

The Housing Finance Corporation Investor Non-Deal Update November 2022



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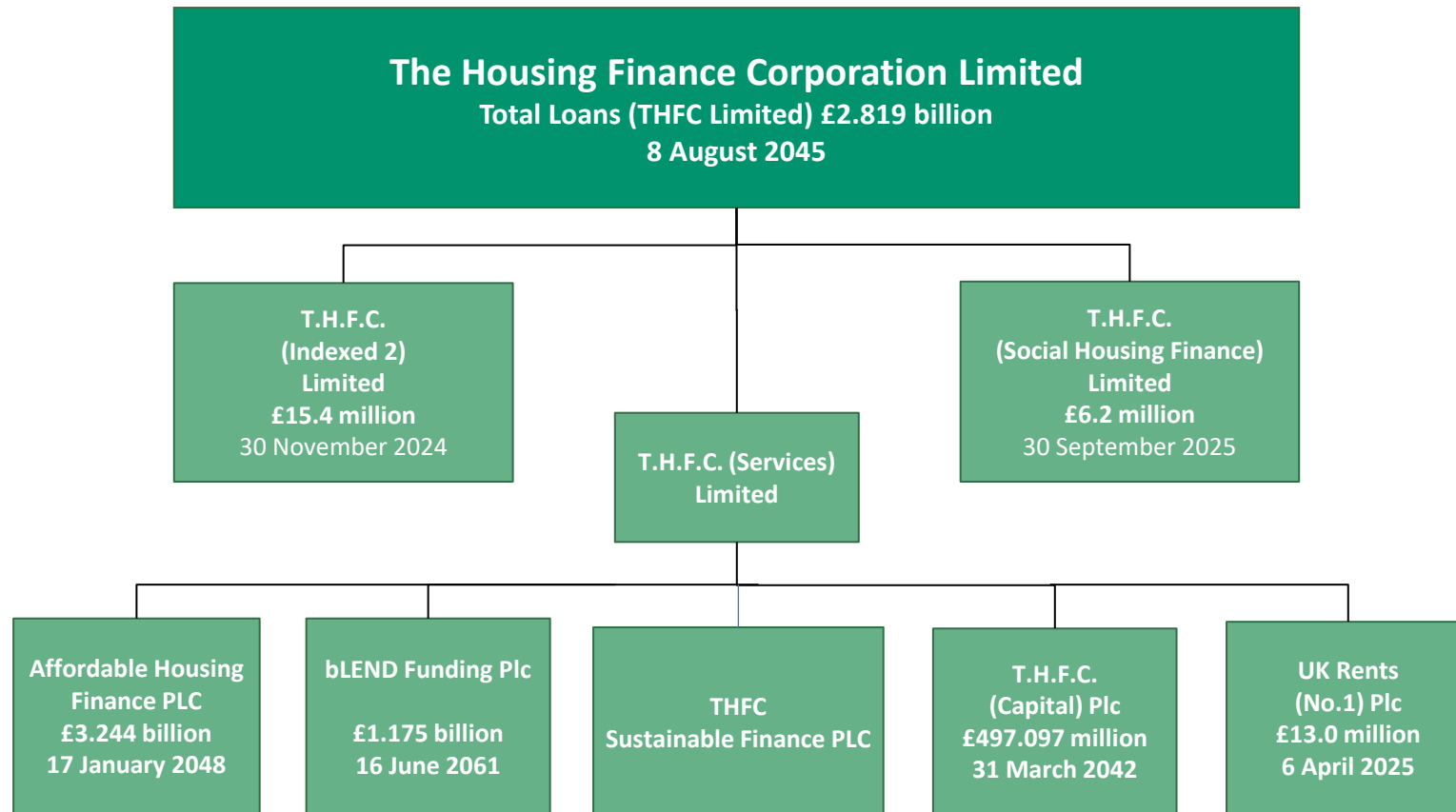
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About THFC Group

- **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 £8.369billion 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 £1.4billion in 5 different maturities
- **THFC**, through its subsidiary **Affordable Housing Finance**, manages £3.2billion of loans guaranteed by the UK Government, under a long term Licence



THFC Group Structure



**As at 31st March 2022*

Dates show longest maturity loans in each entity

Group & THFC - Five Year Financial Record

Group

£000's	2018	2019	2020	2021	2022	Half year to Sep 2022*
Total Revenues	11,462	10,595	8,565	12,427	12,486	5,762
Total Costs	4,354	4,786	5,178	5,229	5,976	3,273
Surplus after tax	5,750	4,698	2,695	5,739	5,340	1,867
Net Pension Charge	-	(1,163)	909	(860)	385	-
Group Accum. Reserves	34,564	38,099	41,703	46,582	52,307	54,174
Group Loans Outstanding	6,991m	7,333m	7,456m	7,874m	8,220m	8,369m

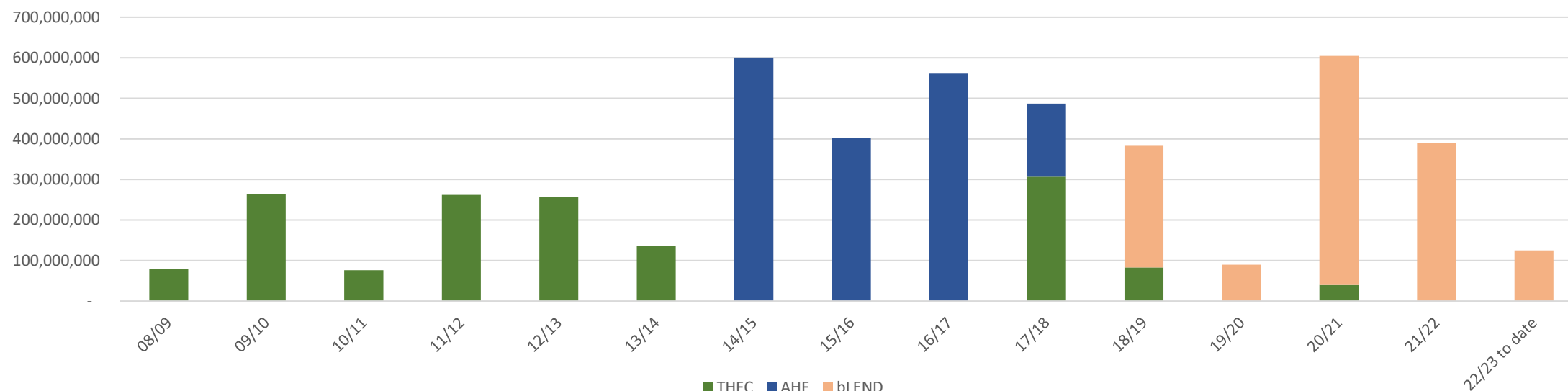
THFC

£000's	2018	2019	2020	2021	2022	Half year to Sep 2022*
Surplus after tax	1,987	3,304	2,394	3,446	1,025	1,362
THFC Accum. Reserves	19,658	22,962	25,356	28,802	29,827	31,189
THFC Loans Outstanding	2,829m	2,947m	2,969m	2,998m	2,983m	2,994m

Notes: Please see THFC Annual Reports and Accounts for full details (www.thfcorp.com)
Loans outstanding includes unamortised premium

*Draft unaudited figures for 6 months to 30 September 2022

THFC Track Record in Bond Issuance



Bond	Rating (S&P/Moodys)	Nominal Issued (£000's)
THFC (Funding No 1) 5.125% 2035/37	A(stable)/-	249,376,000
THFC (Funding No 2) 6.35% 2039/41	A(stable)/-	370,850,000
THFC (Funding No 3) 5.20% 2043/45*	A(stable)/-	1,055,300,000
Total THFC Rated Issuance		1,675,526,000
AHF 3.8% due 2042/44	AA(neg)/-	600,900,000
AHF 2.893% due 2043/45	AA(neg)/-	1,143,200,000
bLEND (MTN Programme)**	-/A2(neg)	1,470,000,000
Total THFC Group rated bonds in issue		4,889,626,000

THFC - S&P rated since 2004

bLEND – Moody's rated since 2018

*Includes retained bonds not yet sold
 **Table and graph as of 1st November 2022

Strategy for Business Growth

With a muted market for borrowing, the THFC Board remains committed to **measured** growth based on risk appetite and sustainability.

bLEND Funding PLC :

- ✔ EMTN programme established August 2018
- ✔ £1.47bn issued for 29 borrowers to date
- ✔ Deferred drawdown capability through Forward Purchase Agreements with investors or in-house solution
- ✔ Original five-year business plan achieved in three years
- ✔ Fee income flows to THFC Services via Management Services Agreement
- ✔ Non-recourse to THFC

THFC Sustainable Finance PLC:

- ✔ New vehicle in development, to ensure timely market access, continued competitiveness of THFC and to integrate ESG further into the core THFC brand.
- ✔ Investor and borrower familiarity with THFC brand
- ✔ Will fall under THFC Group rating from S&P – currently A (stable)

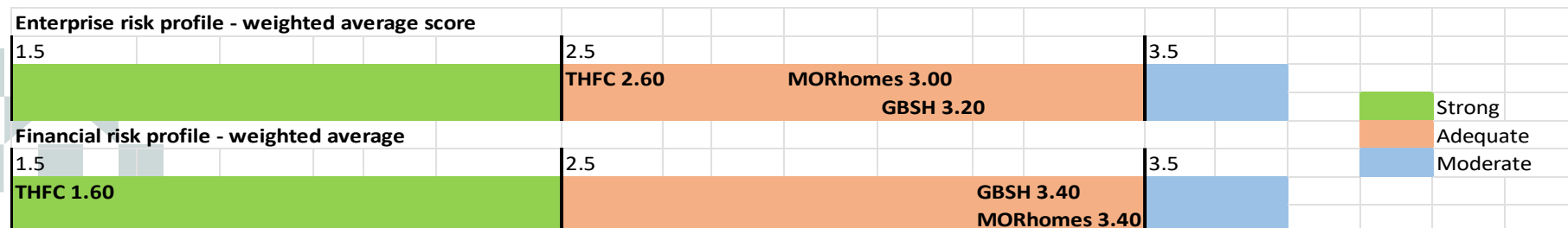
Market penetration - customer base

Market coverage	31 March 2022	31 March 2021
Total number of borrower groups in THFC Group	149 (160 borrowers)	149 (160 borrowers)
Total number of borrower groups in THFC Limited	119	120
Total number of borrower groups in AHF	59	59
Total number of borrower groups in Blend	27	16

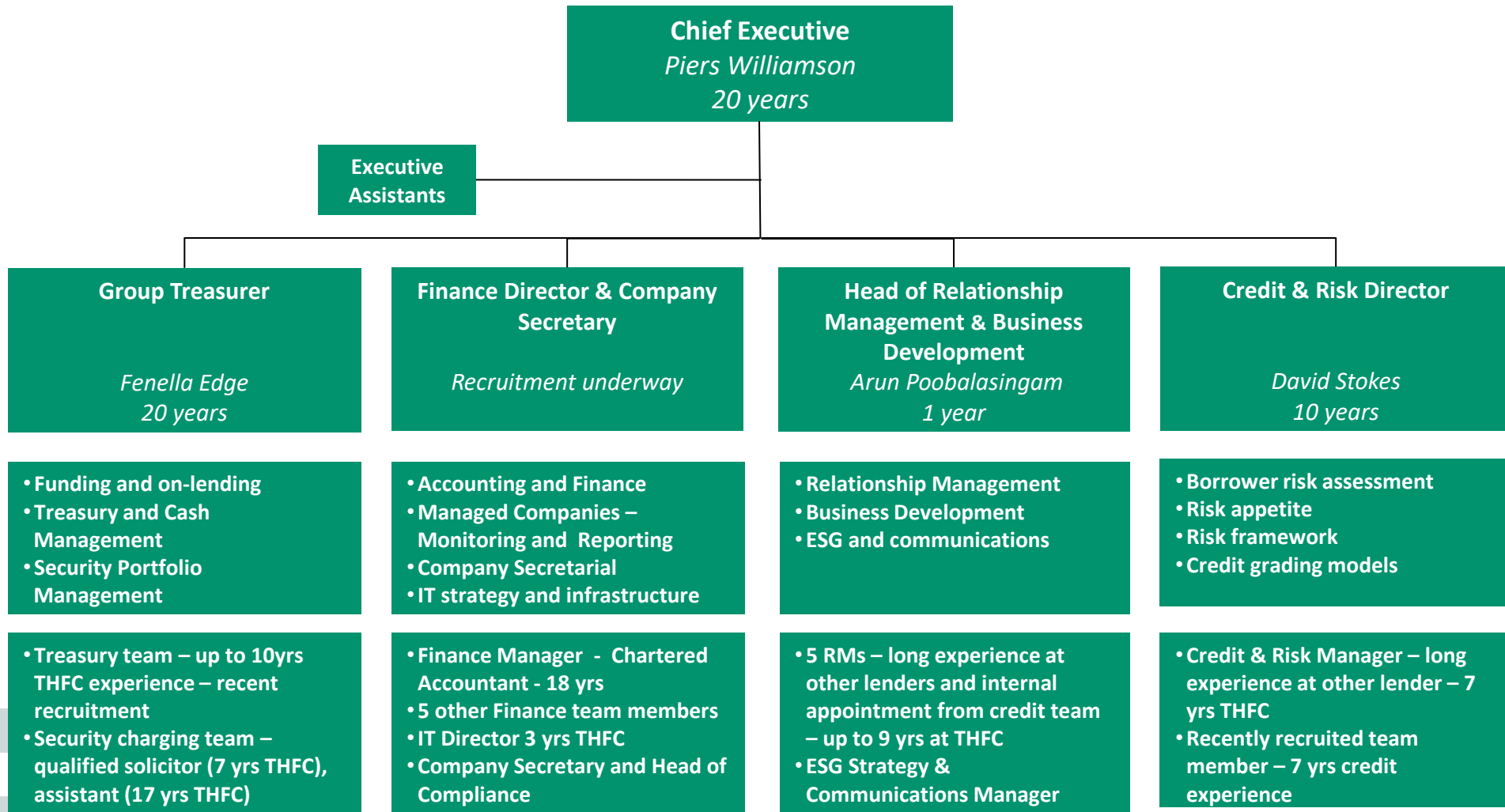
- Introduced 8 new-to-Group borrowers in 2021/22 – 6 in bLEND and 2 in THFC - offsetting reductions due to mergers and loan maturities/prepayments.
- Extensive market coverage aided successful marketing of bLEND to existing THFC and new customers:
 - 11 borrowers added to bLEND pool in 2021/22.
 - Further 2 added since year end.
- THFC is uniquely placed to assess HA credit in depth across the sector - which allows benchmarking and targeting for both business development and risk monitoring.
- Increased resources in already highly skilled and experienced teams in relationship management, credit and risk, and security charging functions – focussing solely on the HA sector.
- Existing market coverage plus a combination of our risk appetite and consolidation in the sector implies limited capacity for future increased market penetration – so growth opportunities are likely to come mainly from existing client base.

THFC S&P Rating and Peer Comparisons

		THFC Sep-22	SACP/Rating a/A	Trend			MoRHomes Dec-21	SACP/Rating a-/A-	Trend			GB SH Jul-22	SACP/Rating a-/A-	Trend
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	Adequate				3	Adequate				3	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	Strong				3	Adequate				3	Adequate	



THFC Management



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 & Risk; Credit; Remuneration and Nominations Committees report to the Board and have delegated responsibilities.
- **Credit committee** assesses individual credit propositions and ongoing portfolio monitoring.
- **Regulator of 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 & risk 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:
Fenella Edge, Piers Williamson and FD

AUDIT & RISK
COMMITTEE

CREDIT
COMMITTEE

REMUNERATION
COMMITTEE

NOMINATIONS
COMMITTEE

THFC Non-Executive Board Members

			AR C	CC	RC	NC
George Blunden Chair of the Board	Former Chair of Southern Housing Group, Stonewater HA and Charity Bank.	Appointed 2019		x	x	
Scott Bottles	Former Executive Vice President and Senior Credit Officer for International Commercial Real Estate at Wells Fargo	Appointed 2018		x		
Shirley Smith Senior Independent Director	Non-executive director at CREFC. Extensive experience in real estate and infrastructure finance.	Appointed 2018		x	x	x
Will Perry	Director of Strategy of the Regulator of Social Housing ("RSH"). RSH nominee director.	Appointed 2014	x			x
Gill Payne	Former Executive Director of Public Impact of the National Housing Federation. Previously NHF nominee director since 2014.*	Appointed 2022*		x	x	x
Catherine Ryder	Director of Policy and Research of the National Housing Federation. NHF nominee director.*	Appointed 2022		x	x	
Peter Impey	Various credit roles and former advisor to MHCLG on the first guarantee scheme. Nominee to AHF board since 2013	Appointed 2020		x		x
David Montague	Former Group Chief Executive of L&Q	Appointed 2020	x	x	x	
Guy Thomas	Chartered Accountant, Non-Executive Director of Sainsbury's Bank, Formerly Group Finance Director of Principality Building Society	Appointed 2019	x	x		
Tony King	Former Group Treasurer of Sanctuary Group	Appointed 2020	x	x		

** Catherine Ryder was nominated to the Group's Board by the NHF on 1 April 2022 to replace Gill Payne, whose nomination was transitioned following her retirement from the NHF. Gill has since been re-appointed as an independent, non-executive director whilst she serves the remainder of her tenure on the board.*

ARC – Audit and Risk Committee
CC – Credit Committee
RC – Remunerations Committee
NC – Nominations Committee
x – Committee Chair

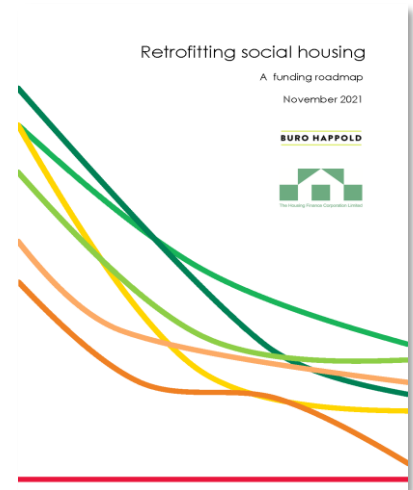
ESG

Sustainability Reporting Standard for Social Housing (SRS).

- By May 2022, 104 organisations, 68 housing associations and 36 financial institutions, had adopted the SRS.
- THFC published their 'Funding Housing, Making Impact 2022' report this week
- This marks the second year that we have asked all bLEND borrowers (currently 29) to submit their ESG disclosures in accordance with the SRS.
- THFC was an early adopter and supporter of the SRS, and became the first sector funder to require borrowers to report against the standard and have now built on that by requesting more data and criteria from its Borrowers.

Sustainable Finance

- THFC group framework allows for sustainable issuance across all entities
- TSF will build further ESG integration in THFC brand
- Continue to drive the debate on solutions for sector's decarbonisation challenge following last years publication of *Retrofitting social housing: A funding roadmap*



Policy: From 'build, build, build' to 'stuck in the mud'

- Building Safety Bill
- Promote home ownership
- Increase housing supply: AHP potentially £12.2Bn over 8 years (initially £9Bn over 5): expected to fund 180,000 new homes
- Heavily contested Planning Bill: Deregulation, growth, and protected zones. Replacement of CIL and s106 by new flat rate Infrastructure Levy
- Decent Homes 2; Decarbonisation Fund opens to fabric first bids



Current Policy priorities: The end of 'levelling up'?

- ✔ Building Safety Act
- ✔ Social Housing (Regulation) Bill. Focus: consumer issues such as safety, transparency and tenant engagement, with new enforcement powers to tackle failing landlords
- ✔ Naming & shaming: RSH and Housing Ombudsman
- ✔ £3.4Bn Social Housing Decarbonisation Fund open to HA fabric first bids
- ✔ Promote home ownership (but in a rising rate environment)
- ✔ Decent Homes 2??
- ✔ Rent Caps Consultation



Business Context for HAs

HAs have performed well despite the pandemic, having adopted new ways of working, and in the last year in particular catching up on delayed developments, and extensive repairs and maintenance work. So what are the ongoing challenges affecting the sector?

- Rising inflation. With inflation at 10.1% (September 22) , HA's cost bases during FYE 3/23 will come under pressure whilst the rent increase for the period is capped at 4.1%. Looking ahead to FYE 3/24 there is growing uncertainty about what rent increase will be implemented if CPI at the September reference date remains in double digits. These pressures are adding to the already significant inflation in the cost of building materials consequent on the conflict in Ukraine
- Rising interest rates. Combination of refinancing short and floating rate bank loans will represent a significant cost.
- Fire safety remediation. Many HAs continue to see their results impacted by this expenditure, as intrusive surveys continue to reveal defects needing remedy well beyond the narrow issue of cladding.
- Decarbonisation agenda. All HAs financial plans carry the cost of achieving EPC C by 2030*, but beyond that, the more stretching goal of “net zero carbon” by 2050 (sooner for Wales) weighs heavily on the longer term
- Stock Investment. The sector has suffered significant adverse media coverage over the last 2 years relating to the poor quality of housing for many, particularly among the larger HAs. This has shone a light on “under-investment” in prior years as HAs focussed on new development, and now significant catch-up repair costs are necessary for some HAs.
- Policy Vacuum: Prior to the Conservative Party leadership battle, there were a raft of policy initiatives including the “Right to Shared Ownership”, First Homes, and changes to planning policy. The current political challenges have caused significant uncertainty about the future direction of policy
- Housing Market Uncertainty: Although house price growth year on year is robust, there are distinct signs of cooling, and the spectre of price corrections in the current economic climate. This could affect HAs development for shared-ownership and outright sale.

* Which goes beyond the statutory target of 2035 (but 2030 for “fuel-poor households”)

Business Context for Has Continued

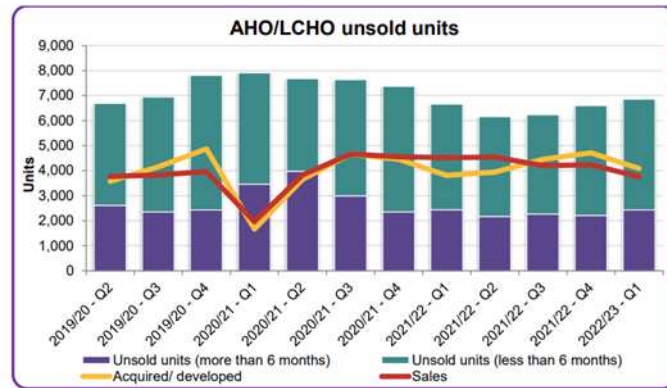
These challenges are balanced by:

- The continuing countercyclical nature of HAs core social housing business, with a continued demand/supply imbalance.
- A significant proportion of HAs revenues being underpinned with Housing Benefit/Universal Credit.
- As yet no change in Government policy on rents (currently CPI +1% until 2025) although some form of temporary rent cap looks highly likely
- Continued significant Government investment in the sector via Grants, Loans, Site enabling works, joint ventures etc
- Continued investor demand for HA paper leading to ready access to long term committed liquidity
- The presence of a well regarded and active statutory Regulator in England, Wales, Scotland, N.I.
- Sector appetite for mergers remains, which should enable weaker organisations to join larger stronger groups.



Sector Sales & Fire Safety Risks

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 (Q1 – June 2022)



Here we can see that the peak of unsold units 6m+ was in late 2020/early 2021, since when levels have reduced considerably.

Unsold units 6m+ are more or less unchanged over the last few quarters but new build completions were down in the last quarter.



For fire safety, our analysis of business plans suggests that although the peak has passed in terms of major works (cladding reinstatement for example) the outcome of intrusive surveys has added to fire safety work programmes and comparing long term plans year on year, forecast fire safety spend is up 20%.

In terms of properties held as security by THFC, extensive research has been undertaken and a small number of properties have been removed from charge and replaced. In one instance a borrower was granted a temporary waiver of their “net annual income cover covenant” to cover the period of cladding replacement.

In all cases, THFC's borrowers have had more than sufficient liquidity to carry out required works alongside “business as usual”

Sector borrowers continue to access Government grant funding where available and the launch of the Social Housing Decarbonisation Fund will support the increasing number of associations who are incorporating decarbonisation expenditure in their forecasts.

Decarbonisation

- Focus remains on EPC C and fabric-first retrofit.
- £3.8bn grant programme for England - the Social Housing Decarbonisation Fund:
 - Wave 1 disbursed £179m.
 - Wave 2 opened August 2022 for further £800m.
- EPC C seen as 'core' part of tackling stock quality & fuel poverty issues

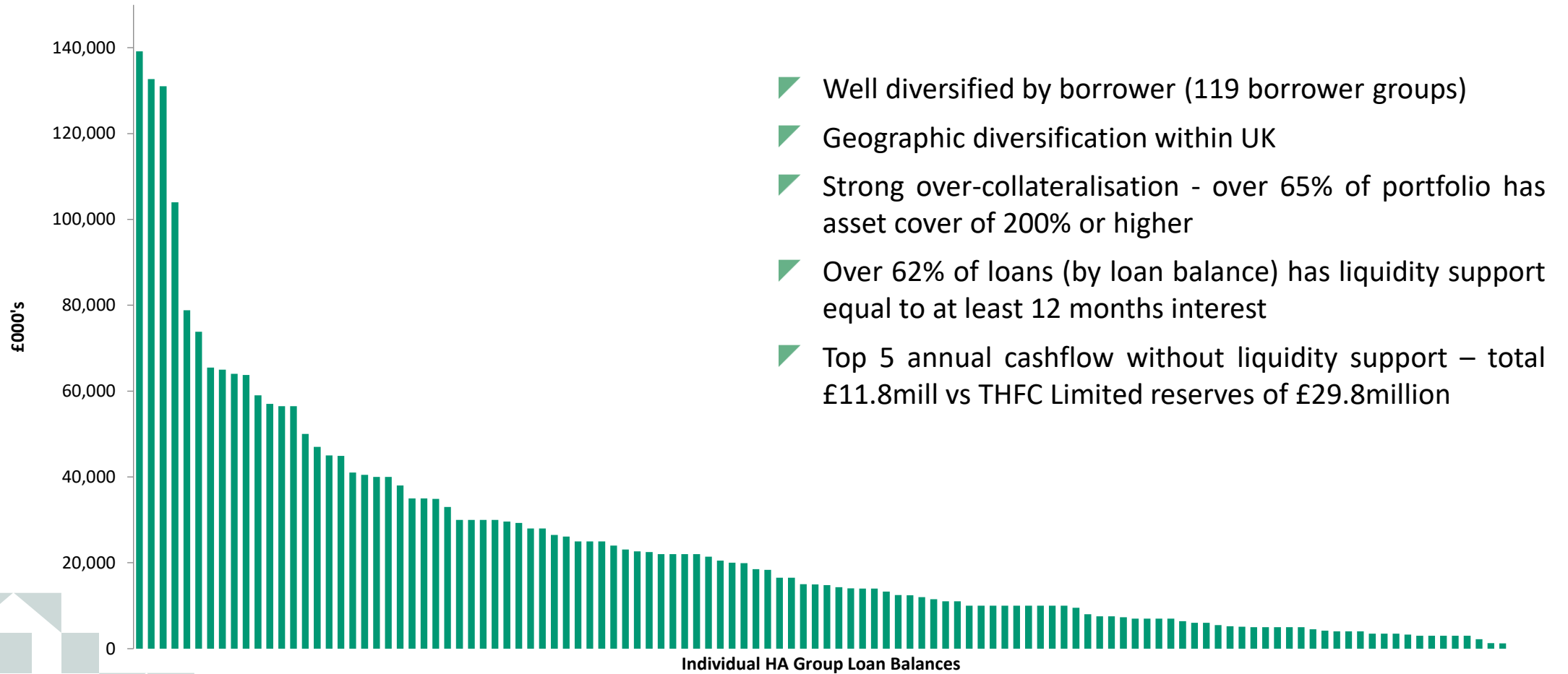


- 60% HAS not budgeted for net zero 2050.*
- Uncertainty driven by cost inflation, supply chain issues, policy instability and budgetary pressures.
- Distribution of decarbonisation costs is lumpy and tied to legacy stock archetypes.
- Decarbonisation set to dominate agenda in the long-run*

* See [RESAM Housing Sector Survey 2022](#) pp.5-6

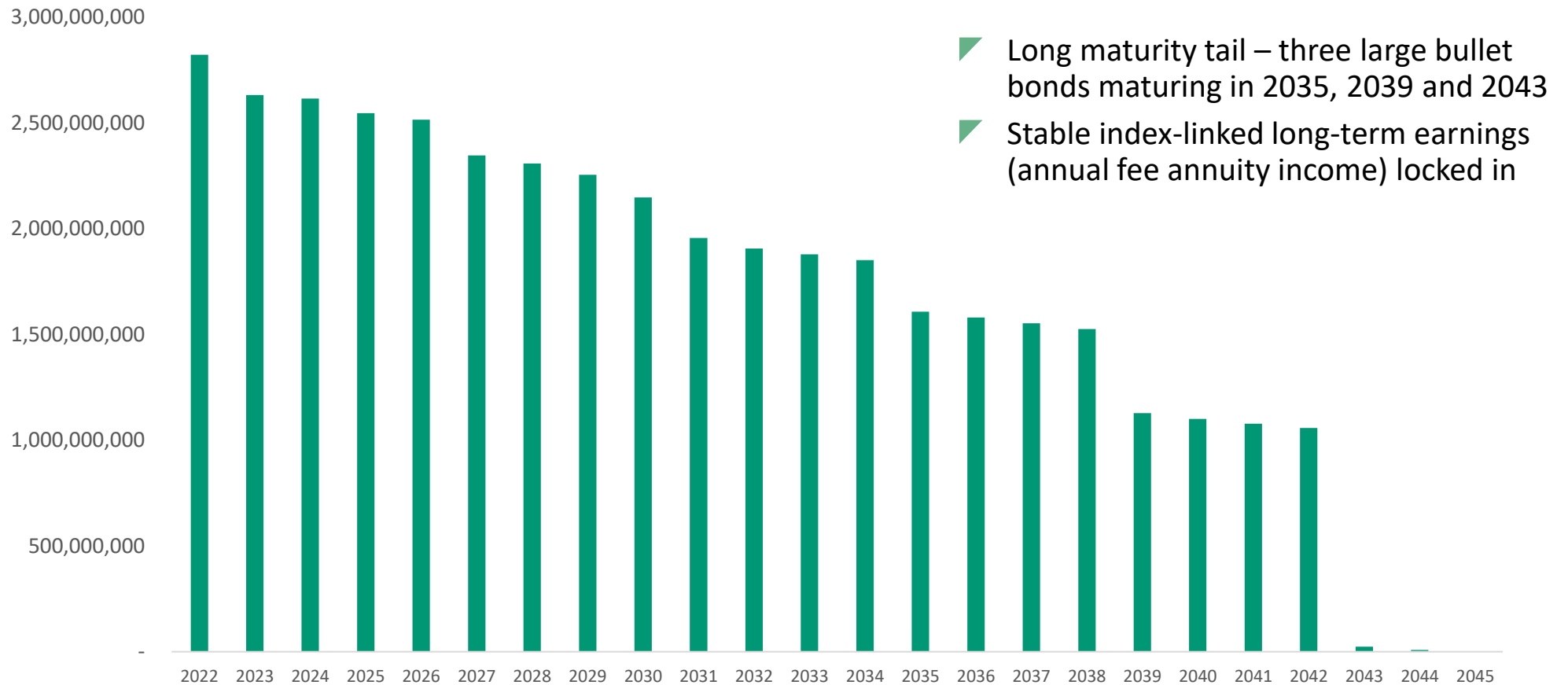
THFC Limited Loan Portfolio

Exposure balances by HA Group



As at 31 March 2022

THFC Limited Loan Maturity Profile



bLEND track record



- Entire £1.47bn issued to date accredited as Social Bonds
- £75m accredited as Sustainability Bonds
- Sustainability report covers entire pool of 29 borrowers
- 2047 and 2054 series both of benchmark size
- £425m of deferred drawdown loans written, £92.5m priced pending drawn down
- Portfolio concentrated on mature LSVTs and borrowers who do not have big exposure to outright sales
- Geographically diverse portfolio with a focus outside of London.
- Focus on selective growth within the target client group
- Loans are always fully secured by either cash or Property Security

bLEND rated A2 by Moody's

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

Pool size has grown large enough for Moodys to move bLEND from Pool Financings to Pool Programmes methodology.

This is a scorecard approach which has the following factors and weightings:

- Credit Quality and Default Tolerance (50%)
- Diversity of Portfolio - Number of Borrowers (10%)
- Diversity of Portfolio - Percentage of Loan Principal to borrowers that represent less than 1% of the pool (5%)
- Diversity of Portfolio - Percentage of Loan Principal to the top five borrowers (5%)
- Debt Structure – Cash Flows (20%)
- Debt Structure – Counterparties (10%)

The preliminary rating outcome may then be notched to reflect the strength of management of the pool. Blend receives one notch of uplift to reflect strong management of the pool.

“Blend exercises robust management of the pool including ensuring the strong credit quality of borrowers entering and participating in the pool through its diligence and monitoring processes”

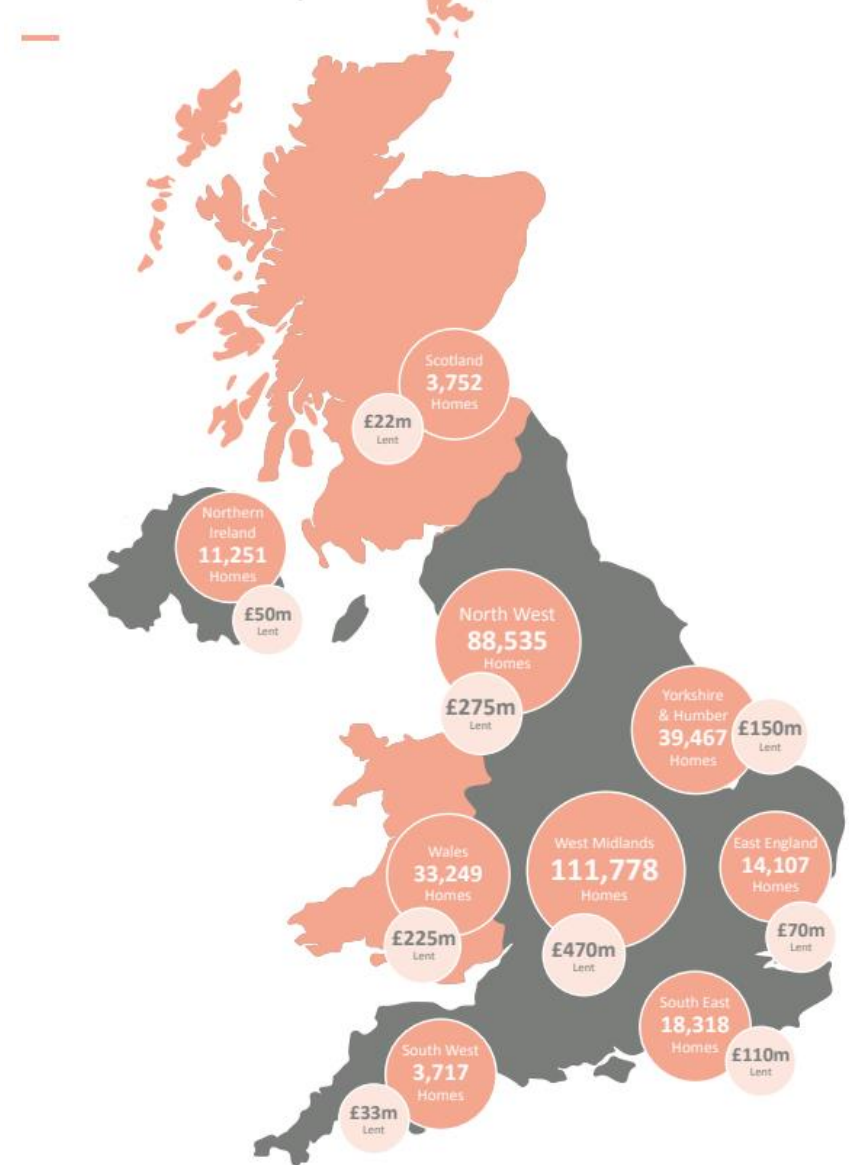
bLEND – Underlying Borrowers

- 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

bLEND footprint



Conclusion

- 2021/22 was a highly successful year for the Group
- The use of the deferred drawdown product in practice set the balance sheet up for measured growth over a period of the next 1-2 years
- Since then some of the pressures on our customers have become increasingly apparent:
 - Recovery of business processes after Covid
 - Focus on Consumer Regulation and Building Safety
 - Adopting the appropriate path to EPC C
 - Adapting the business model to potential rent-caps coupled with an increased cost of finance
- THFC's business model has been built to work well defensively:
 - Strong first quarter for new business
 - Very quiet since then, but expect selective demand to return with greater policy certainty
 - Strongest operating margin in Group's history expected for the full year, but more muted growth
- Solid Progress on ESG agenda with publication of our second Sustainability Report and continued 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