



Private & Confidential

Michael Lockwood

The Director

Local Capital Finance Company Limited

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23rd September 2014

Dear Sirs

Investment in Local Capital Finance Company Limited (the Company)

We refer to our discussions and set out below the basis on which we wish to invest in the first round of the Company's proposed fundraising (the **Subscription**). In this letter, the **Mobilisation Phase** refers to the period of time between completion of the Company's first round of fundraising following the receipt of commitments in respect of at least £900,000, or such other amount as the Board of the Company may determine (the **First Fundraising**) and completion of the propose subsequent round(s) of fundraising, following receipt of commitments in respect of at least £8,000,000, taking account of investments made in the First Fundraising, or such other amount as the Board of Directors may determine (the **Second Fundraising**).

1 Application for shares

Subject to the terms of this letter, we hereby irrevocably agree to subscribe for **40,000** ordinary shares of 1 pence each in the capital of the Company (the **Subscription Shares**) for a consideration of **£40,000.00** (the **Subscription Amount**) representing a price of £1 per ordinary share.

2 Confirmations

We confirm, represent, warrant, undertake and acknowledge to the Company (as appropriate) that:

- (a) we have the power and capacity to enter into this letter and perform our obligations under it and have obtained all requisite governmental or other consents which may be required to be obtained by us in connection with our subscription for Subscription Shares;
- (b) we will subscribe for the Subscription Shares and will pay for the same a monetary amount equal to the Subscription Amount;
- (c) our obligations under this letter are irrevocable and legally binding and shall not be capable of rescission or termination by us in any circumstances;
- (d) we are a "qualified investor" as defined in section 86 of Financial Services and Markets Act 2000 (**FSMA**) and qualify for one of the following exemptions to s21 of FSMA as either (i) an "investment professional" within the definition in Article 19(5) of the FSMA

Director: Ian Floyd

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(Financial Promotion) Order 2005 (FPO) which includes local authorities; or (ii) one of the categories of persons referred to in Article 49(2) (a) to (d) of the FPO namely, high net worth companies, unincorporated associations, partnerships or trustees of high value trusts;

- (e) we have been advised by the Company that the Subscription is subject to the articles of association of the Company which we acknowledge will include provisions, among others, to the following effect:
 - (i) that the ordinary shares in the Company held by the Local Government Association (the **LGA** and the **LGA Shares**) will form a separate class to the other ordinary shares in the Company and will carry, until completion of the Mobilisation Phase, the right to cast at least 75 per cent. of the shareholder voting rights in the Company and, following completion of the Mobilisation Phase, will retain certain veto rights designed principally to ensure that the Company remains committed to its original purpose and philosophy;
 - (ii) that the voting rights of any other shareholder will be capped so that no shareholder may hold more than 5 per cent. of the total shareholder voting rights in the Company, regardless of the number of shares held;
 - (iii) that all of the shares in the Company will have equivalent economic rights, including with regard to entitlement to dividends; and
 - (iv) that we may not transfer our shares until completion of the Second Fundraising or thereafter subject to Board approval;
- (f) we have funds available to pay the full amount for the Subscription Shares as and when due;
- (g) we can afford a complete loss of the investment in Subscription Shares and can afford to hold the investment in the Subscription Shares for an indefinite period of time and are acquiring the Subscription Shares subscribed for herein for investment purposes only and not with a view to distribution or resale of such Subscription Shares;
- (h) we understand that there are substantial risks of loss of investment incidental to the Subscription and that the value of the Subscription Shares can go down as well as up, and accordingly on disposal our Subscription Shares may not realise the full amount of our investment;
- (i) we have taken the decision to subscribe for the Subscription Shares and that the Subscription Shares are a suitable investment for us, following our own investigation of the Company, the Subscription Shares, evaluation of the risks of investment and the terms under which we are subscribing for the Subscription Shares and relied on that investigation for the purposes of our decision to subscribe for Subscription Shares and are subscribing for the Subscription Shares solely on the basis of the information included in this letter and we are not relying on any information provided by the Company, the LGA or any of their respective directors, officers, agents or advisors and to the extent we have considered it appropriate to do so we have obtained independent professional advice on our investment decision;
- (j) we have such knowledge and experience in financial and business matters that we are capable of evaluating the merits and risks of investment in the Subscription Shares and are able to bear such risks and have obtained, in our judgment, sufficient information from the Company or its authorised representatives to evaluate the merits and risks of such investment;
- (k) in subscribing for the Subscription Shares we are not relying on any information (whether oral or written) provided by the Company or any representation, warranty,

agreement, statement or other assurance made by the Company, the LGA or any director, employee, advisor, representative or agent of the Company or the LGA prior to the date of this letter;

- (l) we agree and are aware that:
 - (i) the Company has no operating history upon which potential investors may evaluate its future performance;
 - (ii) there is no certainty that the definitive agreement(s) required for the implementation of the Company's proposals will be entered into, that they will become unconditional and/or that the transactions the subject thereof will be completed;
 - (iii) there is no certainty that other funding for the Company will be obtained and/or that the funding required will be sufficient to enable the Company to implement its proposed business plan; and
 - (iv) no government agency has passed upon the Subscription Shares or made any findings or determination as to the fairness of the Subscription;
- (m) to the best of our knowledge, we have not taken any action which will or may result in the Company, the LGA or any of their respective directors, officers, employees or agents acting in breach of any regulatory or legal requirements in connection with the Subscription and that our commitment under this letter constitutes a legal, valid and binding obligation on us;
- (n) whether or not explicitly stated in this letter any acknowledgement, covenant, consent, agreement or applicable representation and warranty made by us will be treated as if also made by any beneficial purchaser for whom we are acting;
- (o) except as otherwise disclosed in writing to the Company, we will be acquiring the Subscription Shares for our own account as principal and for no other person;
- (p) we have not received and will not receive a prospectus or other offering document in connection with our subscription for the Subscription Shares and we acknowledge that no prospectus or other offering document has been or will be prepared in connection with such subscription and we understand that no application has been made for any securities of the Company to be admitted to any market or stock exchange, and we have received no guarantee or undertaking that any such application will be made; and
- (q) we agree that the Company and its affiliates and others will rely upon the truth and accuracy of the representations, warranties, acknowledgements and undertakings contained in this letter in, inter alia, determining our suitability as a purchaser of the Subscription Shares and the Company's compliance with applicable laws and the representations, warranties, acknowledgements and undertakings contained in this letter are irrevocable and shall survive our becoming a shareholder.

3 Bonus Shares

- 3.1 We acknowledge that the Company will issue additional bonus shares to us at the closing of the Second Fundraising (the **Bonus Shares**).
- 3.2 The number of Bonus Shares which we will be issued shall be such number as may be required to ensure that the aggregate price paid by us for each of the ordinary shares held by us following the Bonus Issue (calculated by dividing the aggregate number of Subscription Shares and Bonus Shares held by us by the Subscription Amount) shall be one third lower than the average price per share of shares subscribed for in the Second Fundraising.

4 Closing

4.1 Closing will take place immediately upon execution of this letter.

4.2 At closing:

- (a) On a delivery against payment basis, we will transfer the Subscription Amount to you to the following bank account:

Account number: 25539493

Sort code: 560020

Account name: LGA RE: Bonds Agency Equity Holding Account

Address: Holborn Circus Branch, PO Box 201, 1 Hatton Garden, London, EC1P 1DU

- (b) On a delivery against payment basis, the Company will issue the Subscription Shares and enter our name in the register of members of the Company as the holders of the Subscription Shares and will issue and deliver to us share certificate(s) in respect of our shareholding.

4.3 Our share registration details (these details to be entered in the Register of Members of the Company) are as follows:

Name of registered shareholder:

City of York Council

Address of registered shareholder:

**City of York Council
West Offices
Station Rise
York
YO1 6GA**

Contact person:

Ross Brown

Telephone number of contact person:

01904 551207

5 Money Laundering

5.1 It is also a term of this agreement that to ensure compliance with the Money Laundering Regulations, the Company may (acting reasonably) require verification of our identity to the extent that we have not already provided the same.

5.2 If within a reasonable time after a request for verification of identity, the Company has not received evidence satisfactory to it the company may (acting reasonably) terminate this letter agreement in which event the monies payable by us will, if paid, be returned without interest, penalty or deduction to the account of the drawee bank from which they were originally debited.

6 Lock-in

From the date of this letter until the date on which the Second Fundraising is completed (or such earlier other date as the Company may decide in its absolute discretion), we hereby irrevocably undertake not to dispose of the Subscription Shares (or any shares derived from the Subscription Shares following any share capital re-organisation of the Company or any bonus share issue) (the **Lock-in Shares**) or any interest in the Lock-in Shares without the prior written consent of the Company. For these purposes, a disposal shall include a sale, an offer or agreement to sell, the grant of any option, right or warrant to purchase, a swap or other agreement or derivative transaction which transfers economic ownership in whole or in part, a gift, a lending, the creation of any mortgage, charge, pledge or other security interest and the exercise of any option to sell.

7 Second Fundraising

Our indicative commitment to the Second Fundraising is **£0.00** it being acknowledged that this indicative commitment is not legally binding and will be subject, among other things, to completion of our internal investment approval process and agreement of satisfactory legal documentation.

8 General

- 8.1 This letter contains the whole agreement between us relating to the transactions contemplated by this letter and supersedes all previous agreements relating to these transactions.
- 8.2 No variation or agreed termination of this letter will be of any force or effect unless in writing and signed by each party.
- 8.3 This letter is personal to the parties and no party shall, without the prior written consent of the other, assign, declare itself as trustee or otherwise dispose of or sub-contract, delegate, mortgage or charge any interest under this letter. No party shall sub-contract or delegate in any manner any or all of its obligations under this letter to any third party or agent. Each party is acting on its own behalf and not for the benefit of any other person.
- 8.4 A person who is not a party to this letter has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this letter but this does not affect any right or remedy of a third party which exists or is available apart from that Act.
- 8.5 This letter and any non-contractual obligations arising out of or connected with it shall be governed by English law.
- 8.6 The courts of England and Wales shall have exclusive jurisdiction to hear and decide any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with this letter.
- 8.7 This letter may be signed in counterpart.

This letter has been entered into on the date stated at the beginning of this letter.

Signed by  for and on behalf of **City of York Council** 30/9/14


Authorised Signatory

Accepted and acknowledged by **Local Capital Finance Company Limited**

Director: Ian Floyd

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Signed by MICHAEL LOCKWOOD

Michael Lockwood
Authorised Signatory

Director: Ian Floyd

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