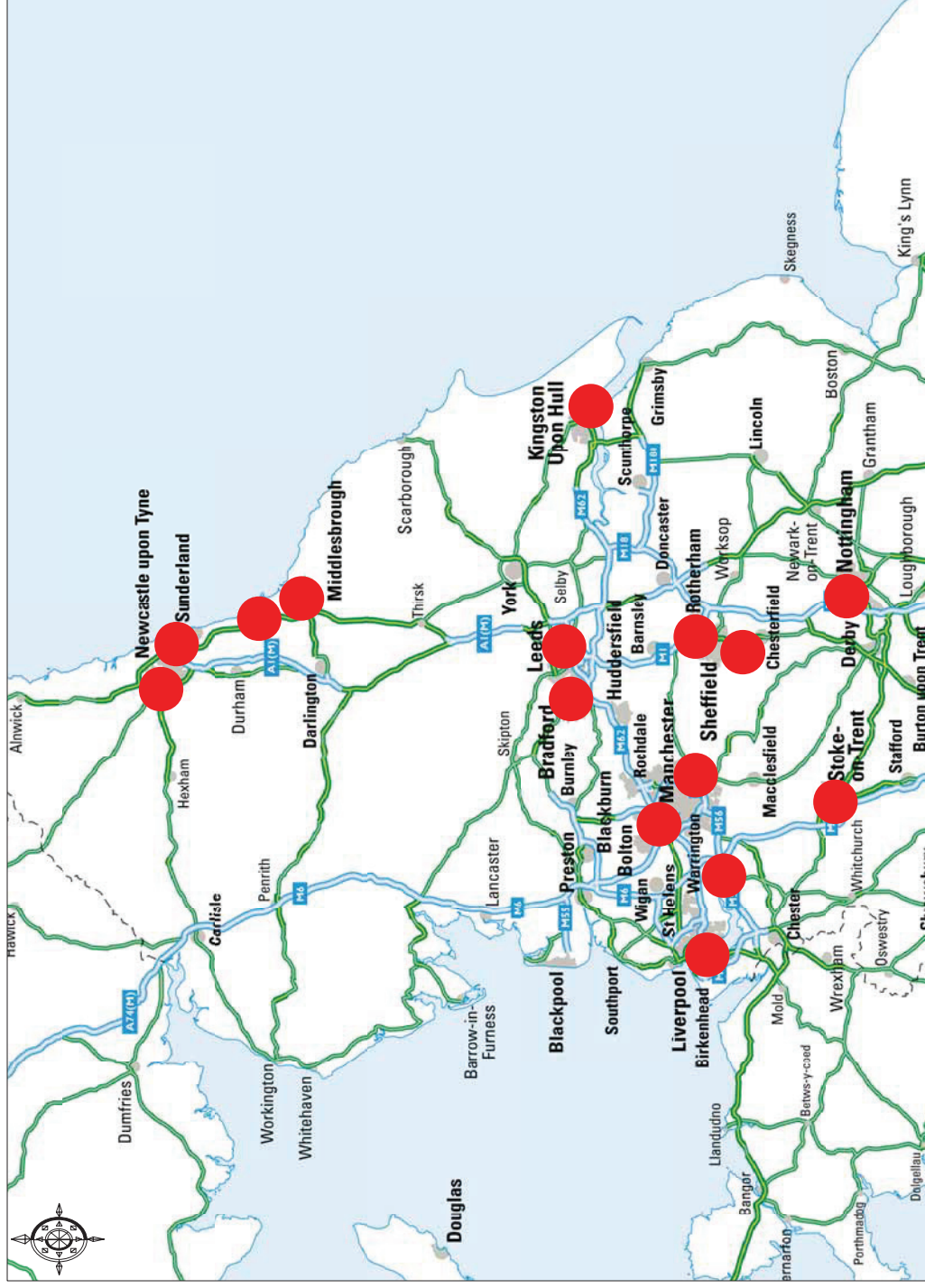
Yours sincerely

A handwritten signature in black ink, appearing to be 'MC' followed by a flourish.

Appendix 3

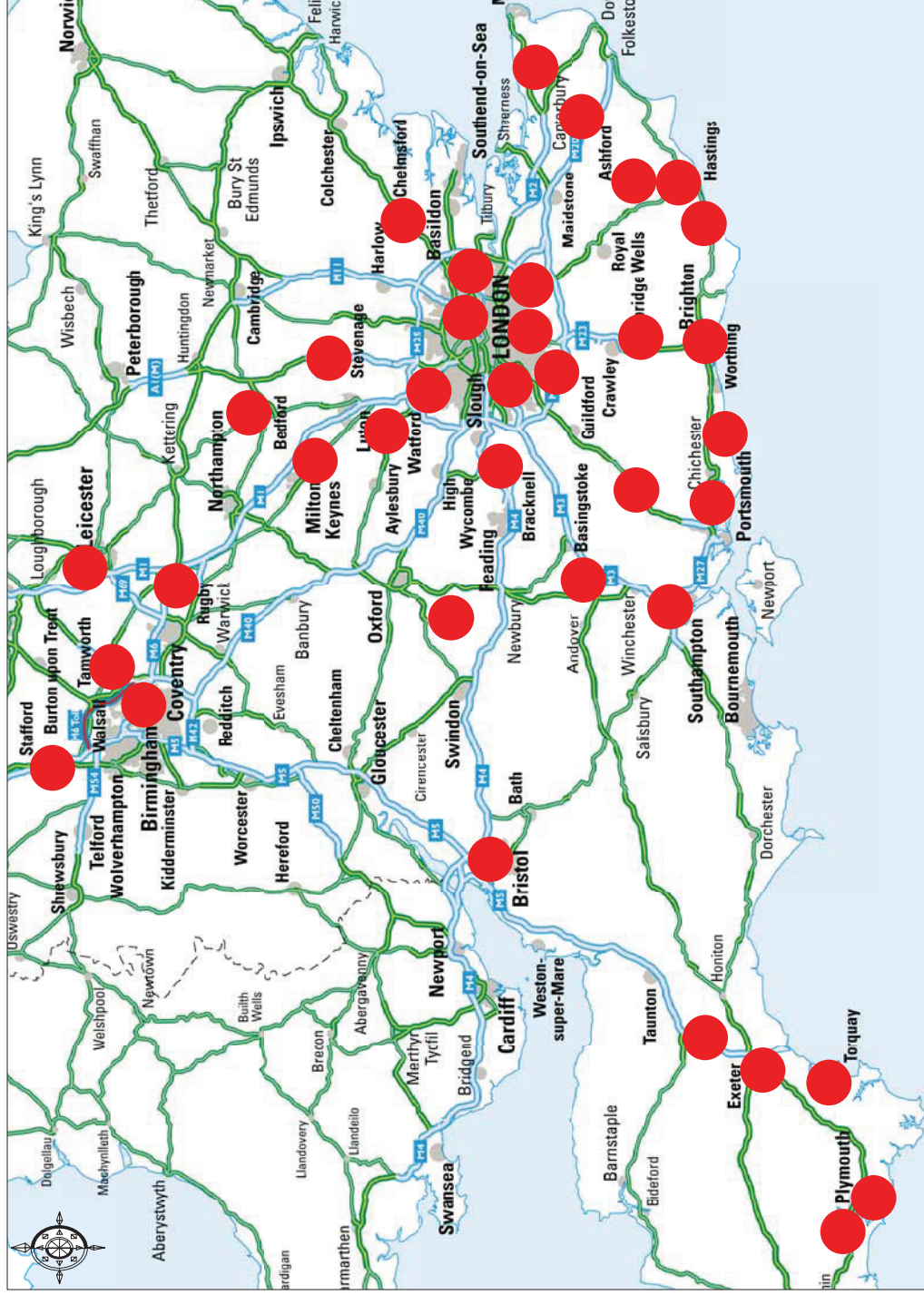
Location Plan

Affinity Sutton Bond Issue 2012 Location Plan



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Appendix 4

Portfolio Analysis

Former OpCo	Portfolio Type/Estate	Basis	Units	Valuation	Val pu
BHA	General Needs	EUV-SH	8199	£445,810,000	£54,374
BHA	Sheltered	EUV-SH	862	£37,510,000	£43,515
BHA	Lewisham Stock Transfer	EUV-SH	552	£23,230,000	£42,083
BHA	High Rise Non PRC	EUV-SH	183	£5,710,000	£31,202
BHA	PRC Other	EUV-SH	363	£24,770,000	£68,237
BHA	Keyworker Accommodation	EUV-SH	325	£19,050,000	£58,615
BHA	Market Rented	EUV-SH	121	£14,740,000	£121,818
BHA	Shared Ownership	EUV-SH	342	£19,270,000	£56,345
BHA	Hanover Park	EUV-SH	154	£16,690,000	£108,377
DHA	General Needs	EUV-SH	7259	£465,370,000	£64,109
DHA	GN Leasehold	EUV-SH	108	£5,380,000	£49,815
DHA	Shared Ownership	EUV-SH	350	£20,510,000	£58,600
DHA	Special Needs	EUV-SH	949	£53,650,000	£56,533
DHA	Key Worker & Rent to Homebuy	EUV-SH	14	£1,220,000	£87,143
DHA	Nil Value	Nil Value	2	£0	£0
WSHA	Bradford EUV-SH	EUV-SH	199	£4,900,000	£24,623
WSHA	Chesterfield	EUV-SH	37	£1,850,000	£50,000
WSHA	Hull	EUV-SH	476	£15,180,000	£31,891
WSHA	Hull Central	EUV-SH	94	£1,890,000	£20,106
WSHA	Leeds Selby Road	EUV-SH	303	£8,420,000	£27,789
WSHA	Sheffield	EUV-SH	333	£12,290,000	£36,907
WSHA	Bradford MV-T	MV-T	376	£12,590,000	£33,484
WSHA	Leeds Killingbeck	MV-T	227	£9,560,000	£42,115
WSHA	Supported	EUV-SH	24	£1,010,000	£42,083
WSHA	Barne Barton EUV-SH	EUV-SH	33	£1,060,000	£32,121
WSHA	Bradninch	EUV-SH	19	£900,000	£47,368
WSHA	Exeter EUV-SH	EUV-SH	73	£2,700,000	£36,986
WSHA	Teignbridge	EUV-SH	30	£1,200,000	£40,000
WSHA	Barne Barton MV-T	MV-T	226	£9,920,000	£43,894
WSHA	Bristol	MV-T	223	£17,070,000	£76,547
WSHA	Central Plymouth	MV-T	43	£1,840,000	£42,791
WSHA	Crownhill Plymouth	MV-T	157	£6,880,000	£43,822
WSHA	Exeter MV-T	MV-T	48	£3,840,000	£80,000
WSHA	Ferndale Road Plymouth	MV-T	101	£5,280,000	£52,277
WSHA	Leigham	MV-T	188	£11,550,000	£61,436
WSHA	St Budeaux	MV-T	382	£19,200,000	£50,262
WSHA	Borehamwood GN	EUV-SH	4160	£227,000,000	£54,567
WSHA	Borehamwood Shared Ownership	EUV-SH	151	£8,240,000	£54,570
WSHA	Bracknell GN	EUV-SH	17	£1,620,000	£95,294
WSHA	Chelmsford EUV-SH	EUV-SH	188	£12,370,000	£65,798
WSHA	Hemel Hempstead Grovehill EUV-SH	EUV-SH	110	£8,800,000	£80,000
WSHA	Hitchin	EUV-SH	49	£3,940,000	£80,408
WSHA	Leatherhead	EUV-SH	25	£2,480,000	£99,200
WSHA	Letchworth GN	EUV-SH	10	£660,000	£66,000
WSHA	Letchworth Shared Ownership	EUV-SH	4	£230,000	£57,500
WSHA	Luton	EUV-SH	117	£6,590,000	£56,325
WSHA	Milton Keynes GN EUV-SH	EUV-SH	106	£6,940,000	£65,472
WSHA	Milton Keynes Shared Ownership	EUV-SH	38	£1,990,000	£52,368
WSHA	Stevenage GN	EUV-SH	302	£22,980,000	£76,093
WSHA	Stevenage Shared Ownership	EUV-SH	26	£1,160,000	£44,615
WSHA	Bedford	MV-T	59	£3,310,000	£56,102
WSHA	Bedford Kempston	MV-T	33	£2,800,000	£84,848
WSHA	Chelmsford MV-T	MV-T	252	£23,330,000	£92,579
WSHA	Hemel Hempstead Grovehill MV-T	MV-T	225	£20,100,000	£89,333

Former OpCo	Portfolio Type/Estate	Basis	Units	Valuation	Val pu
WSHA	Milton Keynes GN MV-T	MV-T	60	£4,110,000	£68,500
WSHA	Manchester	EUV-SH	392	£10,530,000	£26,862
WSHA	Preston	EUV-SH	265	£9,780,000	£36,906
WSHA	Salford	EUV-SH	157	£5,220,000	£33,248
WSHA	Widnes	EUV-SH	81	£4,010,000	£49,506
WSHA	Bolton Long Lane	MV-T	218	£9,680,000	£44,404
WSHA	Bolton Platt Hill	MV-T	356	£12,270,000	£34,466
WSHA	Warrington	MV-T	475	£19,350,000	£40,737
WSHA	Middlesbrough Central	EUV-SH	148	£2,510,000	£16,959
WSHA	South Shields Cleadon EUV-SH	EUV-SH	61	£1,490,000	£24,426
WSHA	Barrack Road	MV-T	138	£5,080,000	£36,812
WSHA	Middlesbrough	MV-T	496	£17,930,000	£36,149
WSHA	South Shields Cleadon MV-T	MV-T	453	£19,170,000	£42,318
WSHA	South Shields Tyne Dock	MV-T	298	£8,830,000	£29,631
WSHA	Abbey Hulton	EUV-SH	355	£9,700,000	£27,324
WSHA	Birmingham	EUV-SH	324	£11,320,000	£34,938
WSHA	Kidsgrove	EUV-SH	81	£3,080,000	£38,025
WSHA	Leicester	EUV-SH	252	£9,320,000	£36,984
WSHA	Rugby GN	EUV-SH	391	£20,150,000	£51,535
WSHA	Rugby Shared Ownership	EUV-SH	1	£53,000	£53,000
WSHA	Stafford	EUV-SH	154	£7,250,000	£47,078
WSHA	Tamworth	EUV-SH	343	£11,510,000	£33,557
WSHA	Nottingham	MV-T	125	£4,210,000	£33,680
WSHA	Trent Vale	MV-T	314	£12,500,000	£39,809
WSHA	Bethnal Green	EUV-SH	190	£13,540,000	£71,263
WSHA	Islington EUV-SH	EUV-SH	27	£2,480,000	£91,852
WSHA	Rotherhithe	EUV-SH	143	£10,410,000	£72,797
WSHA	St Quintin	EUV-SH	481	£39,590,000	£82,308
WSHA	City Road	MV-T	107	£17,910,000	£167,383
WSHA	Islington MV-T	MV-T	141	£18,410,000	£130,567
WSHA	Kingston-upon-Thames	MV-T	147	£22,700,000	£154,422
			36421	£2,000,673,000	

Affinity Sutton Bond Issue 2012
MV-T Assumptions for the former WSHA Properties

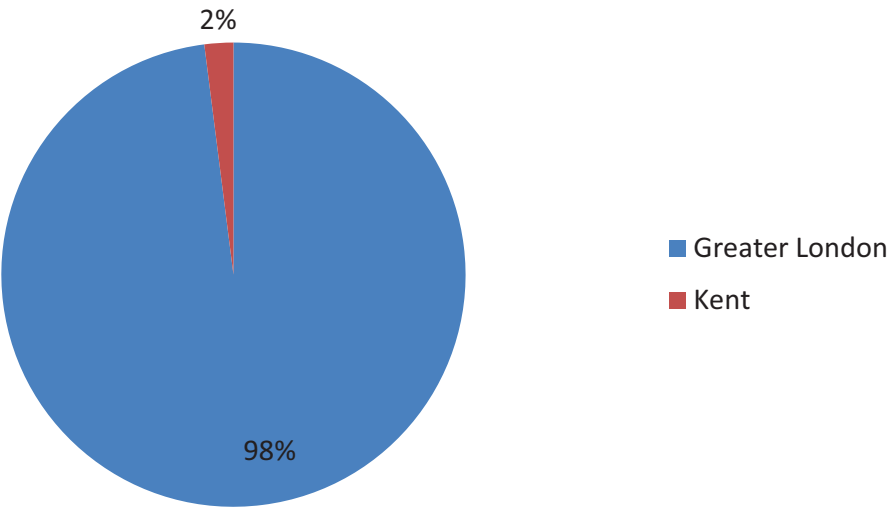
Area	Town	Estate	Long Term		Management	Major Repairs (yrs 1-2)	Cyclical repairs	Day to day repairs	Discount Rate		Rent Restructuring	House Sales	Flat Sales	Voids 1-3	Voids 4-5	Voids 6+
			Voids (%)	Cost					Income	Sales						
London	London	City Road	4.0%	10%		£1,500	£250	£325	7.50%	9.25%	3 years	3%	4%	8%	6%	4%
London	London, N1	Islington	4.0%	10%		£1,750	£250	£325	7.50%	9.25%	4 years	3%	4%	10%	8%	4%
London	London	Kingston-upon-Thames	4.0%	10%		£1,250	£250	£325	7.75%	9.50%	3 years	3%	4%	8%	6%	4%
Midlands	Nottingham	Nottingham	4.0%	10%		£1,000	£250	£325	8.50%	10.25%	3 years	3%	4%	8%	6%	4%
Midlands	Stoke	Trent Vale	4.0%	10%		£1,000	£250	£325	8.50%	10.25%	3 years	3%	4%	8%	6%	4%
North-east	Newcastle	Barrack Road	5.0%	10%		£1,275	£275	£325	8.75%	10.75%	3 years	13%	5%	8%	6%	5%
North-east	Middlesbrough	Middlesbrough	5.0%	10%		£1,025	£275	£325	8.75%	10.75%	3 years	4%	6%	6%	6%	5%
North-east	Newcastle	South Shields Cleadon MV-T	5.0%	10%		£1,025	£275	£325	8.75%	10.75%	3 years	3%	4%	8%	6%	4%
North-east	Newcastle	South Shields Tyne Dock	5.0%	10%		£1,025	£275	£325	8.75%	10.75%	1 years	3%	4%	8%	6%	4%
North-west	Bolton	Bolton Long Lane	5.0%	10%		£1,025	£275	£325	8.50%	10.25%	3 years	3%	4%	8%	6%	4%
North-west	Bolton	Bolton Platt Hill	5.0%	10%		£1,025	£275	£325	8.50%	10.25%	3 years	3%	4%	8%	6%	4%
North-west	Warrington	Warrington	5.0%	10%		£1,025	£275	£325	8.50%	10.25%	3 years	3%	4%	8%	6%	4%
South-east	Bedford	Bedford	4.0%	10%		£1,025	£275	£325	7.75%	9.50%	3 years	8%	5%	7%	4%	4%
South-east	Bedfordshire	Bedford Kempston	4.0%	10%		£1,025	£275	£325	7.75%	9.50%	3 years	6%	10%	7%	5%	4%
South-east	Chelmsford	Chelmsford MV-T	4.0%	10%		£1,275	£275	£325	7.75%	9.50%	3 years	3%	4%	8%	6%	4%
South-east	Hemel Hempstead	Hemel Hempstead Grovehill MV.	4.0%	10%		£1,275	£275	£325	7.75%	9.50%	3 years	3%	5%	8%	6%	4%
South-east	Milton Keynes	Milton Keynes GN	4.0%	10%		£1,275	£275	£325	7.75%	9.50%	3 years	3%	4%	8%	6%	4%
South-west	Plymouth	Barne Barton	5.0%	10%		£1,525	£275	£325	8.50%	10.25%	3 years	4%	5%	8%	6%	4%
South-west	Bristol	Bristol	4.0%	10%		£1,525	£275	£325	8.00%	9.75%	3 years	3%	4%	9%	7%	4%
South-west	Plymouth	Central Plymouth	5.0%	10%		£1,525	£275	£325	8.25%	10.00%	3 years	4%	5%	8%	6%	4%
South-west	Plymouth	Crownhill Plymouth	4.0%	10%		£1,525	£275	£325	8.25%	10.00%	3 years	4%	6%	8%	6%	4%
South-west	Exeter	Exeter	4.0%	10%		£1,525	£275	£325	8.00%	9.75%	3 years	4%	5%	8%	6%	4%
South-west	Plymouth	Leigham	4.0%	10%		£1,525	£275	£325	8.25%	10.00%	3 years	4%	5%	8%	6%	4%
South-west	Plymouth	Plymouth Ferndale Road	4.0%	10%		£1,525	£275	£325	8.25%	10.00%	3 years	4%	5%	8%	6%	4%
South-west	Plymouth	St Budeaux	4.0%	10%		£1,525	£275	£325	8.25%	10.00%	3 years	4%	5%	8%	6%	4%
Yorkshire	Bradford	Bradford MV-T	5.0%	10%		£1,025	£275	£325	8.50%	10.25%	3 years	3%	4%	8%	6%	4%
Yorkshire	Leeds	Leeds Killingbeck	4.0%	10%		£1,025	£275	£325	8.50%	10.25%	3 years	3%	4%	8%	6%	4%

Affinity Sutton Bond Issue 2012
EUV-SH Assumptions for the former WSHA Properties

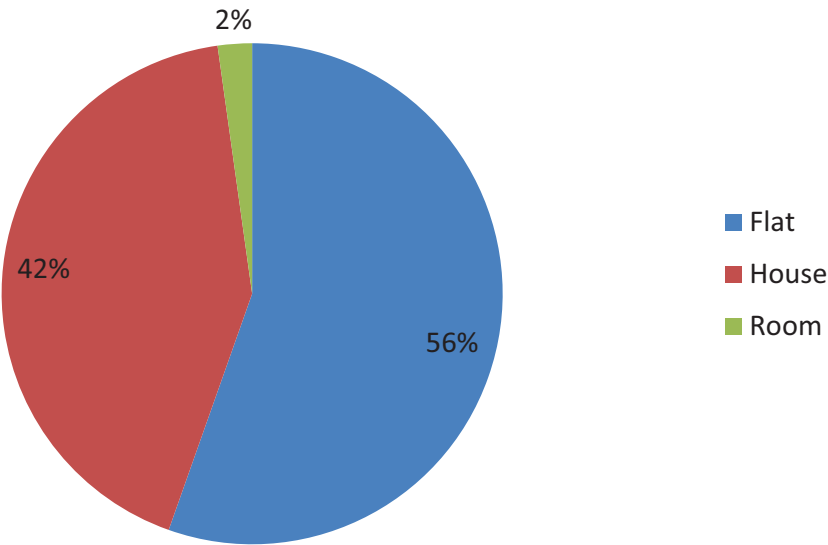
Area	Town	Estate	Voids (%)	Management Cost	Major Repairs	Cyclical repairs	Day to day repairs	Discount Rates (income %)
London	London	Bethnal Green	2.0%	£600	£575	£300	£425	5.50%
London	London, N1	Islington	2.0%	£600	£575	£300	£425	5.50%
London	London SE16	Rotherhithe	2.5%	£600	£575	£300	£425	5.50%
London	London W10	St Quintin	3.0%	£600	£575	£300	£425	5.50%
Midlands	Stoke	Abbey Hulton	2.0%	£575	£625	£300	£425	6.00%
Midlands	Birmingham	Birmingham	4.0%	£575	£575	£300	£425	6.00%
Midlands	Stoke	Kidsgrove	2.0%	£575	£600	£300	£425	6.00%
Midlands	Leicester	Leicester	2.0%	£575	£600	£300	£425	5.75%
Midlands	Rugby	Rugby GN	2.0%	£575	£575	£300	£425	5.75%
Midlands	Stafford	Stafford	2.0%	£575	£575	£300	£425	5.75%
Midlands	Tamworth	Tamworth	2.0%	£575	£575	£300	£425	5.75%
North-east	Middlesbrough	Middlesbrough Central	3.0%	£550	£575	£300	£425	6.50%
North-east	Newcastle	South Shields Cleadon	2.5%	£550	£575	£300	£425	6.50%
North-west	Manchester	Manchester	5.0%	£550	£575	£300	£425	6.75%
North-west	Preston	Preston	2.5%	£550	£575	£300	£425	6.00%
North-west	Salford	Salford	4.0%	£550	£575	£300	£425	6.50%
North-west	Widnes	Widnes	2.0%	£550	£575	£300	£425	6.00%
South-east	Borehamwood	Borehamwood GN	3.0%	£600	£1,475	£300	£425	5.50%
South-east	Bracknell	Bracknell GN	2.0%	£575	£550	£300	£425	5.50%
South-east	Chelmsford	Chelmsford	2.0%	£575	£550	£300	£425	5.50%
South-east	Hemel Hempstead	Hemel Hempstead Grovehill	2.0%	£575	£550	£300	£425	5.50%
South-east	Hitchin	Hitchin	2.0%	£575	£550	£300	£425	5.50%
South-east	Leatherhead	Leatherhead	2.0%	£575	£550	£300	£425	5.50%
South-east	Letchworth	Letchworth	2.0%	£575	£550	£300	£425	5.50%
South-east	Luton	Luton	2.0%	£575	£575	£300	£425	5.50%
South-east	Milton Keynes	Milton Keynes GN	2.0%	£575	£550	£300	£425	5.50%
South-east	Stevenage	Stevenage GN	2.0%	£575	£550	£300	£425	5.50%
South-west	Plymouth	Barne Barton	2.0%	£575	£575	£300	£425	6.00%
South-west	Exeter	Bradinch	2.0%	£575	£550	£300	£425	5.75%
South-west	Exeter	Exeter	2.0%	£575	£575	£300	£425	5.50%
South-west	Teignbridge	Teignbridge	2.0%	£575	£550	£300	£425	5.75%
UK Wide	UK Wide	Supported	4.0%	£625	£625	£325	£425	6.50%
Yorkshire	Bradford	Bradford	3.5%	£550	£575	£300	£425	6.00%
Yorkshire	Chesterfield	Chesterfield	2.0%	£550	£575	£300	£425	6.00%
Yorkshire	Hull	Hull	2.5%	£550	£575	£300	£425	6.00%
Yorkshire	Hull	Hull Central	3.0%	£550	£575	£300	£425	6.00%
Yorkshire	Leeds	Leeds Selby Road	2.5%	£550	£575	£300	£425	6.00%
Yorkshire	Sheffield	Sheffield	2.5%	£550	£575	£300	£425	6.00%

Properties formerly owned by Broomleigh

Distribution of Value by Location

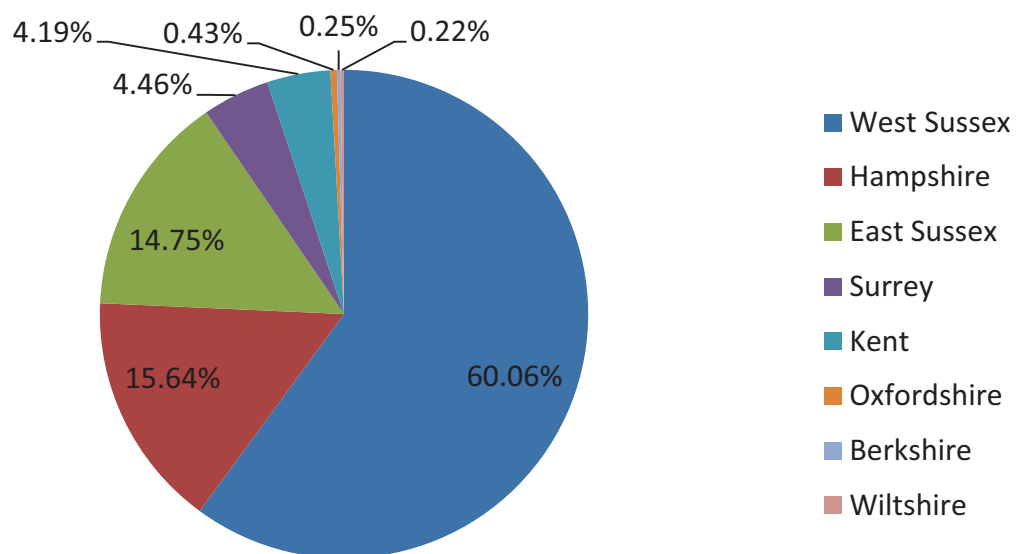


Distribution of Value by Property Type

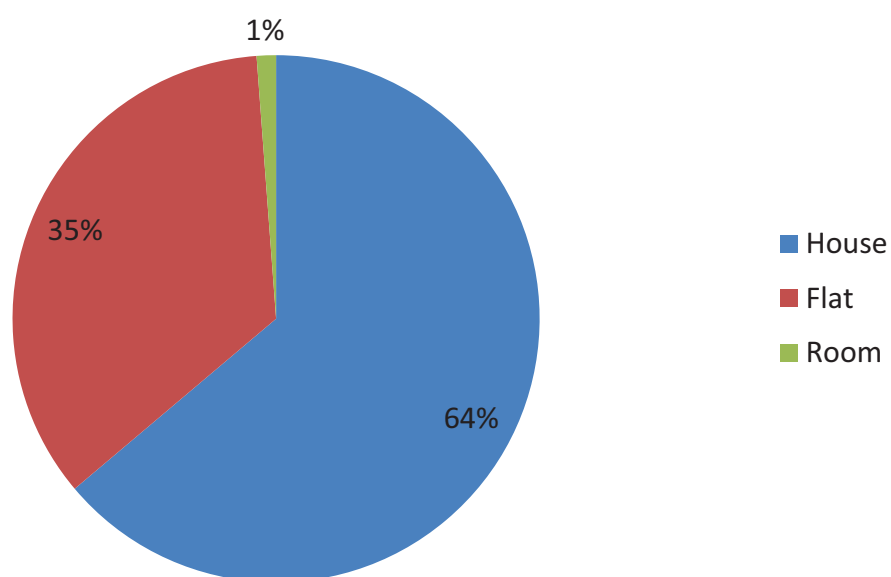


Properties formerly owned by Downland

Distribution of Value by Location

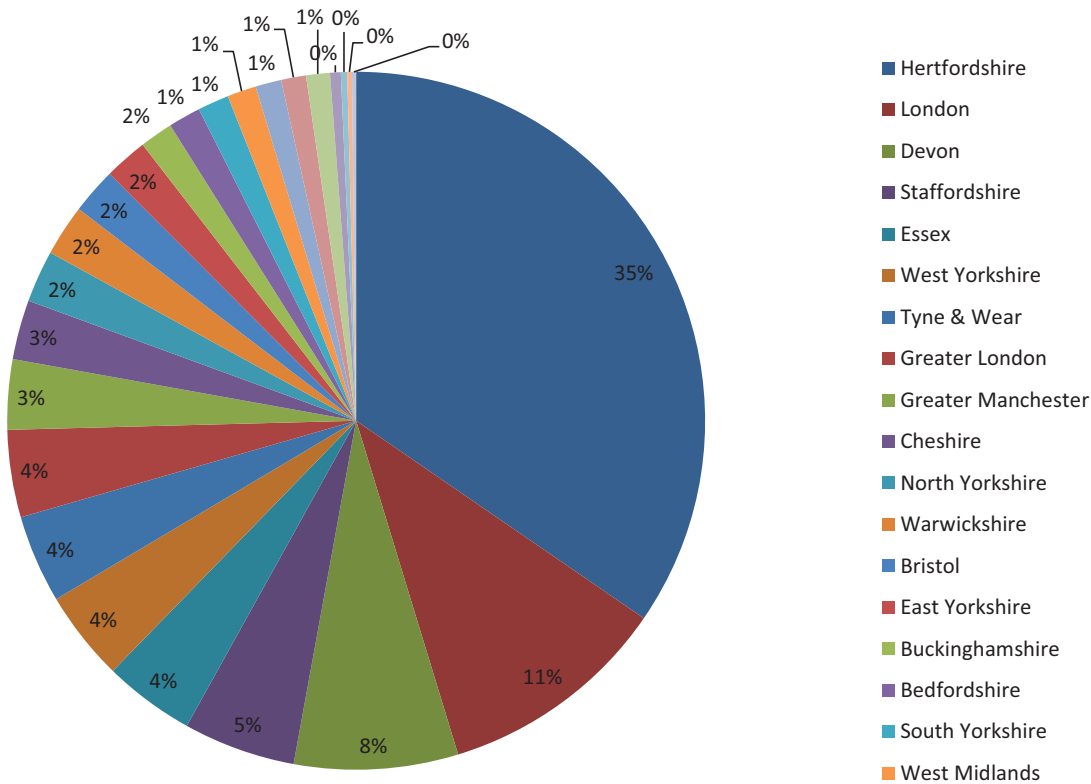


Distribution of Value by Property Type

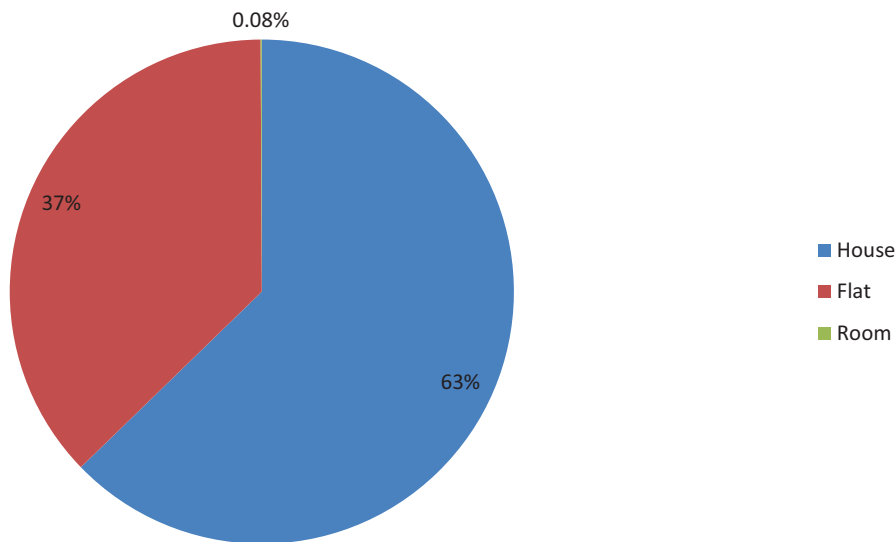


Properties formerly owned by William Sutton Housing Association

Distribution of Value by Location



Distribution of Value by Property Type



Appendix 5

Photographs



BR2, Churchfields Leaves Green Road



BR2, Kingsdown Way



BR2, Mead Way



BR5, St Mary Cray



BR6, Cambray Road



BR6, Chelsfield



BR6, Green Street Green



BR6, Pratts Bottom



CR0, Parkway



DA12, Aurora Court



DA14, Maidstone Road



EN6, Ashwood Road



EN6, Crossoaks Lane



EN6, Aston Way



ME1, Summerson Close



TN16, Biggin Hill



WD6, Aldenham Road



WD6, Beethoven Road



WD6, Elstree Hill North



WD7, Beagle Close



WD7, Fairfield Close



WD7, Loom Lane



WD7, Orchard Close



WD7, Phillimore Court



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TAXATION

United Kingdom Taxation

The following applies only to persons who are the beneficial owners of Bonds and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating to certain aspects of United Kingdom taxation. This is not intended to be a complete analysis of all tax consequences relating to the ownership of the Bonds. Some aspects do not apply to certain classes of person (such as dealers and persons connected with the Issuer) to whom special rules may apply. The United Kingdom tax treatment of prospective Bondholders depends on their individual circumstances and may be subject to change at any time in the future, possibly with retrospective effect. Prospective Bondholders should seek their own professional advice concerning the tax consequences of their particular situation.

A. Interest on the Bonds

1. *Payment of interest on the Bonds*

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

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

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

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

2. *EU Savings Directive*

Under EC Council Directive 2003/48/EC (the **Directive**) on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any paying agent nor any other person would be obliged to pay additional amounts to the holder of the Bonds or to otherwise compensate the holder of the Bonds for the reduction in the amounts that they will receive as a result of the imposition of such withholding tax.

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

3. *Further United Kingdom Income Tax Issues*

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

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

B. United Kingdom Corporation Tax Payers

4. In general, Bondholders which are within the charge to United Kingdom corporation tax will be charged to tax as income on all returns, profits or gains on, and fluctuations in value of, the Bonds (whether attributable to currency fluctuations or otherwise) broadly in accordance with their statutory accounting treatment.

C. Other United Kingdom Tax Payers

5. *Taxation of Chargeable Gains*

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

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

6. *Accrued Income Scheme*

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

7. *Taxation of Discount*

HM Revenue & Customs' published practice is that securities having similar terms of early redemption as the Bonds are not treated by HM Revenue & Customs as "deeply discounted securities" and accordingly the Bonds should not be treated as "deeply discounted securities" for the purposes of Chapter 8 of Part 4 of the Income Tax (Trading and Other Income) Act 2005.

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

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

SUBSCRIPTION AND SALE

The Joint Bookrunners have, in a subscription agreement (the **Subscription Agreement**) dated 3rd October, 2012, agreed to subscribe or procure subscribers for the Bonds at the issue price of 98.912 per cent. of the principal amount of the Bonds, less a combined selling, management and underwriting commission. The Issuer will also reimburse the Joint Bookrunners in respect of certain of their expenses, and has agreed to indemnify the Joint Bookrunners against certain liabilities, incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment of the Issuer.

United States

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

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

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

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

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

United Kingdom

Each Joint Bookrunners has represented and agreed that:

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

General

Each Joint Bookrunners has agreed that it will, to the best of its knowledge and belief, comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Bonds or possesses or distributes this Offering Circular and will obtain any consent, approval or permission which is, to the best of its knowledge and belief, required by it for the purchase, offer, sale or delivery by it of Bonds under the laws and regulations in force in any

jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor the Bond Trustee shall have any responsibility therefor.

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

GENERAL INFORMATION

Authorisation

The issue of Bonds has been duly authorised by a resolution of the Board of Directors of the Issuer dated 13th September, 2012.

Listing of Bonds

The admission of the Bonds to the Official List will be expressed as a percentage of their principal amount. It is expected that the official listing will be granted on or about 8th October, 2012 subject only to the issue of the Temporary Global Bond. Application has been made to the UK Listing Authority for the Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on the London Stock Exchange's regulated market.

The Issuer estimates that the total expenses related to the admission to trading will be £8,015. The Group Borrower shall pay to the Issuer, *inter alia*, an amount equal to such expenses in accordance with Clause 19 (*Expenses*) of the Loan Agreement.

Documents Available

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

- (a) the constitutional documents of the Issuer, the Group Borrower and each of the Borrowers;
- (b) the audited financial statements of the Group Borrower and the Issuer in respect of the financial years ended 31st March, 2011 and 31st March, 2012, together with the audit reports prepared in connection therewith. The Group Borrower and the Issuer currently prepare audited accounts on an annual basis;
- (c) the audited financial statements of the Original Borrower in respect of the financial year ended 31st March, 2012, together with the audit report prepared in connection therewith. The Original Borrower currently prepares audited accounts on an annual basis;
- (d) the audited financial statements of Broomleigh Housing Association Limited, Downland Housing Association Limited and William Sutton Housing Association Limited, each in respect of the financial year ended 31st March, 2011, together with the audit reports prepared in connection therewith;
- (e) the audited consolidated financial statements for Affinity Sutton Group Limited in respect of the financial years ended 31st March, 2011 and 31st March, 2012, together with the audit reports prepared in connection therewith;
- (f) the most recently published audited financial statements of the Group Borrower, the Issuer and the Original Borrower, in each case together with any audit reports prepared in connection therewith;
- (g) the Bond Trust Deed, the Agency Agreement, the Transaction Account Agreement, the Security Account Agreement, the Custody Agreement, the Loan Agreement, the Security Trust Deed, the Security Agreements and the Intra-group Loan Agreements;

- (h) the Valuation Report;
- (i) a copy of this Offering Circular; and
- (j) any future offering circulars, prospectuses, information memoranda and supplements to this Offering Circular and any other documents incorporated therein by reference.

Clearing Systems

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN for this issue is XS0838863586 and the Common Code is 083886358.

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

Significant or Material Change

There has been no material adverse change in the financial position or prospects of the Issuer since 31st March, 2012.

There has been no significant change in the financial or trading position of the Group Borrower since 31st March, 2012 and there has been no material adverse change in the prospects of the Group Borrower since 31st March, 2012.

There has been no significant change in the financial or trading position of the Original Borrower since 31st March, 2012 and there has been no material adverse change in the prospects of the Original Borrower since 31st March, 2012.

Litigation

None of the Issuer, the Group Borrower or the Original Borrower is nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer, the Group Borrower or, as applicable, the Original Borrower is aware) in the 12 months preceding the date of this Offering Circular which may have or has in such period had a significant effect on the Issuer's, the Group Borrower's or, as applicable, the Original Borrower's financial position or profitability.

Auditors

The auditors of the Issuer, the Group Borrower and the Original Borrower are KPMG, LLP Chartered Accountants, Registered Auditor, who have audited (a) the Issuer's and the Group Borrower's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for each of the two financial years ended on 31st March 2011 and 31st March, 2012 and (b) the Original Borrower's accounts, without qualification, in accordance with generally accepted auditing standards in the United Kingdom for the financial year ended on 31st March, 2012.

The auditors of the Issuer, the Group Borrower and the Original Borrower have no material interest in the Issuer, the Group Borrower or the Original Borrower.

Post-issuance information

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

Joint Bookrunners transacting with the Issuer, the Group Borrower or the Borrowers

The Joint Bookrunners and their respective affiliates may in the future engage in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer, the Group Borrower and/or any of the Borrowers and their affiliates in the ordinary course of business.

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TRANSACTION ACCOUNT BANK

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company**
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London EC2V 7AE

RBC Europe Limited
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2 Swan Lane
London EC4R 3BF

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and the Bond Trustee as to English law*

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Linklaters LLP
One Silk Street
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