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The Housing Finance Corporation

THFC Investor Update Presentation

July 2017

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Agenda

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THFC — Who We Are

Established franchise — 30 years; stable executive team with depth in support

Specialist profit for purpose finance company for Housing Associations

Strong platform

- A (stable) rating from S&P; c.170 underlying RP borrowers (in 150 RP Groups)

Frequent bond issuer in the sector

- £1.23 billion rated bonds outstanding and long relationships with majority of UK institutional accounts

Stewardship by NHF and the Regulator throughout the last 30 years

Simple structure with strong creditor protections

- Governing Deed of Priority, Interest and Asset Cover covenants and liquidity buffers

Trustee/s in relation to THFC Debentures and Private Placements

THFC Funding No.1 PLC (“THFC 1”) (Issuer Rating A)

THFC Funding No.2 PLC (“THFC2”) (Issuer Rating A)

THFC Funding No.3 PLC (“THFC 3”) (Issuer Rating A)

EIB and other Banks

The Housing Finance Corporation Limited (“THFC”)

Housing Association | Housing Association | Housing Association | Housing Association | Housing Association | Housing Association | Housing Association | Housing Association | Housing Association | Housing Association | Housing Association | Housing Association

THFC Group Structure

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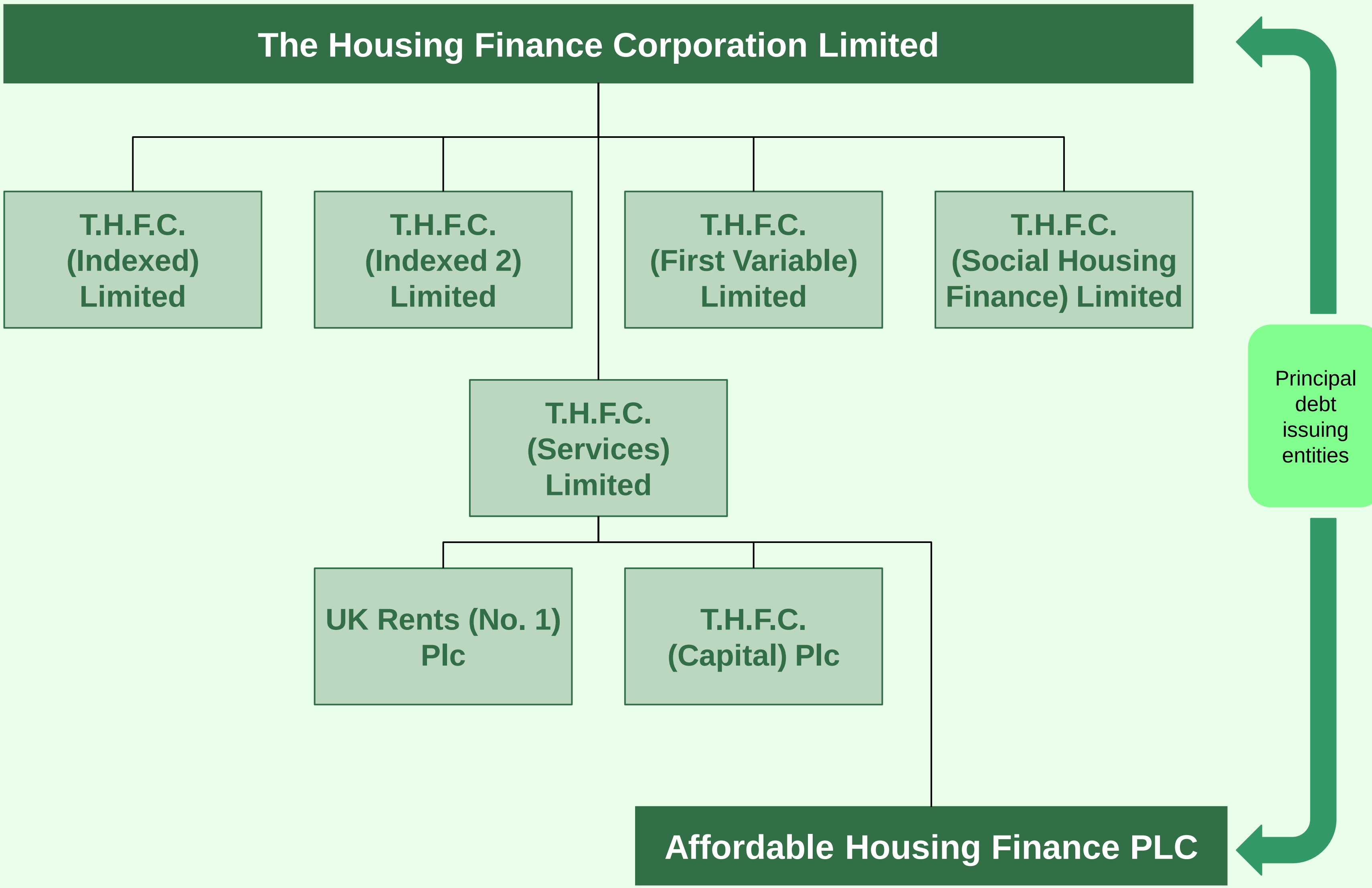
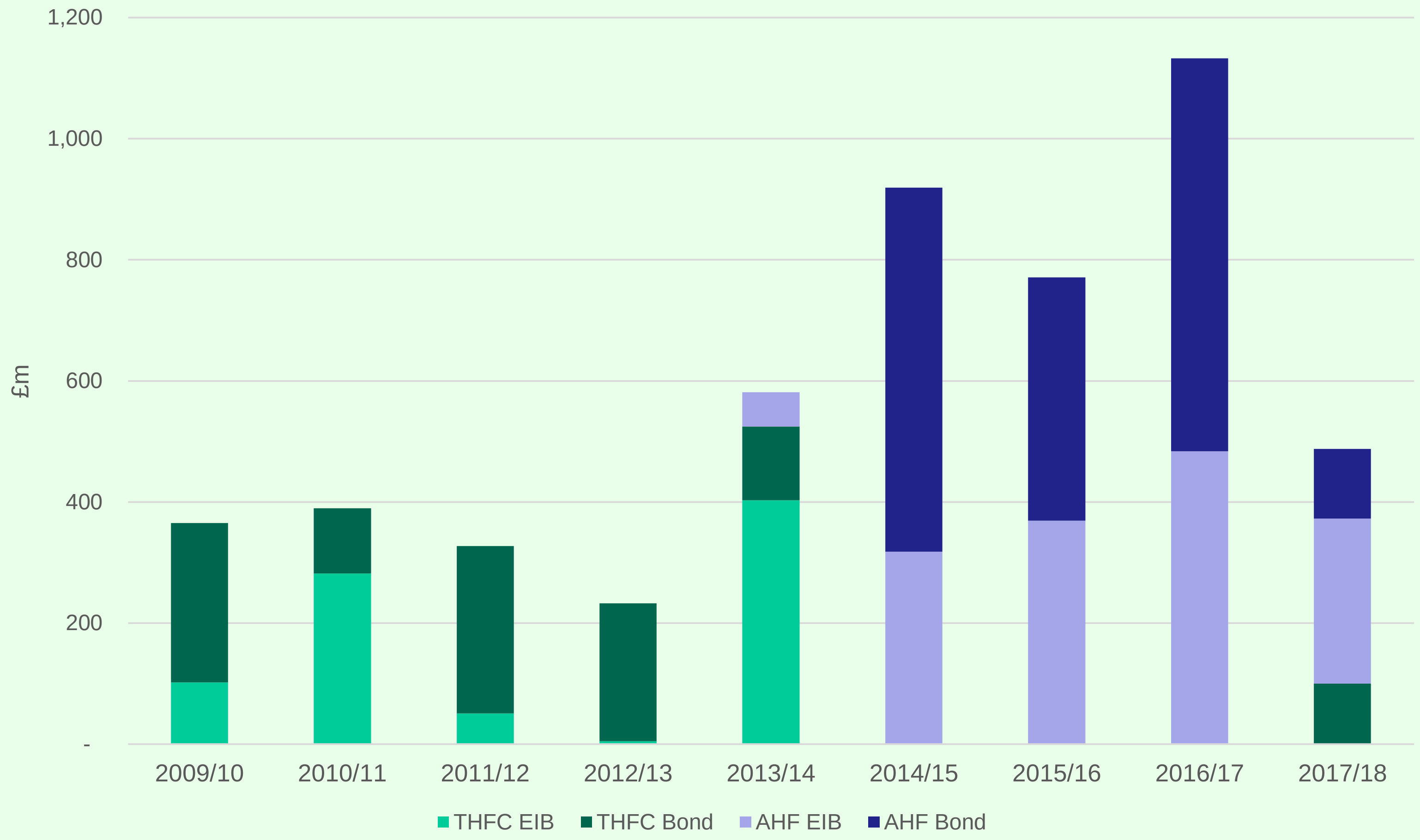


THFC/AHF Business Volumes
(including estimated remaining AHF pipeline)



Note: 2017/2018 figures assume transaction contemplated herein

Five Year Financial Record

£000's	2013	2014	2015	2016	2017 (unaudited)
Total Revenues	4,195	8,316	8,344	8,422	10,289
Total Costs	2,341	3,662	3,201	4,301	4,176
Surplus after tax	1,410	3,572	4,062	3,289	4,898
Group Accum. Reserves	12,993	16,565	20,627	23,916	28,814
Group Loans Outstanding	3,124m	3,368m	4,155m	5,087m	5,885m
THFC Limited Reserves	8,861	12,248	14,238	14,986	17,671

Note: Please see THFC Annual Reports and Accounts for full details (www.thfcorp.com/_uploads/downloads/THFC2016.pdf)

THFC — the Next Steps

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- Demand building up for both incremental long term funding and refinancing presents opportunities for selective new lending
  – HAs are forecast to repay at least £2bn of debt per year for the next 10 years. The annual repayment in the early years has increased as banks have shortened their maturities.
  – HA debt raising is expected to be at least £3bn per year
  – Bank lending accounted for 60% of the new funding in Q3 of 16/17 (the latest data available); capital markets, including private placements and aggregated bond finance, contributed the remaining 40%

- Funding via THFC (Funding No 3) and THFC Limited provides quick route to market
- Investor familiarity with THFC and what differentiates investing in THFC versus a portfolio of own name bonds and private placements delivers competitive pricing

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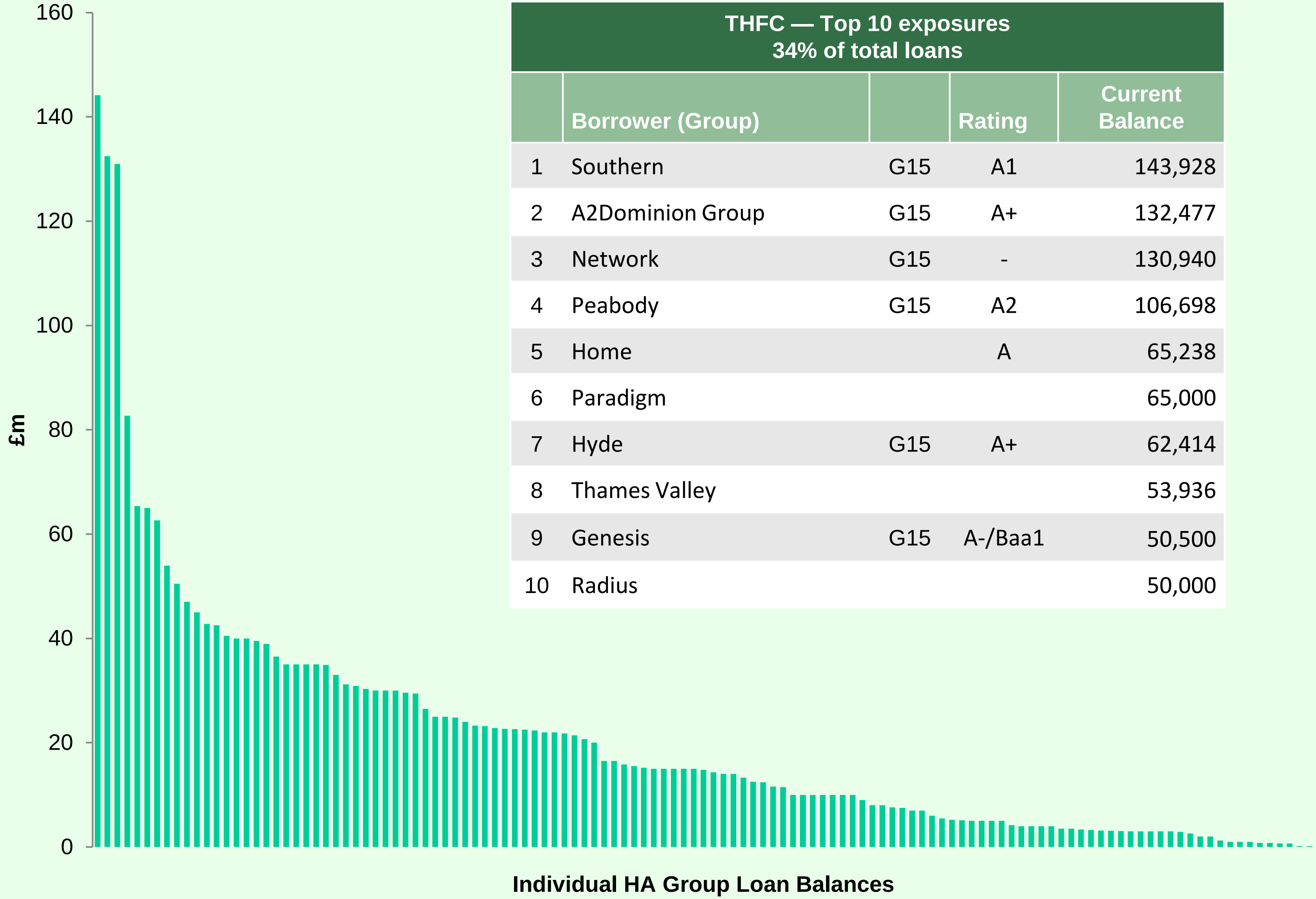
THFC Limited – Loan Portfolio

Exposure Balances by HA Group



THFC — Top 10 exposures 34% of total loans				
	Borrower (Group)		Rating	Current Balance
1	Southern	G15	A1	143,928
2	A2Dominion Group	G15	A+	132,477
3	Network	G15	-	130,940
4	Peabody	G15	A2	106,698
5	Home		A	65,238
6	Paradigm			65,000
7	Hyde	G15	A+	62,414
8	Thames Valley			53,936
9	Genesis	G15	A-/Baa1	50,500
10	Radius			50,000

Notes: *As at 30th June 2017*
Ratings as at 20th July 2017, Source: Bloomberg

What Differentiates THFC?

- THFC loan covenants
- Over-collateralisation
- Available liquid resources
- Proactive management of bullet maturities

THFC Loan Covenants

THFC loan covenants	Typical own-name HA bond
Asset cover – minimum 150% of loan nominal on MV-ST basis	Asset cover – minimum 115% MV-ST
Withdrawal threshold – 200%of loan nominal Any uplift in security value is trapped – delivers improved over-collateralisation over time	No withdrawal threshold. Security above minimum can be released
Net annual income from the charged security must be sufficient to pay interest on the loan (This will size the security pool for high coupon loans)	No net annual income cover covenant
Security charged directly to THFC (Land Registry evidence)	Security charged indirectly to bondholders via Security Trustee
Consent requirements for mergers, restrictions on support to commercial entities in the RP group	No consent requirements for mergers and no restrictions on support to commercial entities

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Strong Over-Collateralisation
THFC — Fixed Charge Asset Cover

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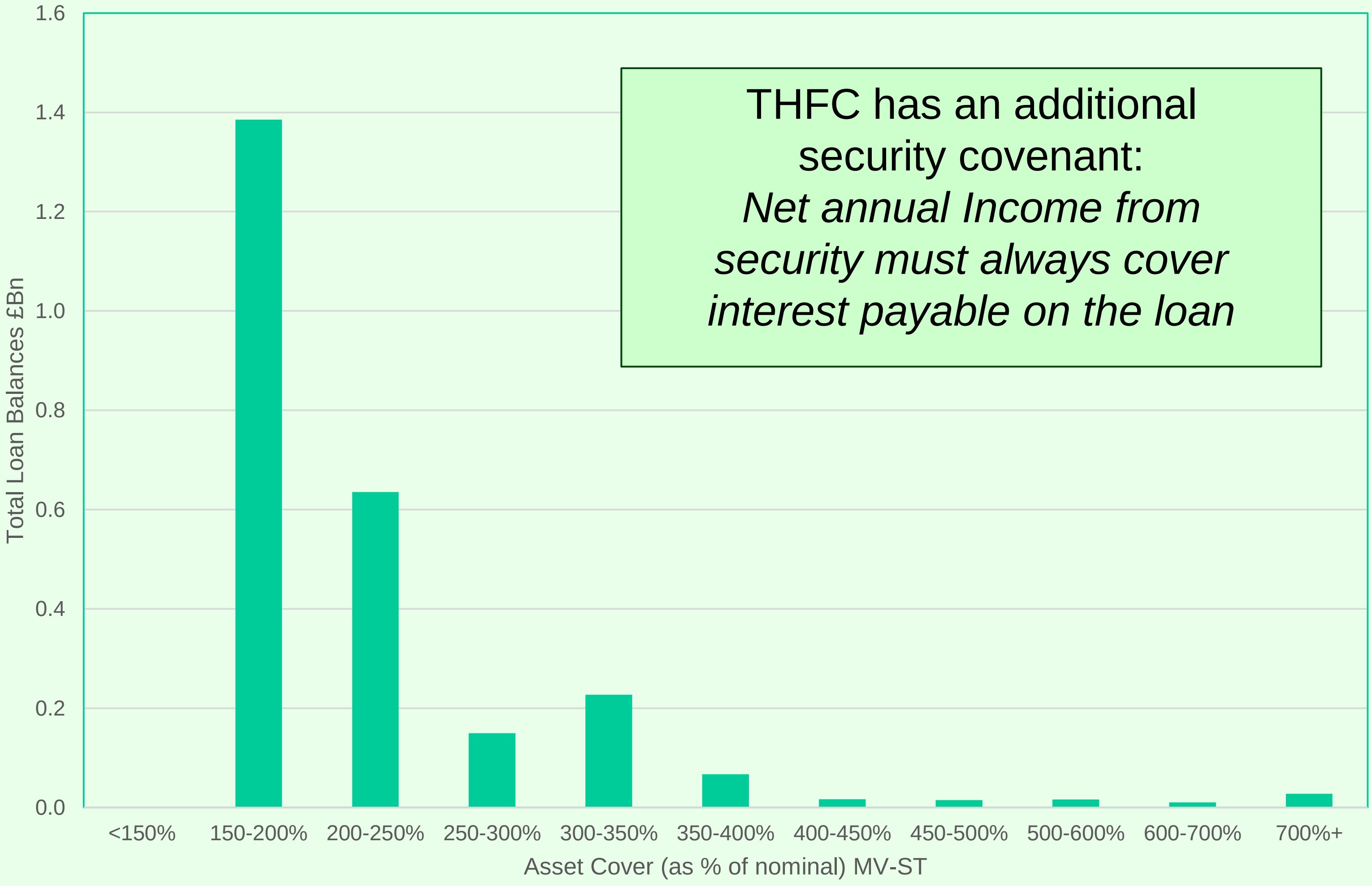

THFC has an additional security covenant:
Net annual Income from security must always cover interest payable on the loan

Note: As of 30th June 2017

Liquidity Resources in Stress Scenario
(underlying borrower default)

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Loans with bespoke liquidity resources.

- THFC (Funding No 1) plc has the benefit of access to a liquidity facility provided by RBS (drawn in full and held as cash) which can be utilised to cover any cash flow shortfall at the issuer level (i.e. not just in the event of non-payment by an underlying borrower)
- In THFC (Funding No 2) plc and THFC (Funding No 3) plc, underlying loans each have a debt service reserve which can be used by THFC to service its loan to Funding No 2 or Funding No 3 in the event of non-payment of interest by an underlying borrower under the terms of specific loan agreement
- Other loans may have a requirement for an interest service reserve on a case by case basis

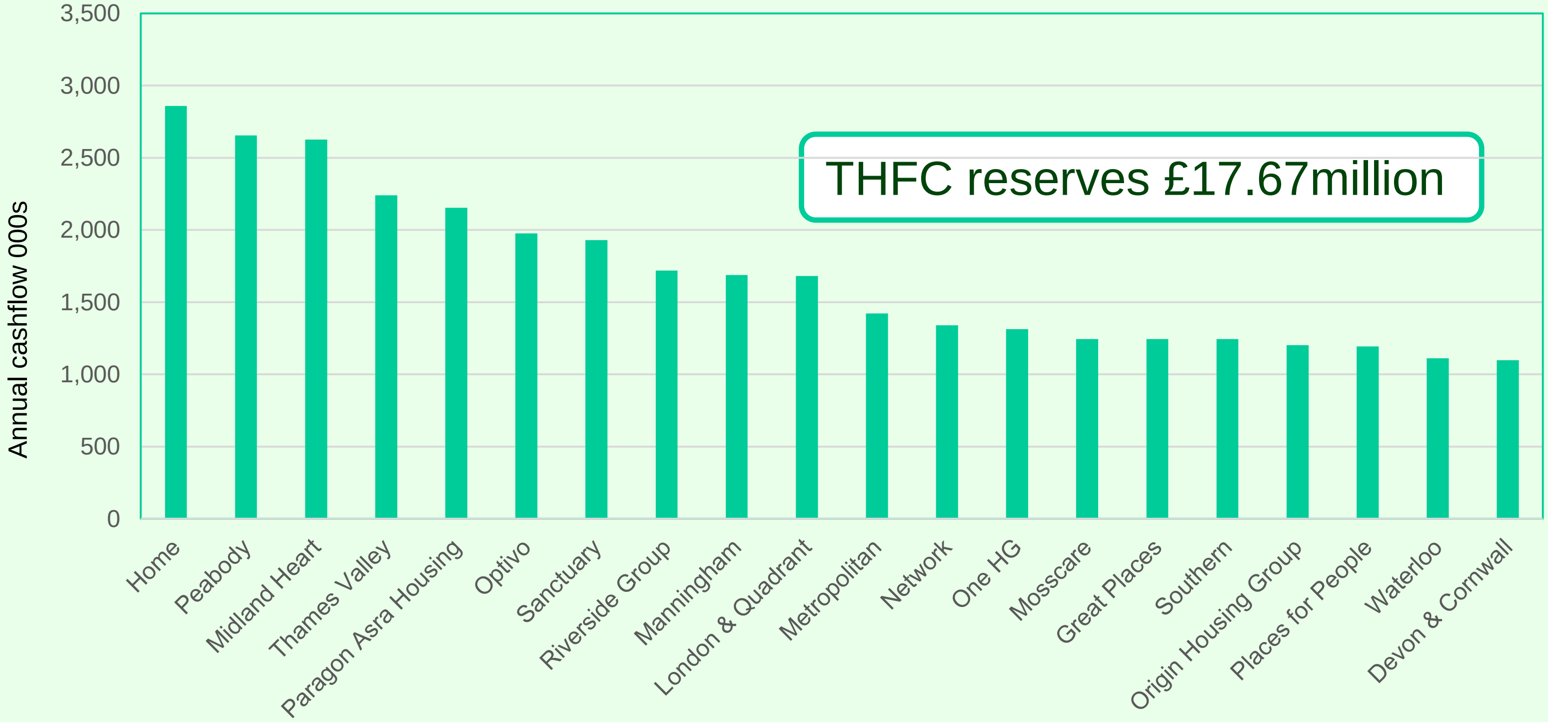
Loans with Bespoke Liquidity Support

Loan funded by rated bonds plus any additional loans with liquidity resources

	Nominal outstanding £m	Annual interest £m	Debt Service and/or Liquidity Reserves £m	
THFC (Funding No 1)	235.21	12.05	24 months	24.12
THFC (Funding No 2)	370.85	23.55	12 months	23.55
THFC (Funding No 3)	625.30	32.52	12 months	32.52
Other loans	30.00	1.57	12 months	1.57
	1,261.36			**81.76**

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 borrowers below – includes capital repayments for amortising loans but bullet maturities monitored separately



Note: As at 30 June 2017

Bullet Repayment Debt Maturity Profile — Debenture Stocks

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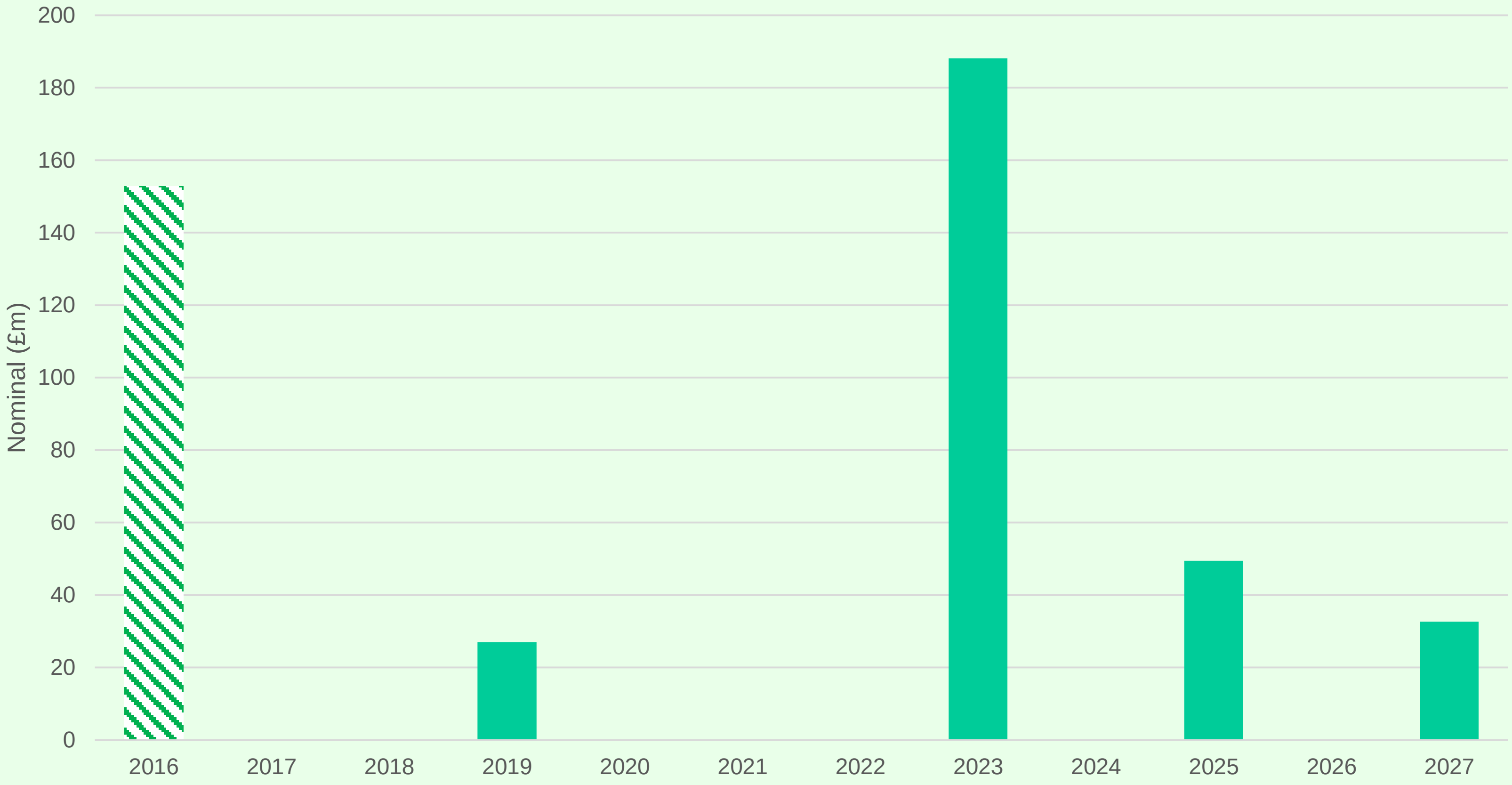

2016 Debenture stocks fully repaid

Debenture Stock Maturity 2023

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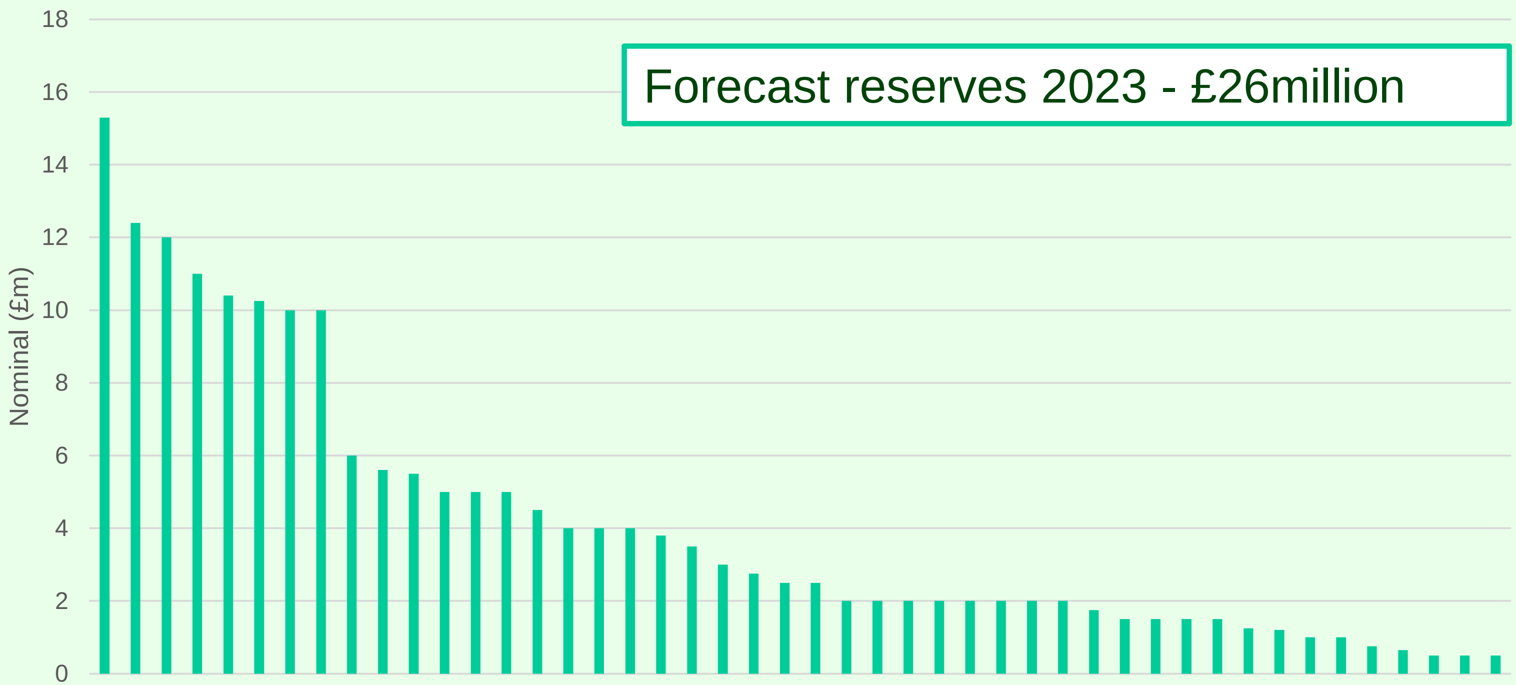
- After 2016 the next key maturity is October/November 2023 when £189m of debenture stock matures
- Spread across 46 borrower groups
- THFC reserves as at 31 March 2017 – forecast £17.671million



What Else Differentiates THFC

Investors and lenders to THFC can benefit from THFC's position in the market.

- Uniquely placed to assess HA credit in depth across the sector in all parts of the UK
- Highly skilled and experienced teams in relationship management, credit and risk and security charging functions – focussing solely on the HA sector
- Access to data and to management teams and boards of HAs allows much more in depth analysis than bondholders are able to perform and the latter enables THFC to make informed judgements about governance and culture

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Risk Management

What does THFC Examine?

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Financials	Non-financials
Financial track record, audited accounts & management figures	Strength and composition of senior management team
Financial plan and 30 year forecasts	Strength and composition of Board, and Governance
Financial plan stress testing	Development programme, track record and capability
Treasury policy and liquidity	Sales monitoring & control
Financial Covenants.	Stock condition, associated asset management programme and investment needs
Hedging policy and exposure to interest rate volatility	Exposure to “Welfare Reform”.

Key Financial Metrics

- These include;
  a) Operating margins, sales margins & net result.
  b) Leverage (multiples of debt/turnover and debt/EBITDA)
  c) Interest coverage on EBITDA MRI basis i.e. after deducting any capitalised spend on major repairs
  d) Debt Service coverage on EBITDA MRI basis

Why *also* use EBITDA MRI debt service coverage as key measure?

- Operating cash-flow (for which we use EBITDA as proxy) ought to be sufficient to cover:
  - The ongoing investment needs of the stock to maintain it in good condition.
  - Cash interest costs as they fall due, and leave something over to pay-down debt over time.

Financial Plan Stress Testing

- Part of financial assessment – will require sight of Board supported multi-variate stress testing scenarios.
- Expect scenarios to include:
  - Rent variants outside of the current formula.
  - High inflation / high interest rate situations.
  - Hair cuts and delays to sales proceeds where an association has shared ownership or outright sales schemes planned.
  - Adverse Welfare Reform impacts.

- THFC reviews impact of stress scenarios on covenants and level of debt required vs. available liquidity.

Credit Review — Ongoing Monitoring

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- Management accounts and key regulatory returns are reviewed on a quarterly basis
- Statutory accounts and key financial metrics are reviewed annually
- Financial plan and 30 year forecasts, and stress testing are reviewed annually – or when otherwise necessary (eg merger)
- Where there are causes for concern (financial or otherwise) a borrower is added to a watchlist for more intensive monitoring and reporting to credit committee

Credit Grading Model

- At origination all borrowers are assigned a credit grade based on THFC's bespoke grading model
- All borrowers' grades are reviewed annually
- Credit grades enable THFC to risk rank the portfolio and are a tool in new lending decisions
- Grading model is based on the business plan submitted to the regulator and asks a number of questions, the answers to which are given different weights to calculate an overall score
- Questions and weights are reviewed regularly by THFC Credit Committee to ensure key risks are captured

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Security Charging

- Team led by qualified solicitor
- Full title review by retained law firms with expertise in social housing
  - Title risks highlighted and other risks considered (concentration, property type etc)
  - Properties rejected if risks are viewed as unacceptable
- Valuation based on MVT – taking into account all title restrictions
- 5 yearly revaluation – but more frequently if required
- Specific review of portfolio impact following sector-wide issues eg rent reductions, tower blocks and fire safety issues.

Tower Blocks and Fire Safety

- Initial information gathering
  - DCLG requirements
  - THFC specific information
- Additional information requested
- Status of responses
- Actions taken
- Overall impact

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Sector Outlook — Policy Environment and Risks

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The Policy Pendulum Swings from: Home-Ownership to Address All Tenures

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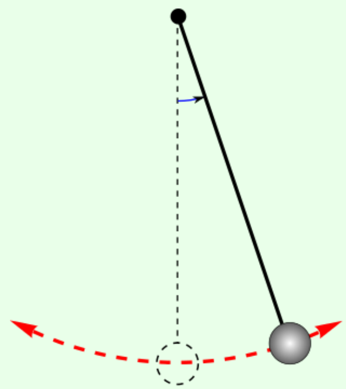

2015 Policy	2017 Policy
Home ownership for everyone	Wider choices of tenure reflecting affordability
£4.7Bn grant primarily for home-ownership (back-loaded)	£4.7Bn +£1.4Bn grant for broader mix of tenures (pulled forward in AFS)
Voluntary RTB for HAs	Pilots…but unaffordable?
4 x 1% Rent Cuts to 2019	Post 2020?
Re-classification	De-classification – achieved by de-regulation
Welfare expenditure control	Welfare expenditure control?

Sector Rents Post 2020?

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- Significant variation in approach in response to rent cuts.
- LHA indexing freeze and potential capping from 2019 could have a material impact: particularly in areas of limited demand and for supported housing
- To date DWP seem to be holding firm on Welfare cuts
- Significant uncertainty over Supported Housing until Green Paper publication.

Regulation Update

Homes & Communities Agency

- *Core regulation tools remain:*
  - Setting standards
  - Enforcement toolset for non-compliance
- *Features of Deregulation*:
  - Removal of consents for constitutional change
  - Removal of consents for disposals
  - Introduction of regulator notification of constitutional changes, restructures and disposals
  - Removal of disposals proceeds fund
- *Efficiency: Social Housing Cost per Unit*
- *Housing Administration*

Sales Exposure

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** indicates a top 20 THFC exposure - ie >£35m*

Development activities share of total turnover

	Housing Association	Turnover (£m)	First Tranche Sales (£m)	Non Social Housing Development Sales (£m)	Total Development related activity (£m)	2015/16	2014/15	Δ
1	Clarion	825	57	50	106	13%	18%	-5%
2	L&Q	720	58	211	269	37%	36%	1%
3	Sanctuary	669	28	0	28	4%	3%	1%
4	Places For People	617	3	99	102	16%	8%	8%
5	Guinness	426	20	83	103	24%	15%	9%
6	Notting Hill	415	76	73	148	36%	36%	0%
7	Genesis *	406	19	58	77	19%	10%	9%
8	A2D *	378	26	114	140	37%	28%	9%
9	Anchor	367	0	56	56	15%	0%	15%
10	Riverside *	366	4	25	29	8%	8%	0%

Source: Social Housing Magazine

- Historic accounts focus on London-centric sales
- Forward looking sales show a more national picture and rapid growth of individual programmes
- More nuanced analysis would look at timing, clustering, expertise as well as liquidity

Mergers: the Big Fish Eat the Small Fish?

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- The sector has seen a number of mergers of “equals” in terms of size – not necessarily financial strength
- Rationale is about delivering development capacity through generating efficiencies as a larger organisation.
- Geographic fit is often an enabler
- Cultural fit essential for success of a merger of equals

- THFC consent to mergers is required in almost all THFC loans
- No significant concentration issues to date but considered as part of consent process

Ozmo: Big Fish Eat Small Fish. Cargo, Shoreditch (After Bruegel the Elder and Ingris)

Conclusion

- The first half of 2017/18 is a transition period for THFC
  - Completion of the AHF underwriting with a portfolio of over £3billion with c.65 borrowers
  - Review of new lending opportunities
- Our underwriting and portfolio management expertise gives us a detailed knowledge of how HAs are responding to a variety of market challenges
- We will use this knowledge to underwrite selective incremental credit – first in THFC Limited

Key Tap Transaction Terms

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Issuer	T.H.F.C. (Funding No. 3) PLC
Ratings	A (S&P)
Format	Senior, Secured, Reg S Bearer
Size	£[ ]m including [ ]m retained
New Total	£[ ]m
Coupon	5.200%
Maturity	Expected maturity: 11 Oct 2043 Legal maturity: 11 Oct 2045
Security	Floating charge over assets of THFC
Use of Proceeds	The proceeds are to be lent to authorised borrowers on the following security terms • Asset Cover of 150% (on an MV-ST basis) • Net Annual Income Interest Cover of 100%
Denominations	£100k x £1k
Listing	London – Professional Securities Market
Governing Law	English
Bookrunners	HSBC, RBC Capital Markets

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Appendix

THFC Ltd Rated Issuance

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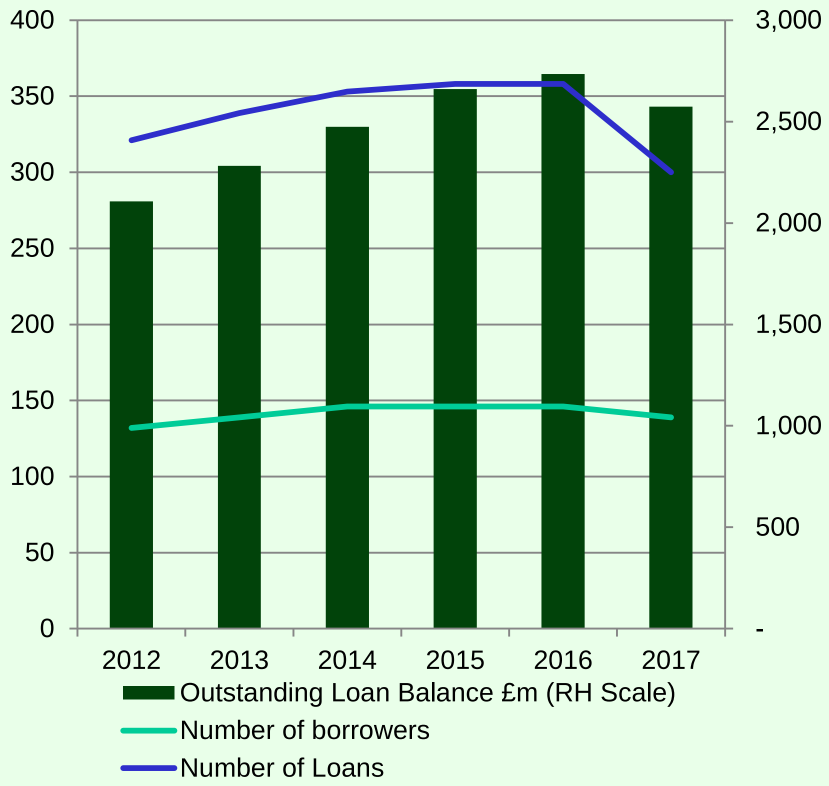
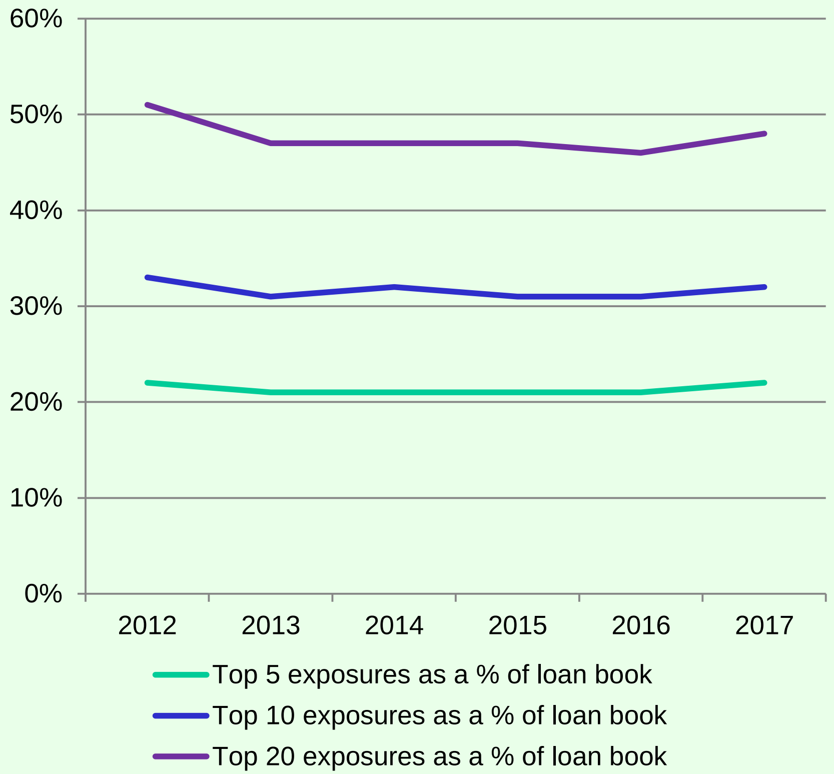
Bond	Rating (S&P)	Outstanding £k	Index Constituent
THFC (Funding No.1) 5.125% 2035/37	A	235,205	iBoxx
THFC (Funding No. 2) 6.35% 2039/41	A	370,850	iBoxx
THFC (Funding No.3) 5.20% 2043/45	A	625,300	iBoxx

THFC Ltd Loan Portfolio as at 31 Mar 17





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Geographical Portfolio Spread by Current Balance

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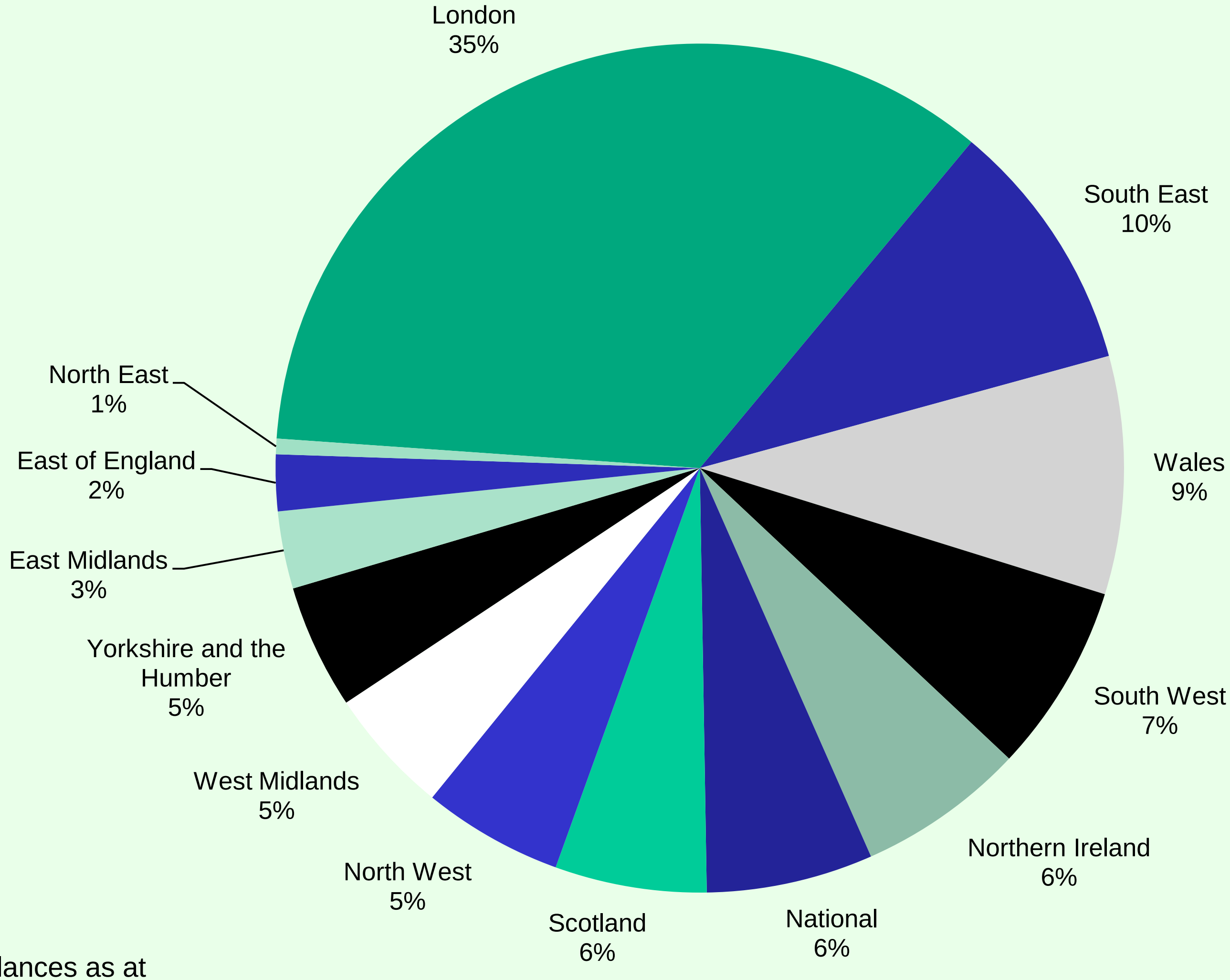

Loan balances as at
30 June 2017

THFC: Standard & Poor's Rating
Major Rating Factors

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Strengths	▪ Relatively strong franchise value ▪ Strong support from the UK Government, which underpins borrower creditworthiness ▪ Robust collateralisation of loan book ▪ Match-funded approach minimizes asset-liability risk
Weaknesses	▪ Modest liquid financial resources and low capital levels ▪ Exposure to single sector, with borrower-concentration risk ▪ Potential for conflicts of interest could arise from board composition and responsibilities ▪ Vulnerable to operational risk stemming from small staff numbers and key personnel risk

THFC's S&P Rating was lowered one 'notch' to A Stable following the UK Sovereign downgrade in July 2016.

Prior to this, THFC's rating had remained unchanged at A+/Stable/A-1 since first obtained in 2004

Now classified as a Finance Company along with other companies whose primary focus is lending to the public sector or lending to government-supported borrowers

Rating potentially includes one notch 'Government Related Entity' uplift from SACP

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What does BREXIT mean for HAs?

- Domestically focussed industry
- Demand/housing need remains high
- Skills shortage: the Farmer Review: exposed to differential inflation
- Uncertain investment environment
- Progressively more freedoms from Government?

Constraints in an Uncertain World

- Potential for the super-prime London correction to filter down
- Risk to free cash-flow
- Lender covenants
- Drive for efficiency
- Differential inflation
- Skills shortages
- Lack of consistent policy
- Lack of development sites

BUT

- BREXIT could drive domestic investment
- Relaxation of elimination of structural deficit
- Lowest long term interest rates….ever!
- Chronic shortage of affordable housing

THFC Management

Chief Executive
Piers Williamson

Executive Assistant

Group Treasurer
Fenella Edge

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

Finance Director and Company Secretary
Colin Burke

- Accounting and Finance
- Managed Companies – Monitoring and Reporting
- Company Secretarial

Credit and Risk Director
David Stokes

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

THFC Non Executive Board Members

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Ian Peacock *	Non Executive Chairman Ex-Investment and merchant banker.	Appointed 2013
Will Perry	Assistant Director of Commercial and new Entrants Homes and Communities Agency	Appointed 2014
Gill Payne *	Executive Director of Public Impact National Housing Federation	Appointed 2014
Keith Exford CBE	Group Chief Executive Clarion Housing Group	Appointed 2011
John Parker *	Chartered Accountant, Vice Chairman Newbury Building Society, former building society Chief Executive and Chairman Building Societies Association	Appointed 2010
Deborah Shackleton CBE *	Former Chief Executive Riverside Housing Group, Chair Grainger Trust	Appointed 2011
Charlie Arbuthnot **	Ex-investment banker: Warburgs, Hambros & RBC Capital Markets. Now independent consultant	Appointed 2008

** Member of THFC Credit Committee*

*** Chair of THFC Credit Committee*