The Housing Finance Corporation
Investor Non-Deal Update
December 2021

The Housing Finance Corporation Limited

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Presenters

Piers Williamson
CEO

Will Perry
Non-Executive Director and Chair of Nominations Committee

Arun Poobalasingam
Head of Relationship Management and Business Development

Will Stevenson
Deputy Treasurer and Relationship Manager

About THFC Group

- **THFC** is an independent, specialist, not-for-profit finance company that makes loans to regulated Housing Associations
- The National Housing Federation and the (English) Social Housing Regulator are both shareholders of THFC
- **THFC** funds itself through the issue of bonds to private investors and by borrowing from banks
- **THFC** currently provides over £7.87bn of long term funding to c.150 Housing Association borrower groups throughout the UK
- In 1999 THFC introduced the European Investment Bank to UK social housing and today remains their largest conduit for urban regeneration in Europe with £2.4bn of loans
- Growth has come primarily through MTN issuance by subsidiary **Blend Funding Plc** which, three years from inception, has already grown to over £1.2bn in 4 different maturities
- **THFC**, through its subsidiary **Affordable Housing Finance,** manages £3.2bn of loans guaranteed by the UK Government, under a long term Licence

THFC Group Structure

The Housing Finance Corporation Limited
Total Loans (THFC Limited) £2.841bn
8 August 2045

T.H.F.C. (Indexed 2) Limited
£19.808m
30 November 2024

~~**T.H.F.C. (First Variable) Limited**~~
~~£0.984m~~
~~28 April 2023*~~

T.H.F.C. (Social Housing Finance) Limited
£84.410m
30 September 2025***

T.H.F.C. (Services) Limited

Affordable Housing Finance PLC
£3.244bn
17 January 2048

bLEND Funding Plc
£770m
5 April 2054**

T.H.F.C. (Capital) Plc
£495.86m
31 March 2042

UK Rents (No.1) Plc
£15.893m
6 April 2025

Loan balances as of 31st March 2021
* THFC (First Variable) Ltd has been prepaid since 31st March 2021
** Since 31st March 2021 bLEND has added another series with a 2061 maturity, with total issuance at 1st December 2021 being £1.238bn
*** After scheduled loan maturities in December 2021 the outstanding balance will be £6.1m

Group & THFC Five Year Financial Record

Group

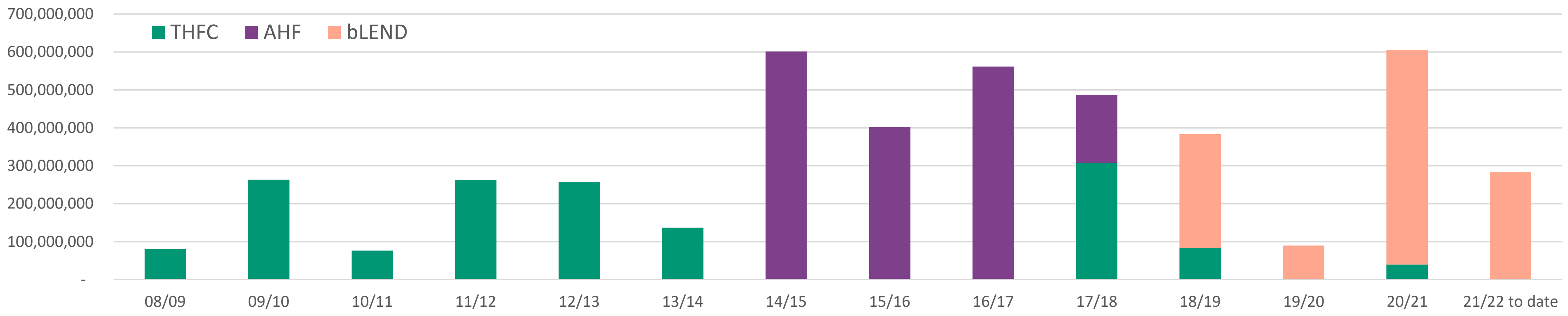
£000's	2017	2018	2019	2020	2021	2022 Fcast
Total Revenues	10,312	11,462	10,595	8,565	12,427	11,110
Total Costs	4,176	4,354	4,786	5,178	5,229	6,073
Surplus after tax	4,898	5,750	4,698	2,695	5,739	4,079
Net Pension Charge	-	-	(1,163)	909	(860)	-
Group Accum. Reserves	28,814	34,564	38,099	41,703	46,582	50,661
Group Nominal Loans Outstanding	5,702m	6,717m	7,036m	7,139m	7,470m	7,766m

THFC

£000's	2017	2018	2019	2020	2021	2022 Fcast
Surplus after tax	2,685	1,987	3,304	2,394	3,446	2,862*
THFC Accum. Reserves	17,671	19,658	22,962	25,356	28,802	31,664*
THFC Nominal Loans Outstanding	2,568m	2,727m	2,816m	2,826m	2,841m	2,844m

* Includes group dividend

THFC Track Record in Bond Issuance



Bond	Rating (S&P/Moodys)	Nominal Issued (£000's)
THFC (Funding No 1) 5.125% 2035/37	A/-	249,376,000
THFC (Funding No 2) 6.35% 2039/41	A/-	370,850,000
THFC (Funding No 3) 5.20% 2043/45*	A/-	1,055,300,000
Total THFC Rated Issuance		**1,675,526,000**
AHF 3.8% due 2042/44	AA/-	600,900,000
AHF 2.893% due 2043/45	AA/-	1,143,200,000
bLEND (MTN Programme)**	-/A2	1,238,000,000
Total THFC Group rated bonds in issue		**4,657,626,000**

THFC - S&P rated since 2004

bLEND – Moody's rated since 2018

* Includes retained bonds not yet sold
**Table and graph as of 1st December 2021

Strategy for Business Growth

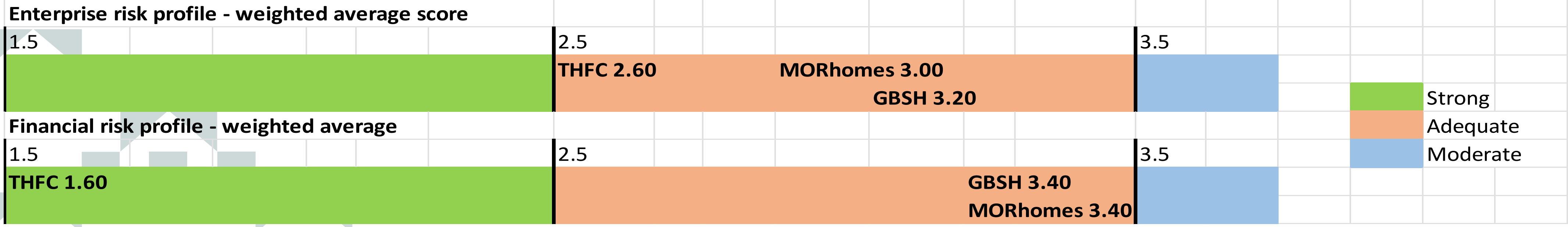
THFC's strong cash generation and stable earnings enables a two–pronged approach to business growth.

- THFC Board remains committed to **measured** growth based on risk appetite and sustainability.
  - THFC lending provides proven, timely access to the market
  - Investor familiarity with THFC (investing in THFC is differentiated from the alternative of a portfolio of own name bonds and private placements)
  - New vehicle in development, to ensure timely market access, continued competitiveness of THFC and to integrate ESG further into the core THFC brand.

- Growth of bLEND Funding PLC :
  - EMTN programme established August 2018
  - £1.238bn issued for 23 borrowers to date
  - Deferred drawdown capability through Forward Purchase Agreements with investors or in-house solution
  - Strong pipeline already identified for 2022
  - Original five year business plan achieved in three years
  - Fee income flows to THFC Services via Management Services Agreement
  - Non-recourse to THFC

THFC Rating and Peer Comparisons

		THFC	SACP/Rating	Trend	MoRHomes	SACP/Rating	Trend	GB SH	SACP/Rating	Trend
		Sep-21	a/A		Dec-21	a-/A-		Jul-21	a-/A-	
Enterprise risk profile	Weightings	THFC score			Mor score			GBSH score		
PICRA	40%	2	Strong	←	2	Strong	←	2	Strong	←
Business position	20%	3	Adequate	←	5	Weak	←	4	Moderate	←
Mgt & governance	40%	3	Adequate	←	3	Adequate	←	4	Moderate	←
Weighted average		2.60			3.00			3.20		
Rounded (per Table 1)		3			3			3		
		Adequate			Adequate			Adequate		
Financial Risk profile	Weightings	THFC score			Mor score			GBSH score		
Cap adequacy	40%	1	Very strong	←	4	Moderate	←	4	Moderate	←
Funding & liquidity	60%	2	Strong	←	3	Adequate	←	3	Adequate	←
Weighted average		1.60			3.40			3.4		
Rounded (per Table 1)		2			3			3		
		Strong			Adequate			Adequate		



THFC Management

Chief Executive
Piers Williamson
19 years

Executive Assistants

Group Treasurer
Fenella Edge
19 years

- Relationship Management
- Security Portfolio Management
- Treasury and Portfolio Management

- Head of RMs managing 4 RMs plus assistant RM – long experience at other lenders – up to 8 yrs at THFC
- Treasury team – 5-10yrs THFC experience
- Security charging team – qualified solicitor (5 yrs THFC), assistant (16 yrs THFC)

Finance Director and Company Secretary
Colin Burke
19 years

- Accounting and Finance
- Managed Companies – Monitoring and Reporting
- Company Secretarial
- IT strategy and infrastructure

- Finance Manager - qualified accountant - 18 yrs THFC
- 3 other Finance team members
- IT Director 3 yrs
- Recent recruitment to company secretarial and compliance role

Credit and Risk Director
David Stokes
9 years

- Borrower risk assessment
- Risk appetite
- Risk framework
- Credit grading models

- Credit and Risk Manager – long experience at other lender – 6 yrs THFC
- Additional team member – 4 yrs THFC

THFC Governance

- **THFC voluntarily complies with the FRC's UK Corporate Governance Code (2018)**
- **Compliance monitoring policies and processes** including anti-money laundering, anti-bribery; data protection; and other relevant legislation
- **Succession plan** in place
- **Independent board effectiveness reviews**
- **New group-wide policy on D&I to include Board**
- **Cyber security:** resilient cloud-centric operating model, regular penetration testing and audits, Cyber Essentials Plus accredited

Governance Structure

- Audit; Credit; Remuneration and Nominations Committees report to the Board and have delegated responsibilities.
- **Credit committee** assesses individual credit propositions and ongoing portfolio monitoring.
- **Regulator for Social Housing** and **National Housing Federation** each nominate a board member.

The board is responsible for:

- **Risk management:** robust assessments of principle and emerging risks, comprehensive risk management framework in place, administered by the audit and credit committees.
- Monitoring and reviewing the effectiveness of **the internal controls system.**
- **Considering conflicts of interest.**

BOARD

Chair: *George Blunden*

Non-executive members:

See next slide

Executive members:

Colin Burke, Fenella Edge, Piers Williamson

AUDIT COMMITTEE

CREDIT COMMITTEE

REMUNERATION COMMITTEE

NOMINATIONS COMMITTEE

THHFC Non Exec. Board Members

			AC	CC	RC	NC
George Blunden	Non-Executive Chairman. Former Chair of Southern Housing Group, Stonewater HA and Charity Bank.	Appointed 2019		×	×	
Scott Bottles	Former Executive Vice President and Senior Credit Officer for International Commercial Real Estate at Wells Fargo	Appointed 2018		×		
Shirley Smith*	Non-executive director at CREFC. Extensive experience in real estate and infrastructure finance.	Appointed 2018		×	×	×
Will Perry	Director of Strategy of the Regulator of Social Housing	Appointed 2014	×			×
Gill Payne	Former Executive Director of Public Impact of the National Housing Federation	Appointed 2014		×	×	×
Peter Impey	Various credit roles and former advisor to MHCLG on the first guarantee scheme. Nominee to AHF board since 2013	Appointed 2020		×		×
David Montague	Former Group Chief Executive of L&Q	Appointed 2020	×		×	
Guy Thomas	Chartered Accountant, Non-Executive Director of Sainsbury's Bank, Formerly Group Finance Director of Principality Building Society	Appointed 2019	×	×		
Tony King	Former Group Treasurer of Sanctuary Group	Appointed 2020	×	×		

AC – Audit Committee
CC – Credit Committee
RC – Remunerations Committee
NC – Nominations Committee

* Senior independent NED

ESG

In the sector

- 59 HA ‘early adopters’ of SRS
- Wider uptake of SRS expected with enhanced criteria reported on in 2022
- ESG data will help lenders mitigate climate risk and funders identify high impact investments
- ‘E’ remains hardest of the three for associations facing decarbonisation, with Regulator encouraging standards in ‘S’ and ‘G’
- Standardisation of ESG metrics evident in sector sustainable bonds
- No public social housing bond issued without Sustainable wrapper since April 2021 (except Saltaire’s guaranteed issuance)

THFC response

- THFC group framework allows for sustainable issuance across all entities
- ESG integration in THFC brand as part of new vehicle development

- Publication of *Retrofitting social housing: A funding roadmap* report by THFC and Buro Happold to pioneer solutions for sector’s decarbonisation challenge

Sector Thematic Review

- Covid
- Government Policy
- Programmes and funding requirements
- Remediation and fire safety
- Decarbonisation
- Sales risk and sales market confidence

Remediation and Fire Safety

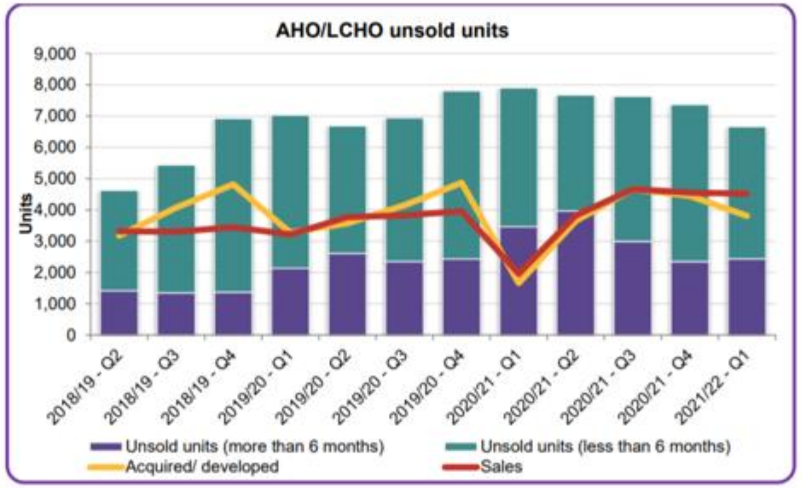
- THFC has collected data from nearly all borrowers and findings to date underline the magnitude of the task facing the sector. There are only 270 blocks in charge to the Group split broadly equally between THFC and AHF. Further work is being done to improve our understanding of the remedial works required, but all borrowers remain covenant compliant in terms of asset cover and income cover.
- THFC sampling of English borrowers' FFRs shows:
  - On average over 5 years, fire safety spend amounts to 5% of total Opex (inc. fire spend)
  - For one London borrower the spend is 29% of total Opex (inc. fire spend)
  - Measured by total fire safety spend over 5 years, the top 10 will spend a total of £1.8bn
- There are nearly 40 borrowers for whom fire safety spend is 'equivalent' to a 1% p.a. rent cut for 5 years
- Risks:
  - Freehold/Leasehold complexities
  - Inability to recoup all remediation costs from leaseholders and developers (often SPVs)
  - Perceived inadequacy of Government funding
  - Problems with availability of materials
  - Lack of qualified people especially fire safety inspectors
- But:
  - The number of *materially* affected HAs is quite small
  - Covenant carve-outs (where needed) seem to be ready forthcoming from sector lenders
  - All financial plans seen by THFC remain viable, even after factoring in fire safety spend

Decarbonisation

- UK housing stock contributes 18% of current carbon emissions
- Net zero carbon 2050 agenda gathers pace with several local authorities having approved even more ambitious targets
- Housing associations expected to retrofit stock to at least EPC ‘C’ by 2030 (rising to ‘A’ in Wales and ‘B’ by 2032 in Scotland)
- Cost of full decarbonisation of existing housing association stock by 2050 estimated at £100bn
- BEIS’ £3.8bn Social Housing Decarbonisation Fund has opened its first £160m wave to applications for fabric-first retrofit of ‘D’ or lower rated homes
- Funding remains single biggest obstacle to decarbonisation, as well as skills and materials shortages
- Scale of genuine zero-carbon development remains small, decarbonisation expected to continue to be a major sector topic for many years

Sales Risk

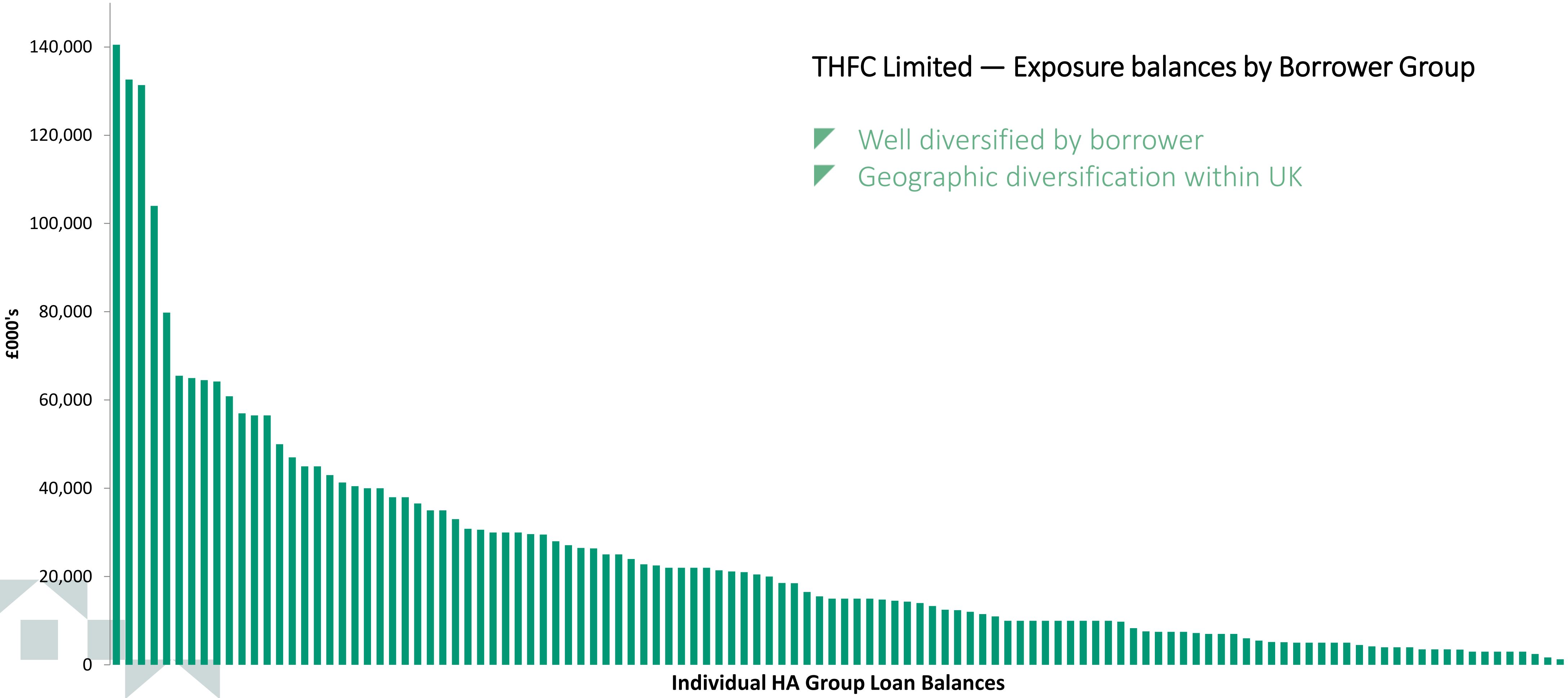
THFC monitors sales risk closely using its own data and also that published by the RSH. The charts below are taken from the RSH's most recent quarterly survey (Q2 – Sep 2021):



- The total number of unsold units decreased in the quarter by 10% to 8,317 (6,633 of these within THFC portfolio).
- Included in this total, and over the same period, unsold market sale units reduced sharply to 1,655 from the peak seen in December 2020.
- The number of units unsold for more than six months decreased slightly to 3,181 (2,687 within the THFC portfolio).
- Over half of the unsold market sale units reported at the end of the quarter were held by just five providers.
- THFC maintains a "sales tracker" spreadsheet and submits a quarterly report on "high sales risk" borrowers to its credit committee.

THFC Limited

THFC Limited Loan Portfolio



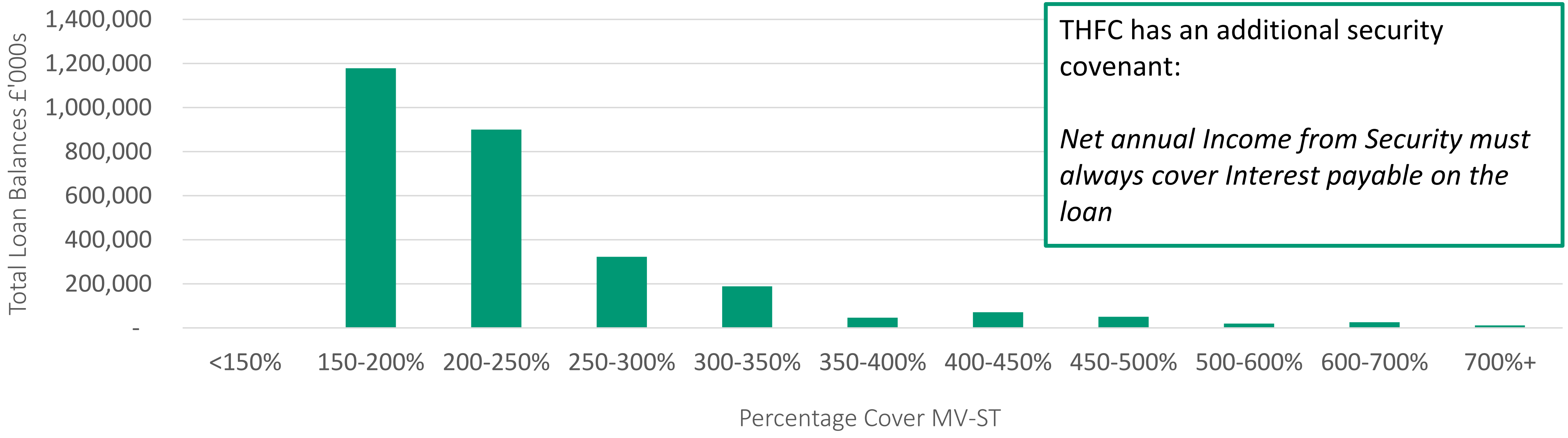
THFC Limited — Exposure balances by Borrower Group

- Well diversified by borrower
- Geographic diversification within UK

As at 31 March 2021

Strong Over-Collateralisation in THFC Limited

Fixed Charge Asset Cover – 31 March 2021



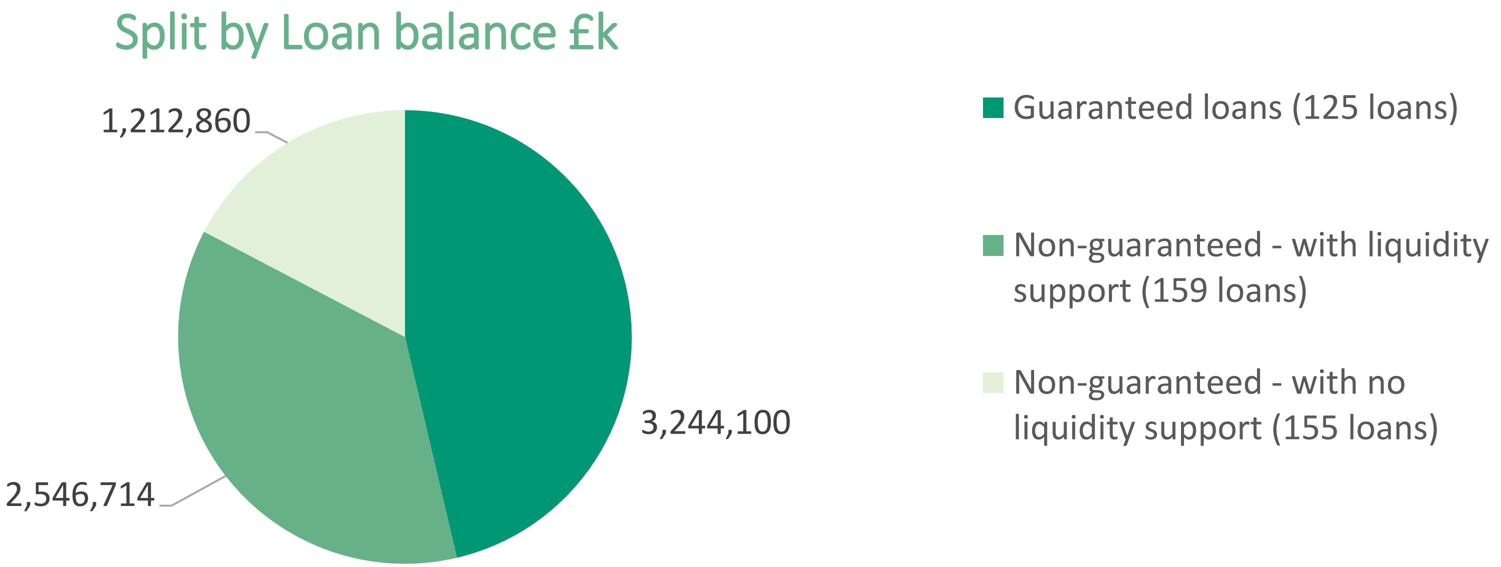
THFC has an additional security covenant:

Net annual Income from Security must always cover Interest payable on the loan

- Withdrawal threshold at 200% improves over-collateralisation over the long term
- Significantly more conservative compared to own-name bond issues where 115% MVT cover is the norm
- But this makes THFC Ltd less competitive hence need for strategic brand refresh

Loans with Bespoke Liquidity Support

- THFC Limited – all loans funded by rated bonds, and a number of additional loans, have bespoke liquidity support.
- All new loans in THFC Group since 2014 (including THFC, AHF and bLEND) have debt service/liquidity reserves.
- Liquidity support is sized at 12 months interest as a minimum (24 months for loans funded by THFC Funding No 1 bonds) and all liquidity support is held as cash or gilts.
- Over 60% of the non-guaranteed portfolio has bespoke liquidity support – projected to rise to around 80% in five years.

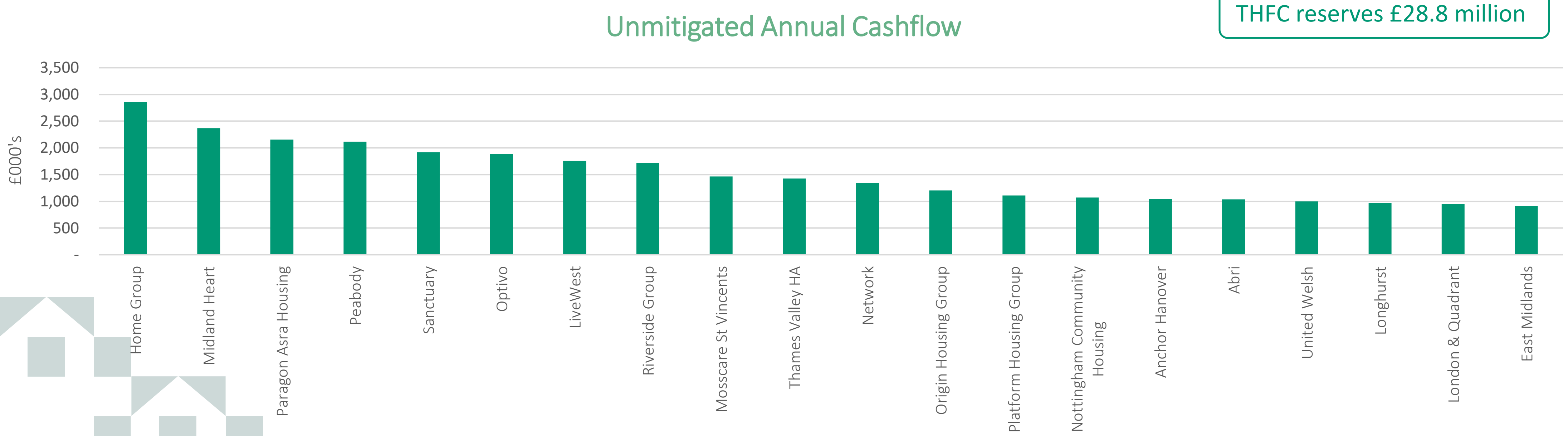


As at 31 March 2021

Loans with No Bespoke Liquidity Support

- Loans funded by Debenture Stocks and bank loans.
- THFC can utilise its own reserves to temporarily cover cash-flow shortfalls while enforcing security in relation to the defaulted loan and realising proceeds of sale.
- Key metric for each borrower – **total annual cashflow due, with no liquidity risk mitigation.**
- Top 20 exposures below – THFC Limited only. Includes capital repayments for amortising loans but bullet maturities monitored separately.

THFC reserves £28.8 million



As at 31 March 2021

bLEND track record

- bLEND now well established and Moody's credit process working well
- 2047 and 2054 series now both of benchmark size
- 23 borrowers as of 1st December 2021
- £1,238m issued to date — portfolio originally targeted to reach £1bn within five years
- £250m of deferred drawdown loans written, £130m priced pending drawn down
- Fee income flows to THFC Services via Management Services Agreement
- Focus on selective growth within the target client group
- All bonds Social or Sustainability (2061 series) after 2021 conversions
- Over £800m issued in last 18 months at sub-2.5%

bLEND rated A2 by Moody's

Rated by Moody's under its Public Sector Pool Financings Methodology

Pool Participant Ratings

- Pool participants are either rated publicly by Moody's or privately by Moody's
- Privately rated borrowers submit the same information as for a Moody's public rating

Pool Rating

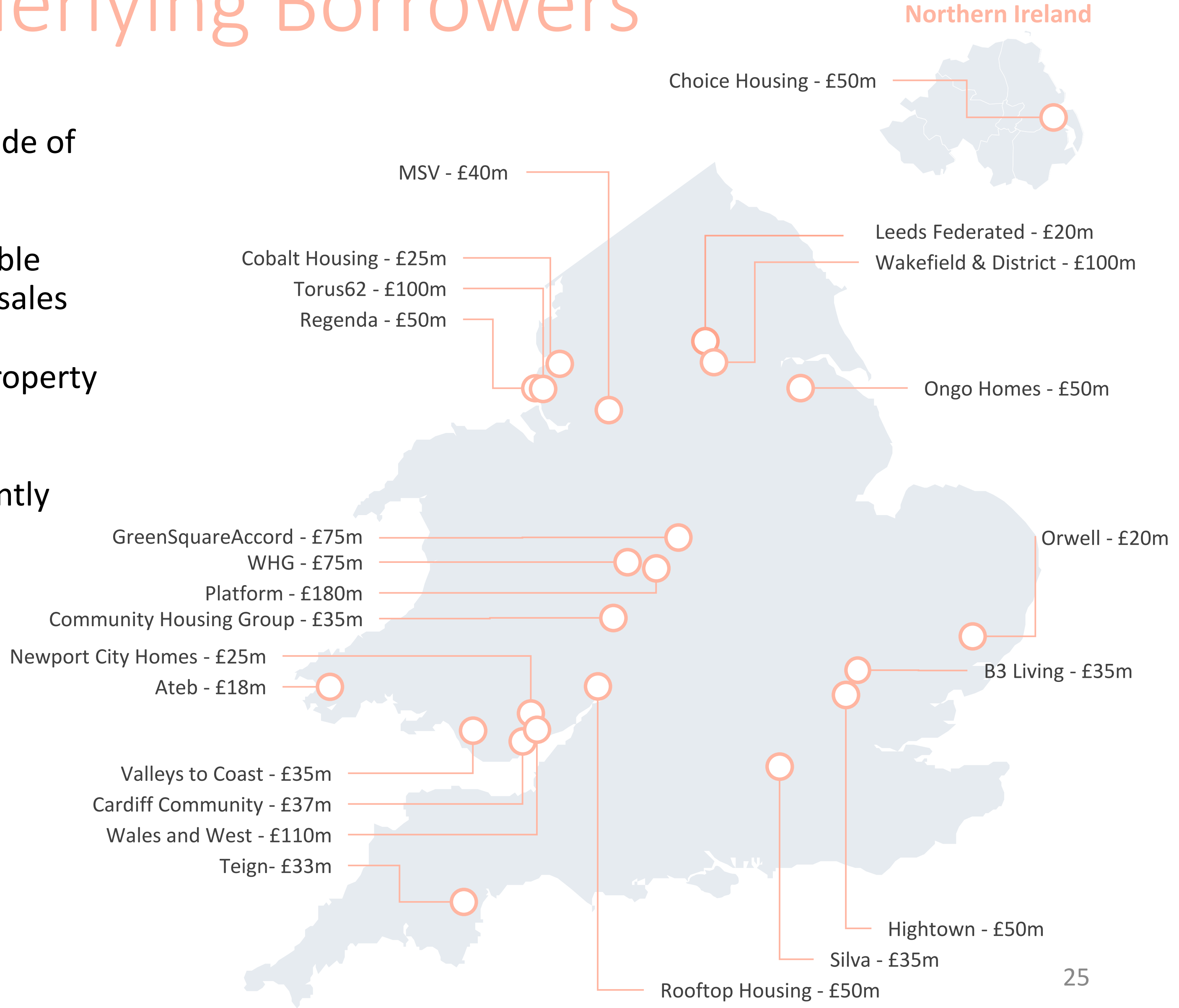
- The pool rating outcome reflects the weighted average credit quality (subject to concentration limits)
- The rating is of the whole pool of loans funded by all series of Notes
- A new borrower cannot be added to the pool if that would result in a downgrade of the programme
- Aggregate rating of portfolio at A2 - reflecting a stronger than average credit profile, based on the distribution of Moody's public HA ratings
- A2 builds in resilience in case of UK Sovereign downgrade or Social Housing sector downgrade

BLEND – Underlying Borrowers

- Geographically diverse portfolio with a focus outside of London.
- Development plans are for predominantly affordable housing with limited exposure to outright market sales
- Loans are always fully secured by either cash or Property Security
- Borrower business model focussed on predominantly social and affordable housing

Further info available at https://blendfundingplc.com/portfolio-data/ including ESG portfolio reporting.

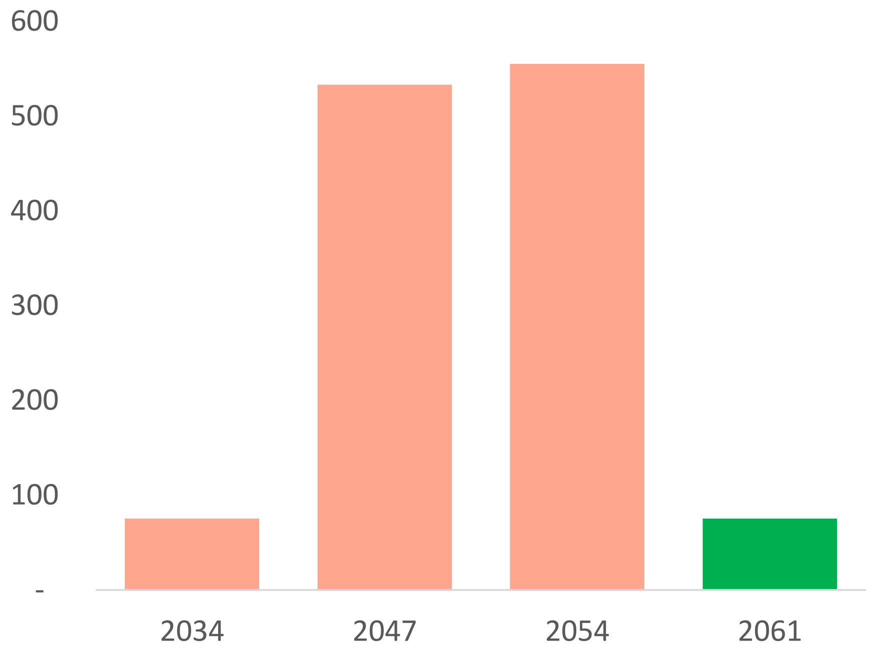
Balance between customer confidentiality with transparency. Will continue to try to optimise information on website based on public information



ESG in bLEND

- bLEND converted all bonds to Social in May 2021
- The 2061 series was converted to Sustainability in November 2021
- First funder to publish ESG data on its portfolio in line with the SRS criteria in September 2021
- bLEND's Social and Sustainable Bond Frameworks given Second Party Opinion by Vigeo Eiris with highest rating of 'Advanced' for contribution to sustainability, and are aligned to ICMA principles

bLEND total issuance £m by bond wrapper



Mergers

- Mergers continue to occur throughout the sector
- Diversification of THFC portfolio mitigates against effects of mergers
- Long tail on exposure concentration by borrower group
- £3.2bn of THFC Group's £7.47bn exposure is **guaranteed** by UK Government (c. 43%)

Top 10 THFC Group Exposures as of 31st March 2021			
Borrower Group	Total exposure	As % of Group	% exposure guaranteed
Platform Housing Group	334,000	4.7%	42%
Home Group	219,301	3.1%	68%
Wales & West	212,500	3.0%	22%
Network	208,134	2.9%	36%
Peabody	204,000	2.9%	49%
Bromford HG	202,833	2.8%	71%
Optivo	190,100	2.7%	79%
Paradigm	190,000	2.7%	66%
Sovereign	177,000	2.5%	88%
Vivid Housing	174,700	2.4%	94%

- Entity of Peabody and Catalyst merger would become second largest exposure with £254m (3.6%), but £150m of this is guaranteed AHF debt
- Merger of One Housing and Riverside would create an entity outside the top ten with £129.5m exposure (1.8%), £55m of which is guaranteed AHF debt

Conclusion

- 2020/21 saw one of THFC's strongest ever years, with growth in bLEND, and a healthy future pipeline
- 2021/22 will be a year of strong consolidation with continued growth in bLEND
- Ability to innovate and adapt based on solid revenue stability from existing loan portfolio and stable customer base with deep relationships throughout the sector
- Robust response to ESG agenda with new bond wrappers, enhanced disclosure and research into retrofit
- Continued focus on credit and risk and in-house policy expertise
- Strategic investments in staff, product development and communications to maintain and improve business position and market share
- Beginning to action senior executive succession plan