

The Housing Finance Corporation Investor Non-Deal Update November 2023



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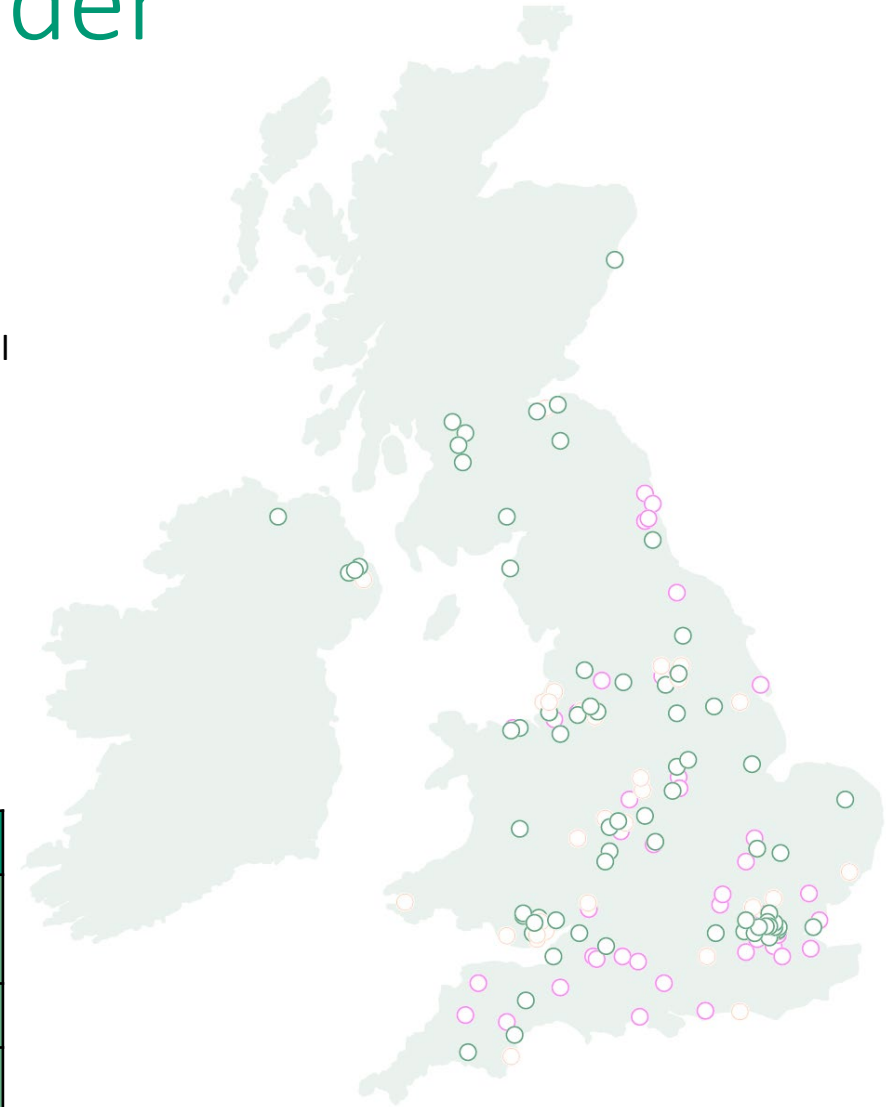
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About THFC

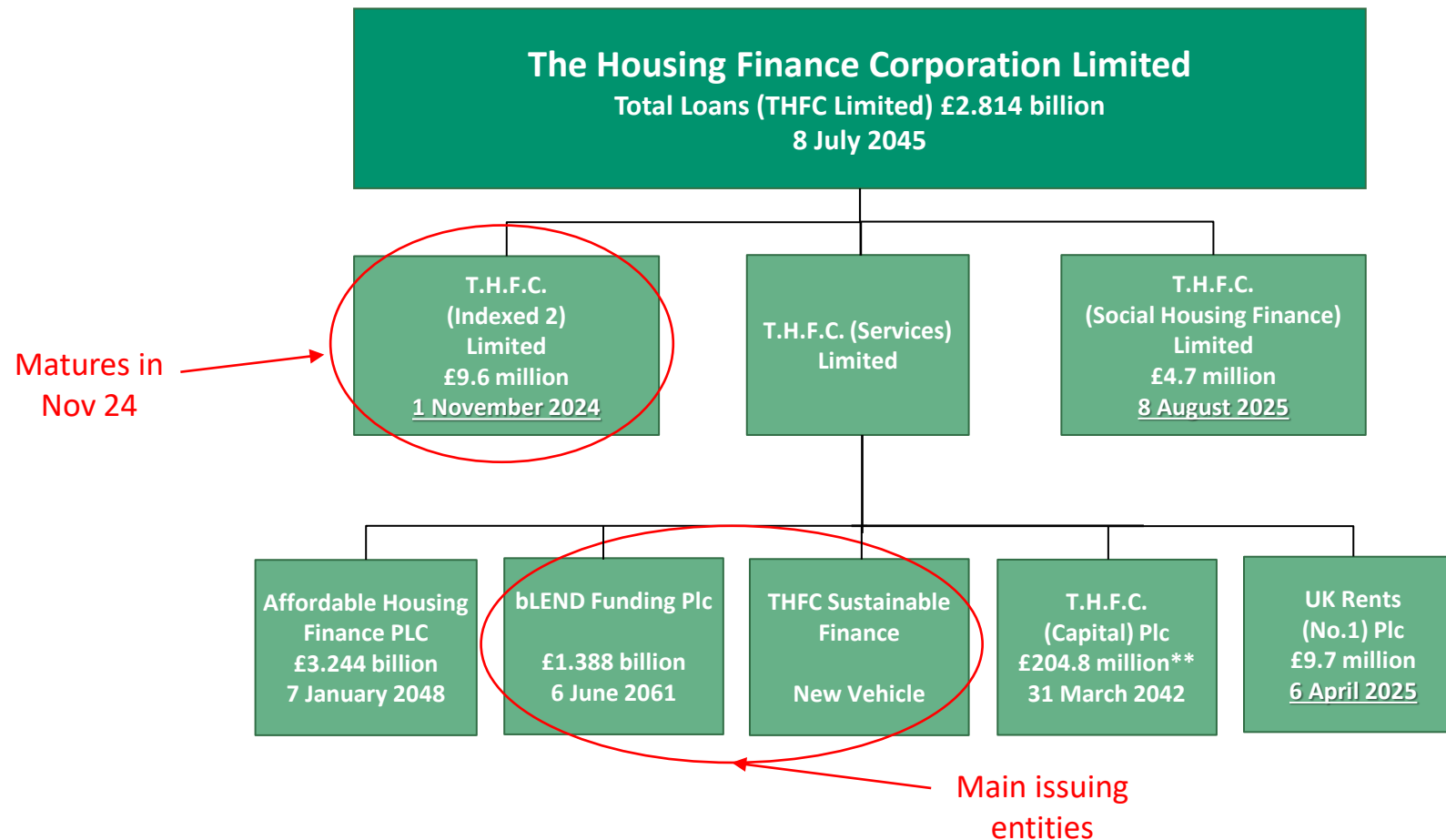
THFC – Market Leader

- THFC is a specialist, not-for-profit finance company that makes loans to regulated housing associations.
- THFC currently provides over £8.13bn of long-term funding to 149 housing association borrower groups throughout the UK.
- THFC is the largest mutual lender to housing associations in the UK and an active lender in all four nations of the UK.
- Founded in 1987 with both the National Housing Federation and the (English) Regulator as shareholders, the THFC model has consistently created accounting surpluses every year.
- Growth in recent years has come primarily through bLEND Funding Plc which has grown to nearly £1.5bn with 5 different maturities. bLEND continues to grow, with 3 new borrowers added to the bLEND pool in 2022/23 and with one more added since year end.
- THFC, through its subsidiary Affordable Housing Finance (AHF), manages £3.2bn of loans guaranteed by UK Government under a long-term licence.

Market coverage	31 March 2023	31 March 2022
Total number of borrower groups in THFC Group	149 (161 borrowers)	149 (161 borrowers)
Total number of borrower groups in AHF	59	59
Total number of borrower groups in bLEND	30	27



THFC Group Structure*



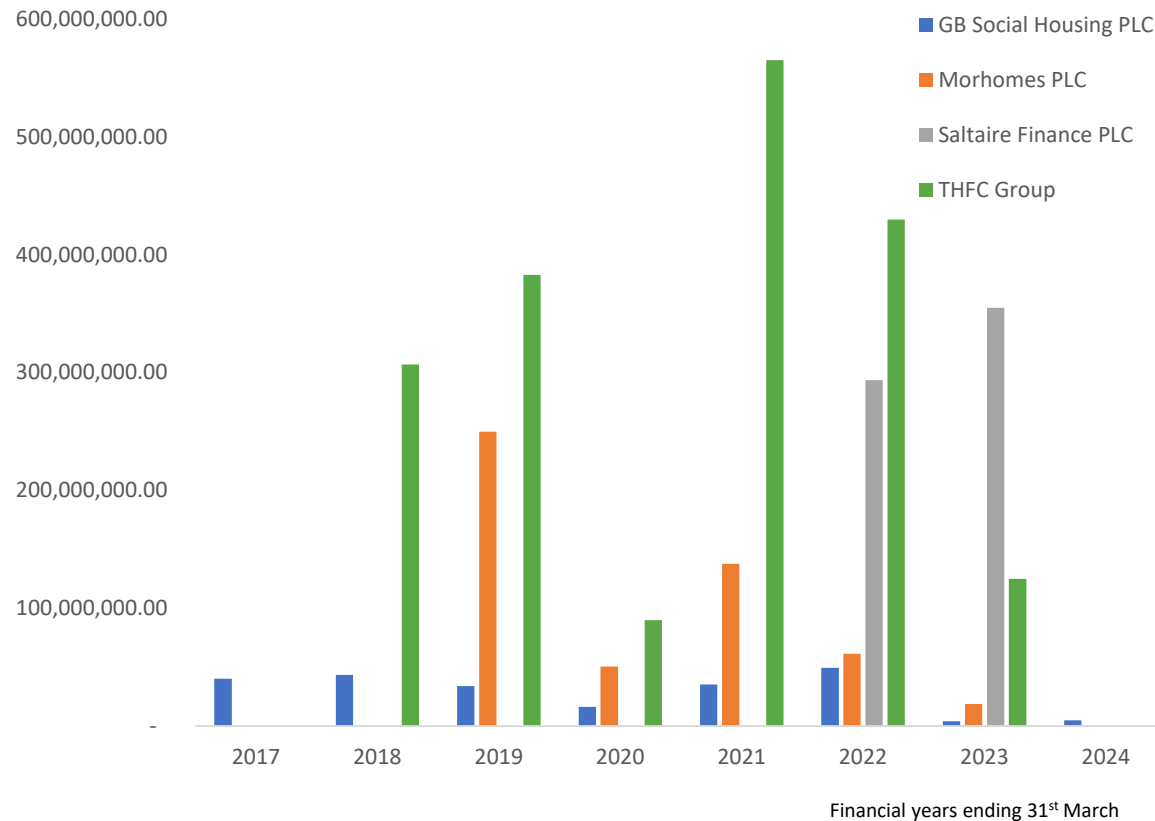
*As at 31st March 2023

**THFC (Capital) Plc's loan balance reduced by £200m in the year following the prepayment of bank loans by Gentoo

Dates show longest maturity loans in each entity

THFC is the largest provider of aggregator finance

Social Housing Aggregator Issuance (excl. retained bonds)



Bond	Rating S&P	Rating Moodys	Issued (£000's)
THFC (Funding No.1) 5.125% 2035/37**	A	-	249,376
THFC (Funding No. 2) 6.35% 2039/41	A	-	370,850
THFC (Funding No.3) 5.20% 2043/45*	A	-	1,055,300
Total THFC Rated Issuance			1,675,526
AHF 3.80% due 2042/44	AA	-	600,900
AHF 2.893% due 2043/45	AA	-	1,143,200
bLEND (MTN Programme)	-	A2	1,470,000
Total THFC Group rated bonds issued			4,889,626

bLEND – Moody's rated since 2018

THFC - S&P rated since 2004

Resilient Credit Ratings

THFC Group Rated A (stable) by S&P

“Despite inflationary pressure and high interest rates, we believe credit quality of The Housing Finance Corp. Ltd. (THFC) will remain strong. We expect THFC’s management policies and governance standards will support the company’s robust capitalization, and strong funding and liquidity ratios.”

S&P Research Update: Housing Finance Corp. Ltd Sep 23

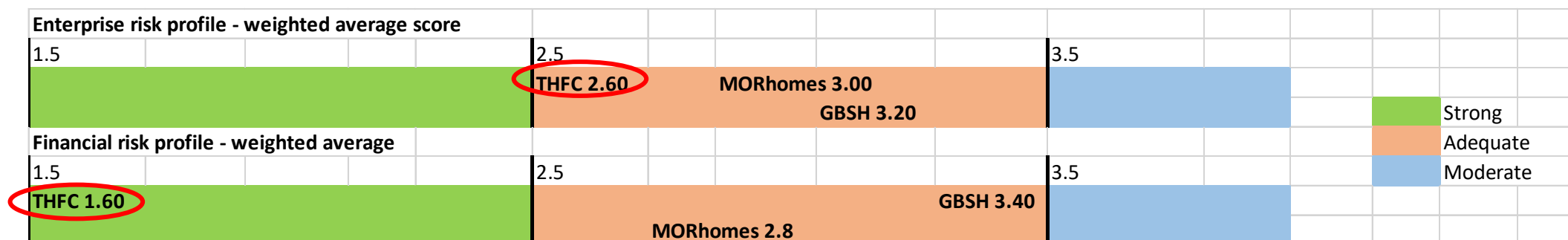
bLEND Rated A2 (stable) by Moody’s under its Public Sector Pool Financings Methodology

“The credit profile of bLEND, reflects the strong credit quality of the participants in bLEND’s pool programme, the structural enhancement provided by a one year liquidity reserve, consistent cash flows and the strong experience and expertise of the issuer’s management team.”

Moody’s Credit Opinion – bLEND Funding plc

THFC S&P Rating and Peer Comparisons

		THFC Oct-23	SACP/Rating a/A		MoRHomes Dec-22	SACP/Rating a-/A-		GB SH Jul-23	SACP/Rating 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		2	Strong		3	Adequate
Weighted average		1.60			2.80			3.4	
Rounded (per Table 1)		2			3			3	
		Strong			Adequate			Adequate	



Group and THFC – Five Year Financial Record

£000's	2019	2020	2021	2022	2023	Half year to Sep 2023
Total Revenues	10,595	8,565	12,427	12,486	12,266	6,890
Total Costs	4,787	5,178	5,229	5,976	6,496	3,433
Surplus before tax	5,808	3,387	7,198	6,510	5,770	3,457
Tax	(1,111)	(692)	(1,459)	(1,170)	(940)	(864)
Surplus after tax	4,697	2,695	5,739	5,340	4,830	2,593
Net Pension Charge	(1,163)	909	(860)	385	(216)	-
Group Accum. Reserves	38,099	41,703	46,582	52,307	56,921	59,514
Group Loans Outstanding	7,333m	7,456m	7,874m	8,220m	8,130m	8,132m

**Group Loans Outstanding has reduced from 2022 to 2023 due to the prepayment of £200m of bank loans by Gentoo through THFC Capital*

Notes: Please see THFC Annual Reports and Accounts for full details (www.thfcorp.com)

Loans outstanding includes unamortised premium

Sector Context

Housing Policy Environment

- Social Housing (Regulation) Act
 - Focus: consumer issues such as safety, transparency and tenant engagement, with new enforcement powers to tackle failing landlords
- Intensified naming & shaming: RSH and Housing Ombudsman
- Rent cap in England set at 7% for one year; next year's rent settlement likely to be CPI+1%/7.7%
- Politicians increasingly speaking of housing crisis, with Labour announcing plans at conference
- £3.8bn Social Housing Decarbonisation Fund on second phase, but only £957m allocated to date



Business Context for HAs

The business environment for HAs is arguably tougher than at any time in its history, and whilst the sector recovered well from the pandemic and began to re-energise investment and development activity, new challenges have manifested themselves, most notably:



Capped rents
and continuing
high inflation



Interest rates
remain high (in
relative terms)



Fire safety
remediation



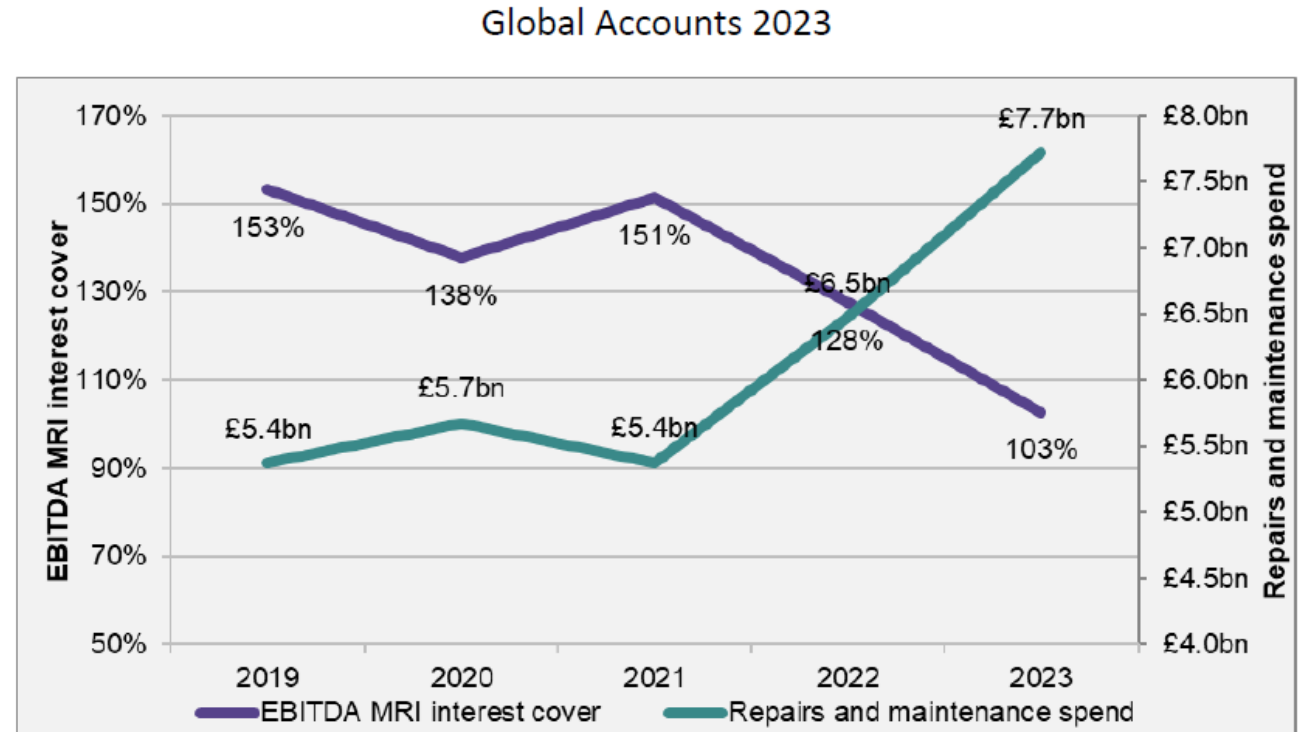
Decarbonisation
agenda



Need for
increasing levels
of investment in
stock

Wider Stock Investment Trends and Interest Cover

- This chart is reproduced from the Regulator of Social Housing's presentation to investors in October 23. The ongoing need to invest “exceptional” funds into stock is the key driver of lower interest cover across the sector.
- The increased investment in stock is also reported by the Regulator as being a factor in 55% of HAs being assessed as V2 for financial viability.



Business Context for HAs Continued

The challenges discussed earlier should be viewed in the context of:

- The continuing countercyclical nature of HAs' core social housing business, with a significant demand/supply imbalance
- Around 60% of HAs' revenues being underpinned with Housing Benefit/Universal Credit
- Continued significant Government investment in the sector via grants, loans, site enabling works, joint ventures, etc
- Strong demand for HA debt, leading to ready access to long term committed liquidity
- An ability to flex development expenditure if required



A Word About Mergers



- ✓ Mergers of necessity
- ✓ Mergers to increase resilience

Other merger rationales:

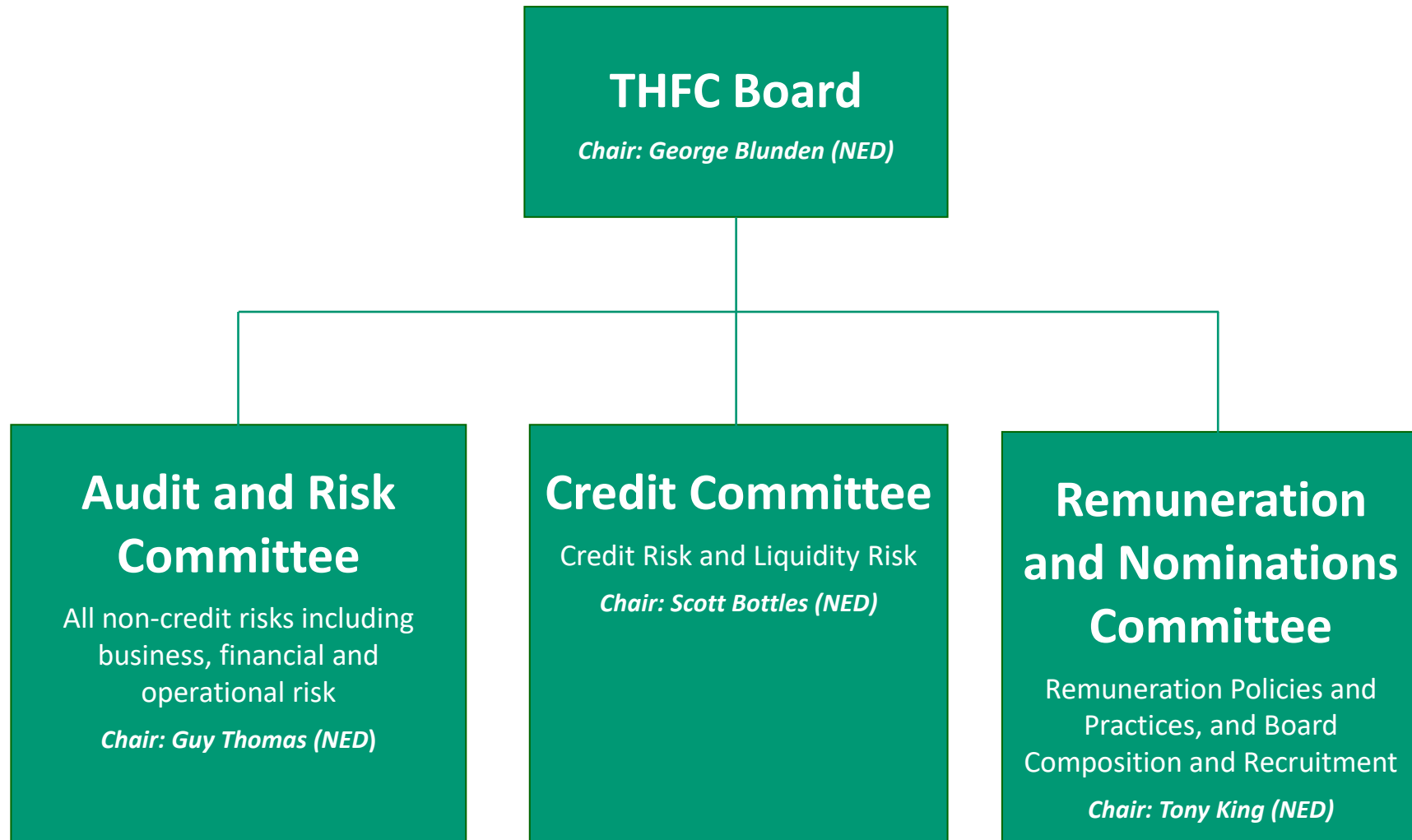
- Accelerate stock improvements/fire safety
- Improved influencing power
- Achieving better critical mass in key geographies

Greensquare/Accord
Karbon/Leeds & Yorks
Peabody/Catalyst
Optivo/Southern
Riverside/One
Sanctuary/Swan
Sovereign/Network
Abri/Silva
Guinness/Shepherds Bush
Poplar Harca/THCH
Origin/PfP

Looking to the future - remaining appetite among larger HAs to absorb smaller ones is an unknown, although the Regulator of Social Housing said that they are continuing to “*test sector appetite for rescues*” and “*maintaining an understanding of rescuer/merger appetite*”

THFC Structure

THFC Governance



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 DEI to include Board
- Cyber security: resilient cloud-centric operating model, regular penetration testing and audits, Cyber Essentials accredited

Governance Structure

- Audit & Risk, Credit, and 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 principal 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

THFC Governance

			ARC	CC	RNC
George Blunden Chair of the Board	Former Chair of: Stonewater HA, Charity Bank and Southern Housing Group.	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	x	
Shirley Smith Senior Independent Director	Non-executive director at CREFC. Extensive experience in real estate and infrastructure finance.	Appointed 2018		x	x
Fiona MacGregor	Chief Executive of the Regulator of Social Housing (“RSH”). THFC RSH nominee director.	Appointed 2023			
Gail Teasdale	Chief Executive of Broadacres Housing Association. Board Member NHF also THFC NHF nominee director.	Appointed 2023			
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	x

ARC – Audit and Risk Committee

CC – Credit Committee

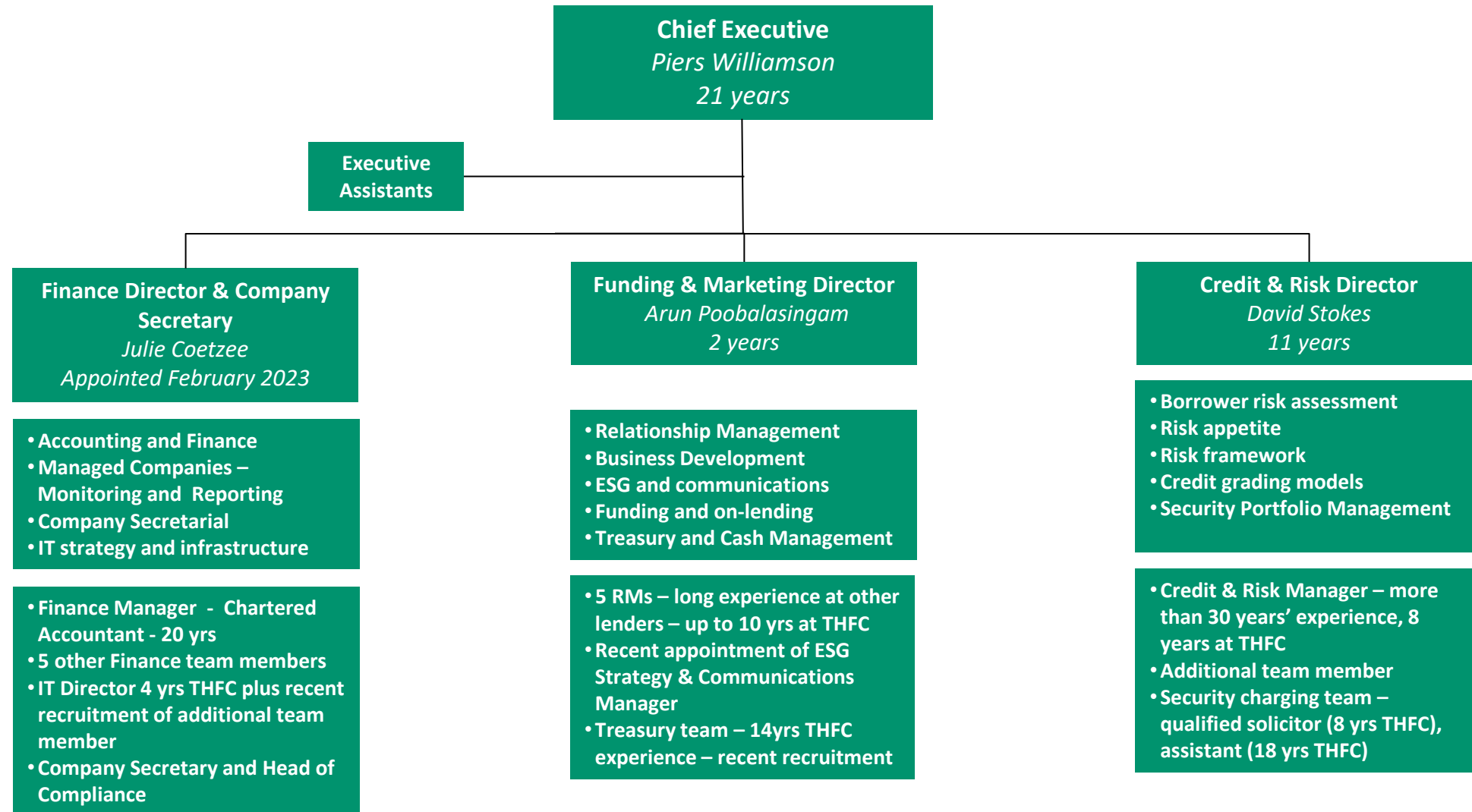
RNC – Remuneration & Nominations Committee

x – Committee Chair

THFC Governance

			ARC	CC
Piers Williamson Chief Executive	Over 35 years of experience of the UK, US & European financial markets specialising in bank treasury risk management and securitisation. A qualified banker and treasurer he is a sector expert on housing finance. Non-exec member of HCA Regulation Committee 2012-2015 and currently chair of Newbury Building Society.	Appointed 2002		×
Arun Poobalasingam Funding and Marketing Director	Over 20 year of experience in Finance, Treasury and Banking. Was instrumental in setting up and then leading the nascent social housing business at HSBC. Was Capital Markets Manager at Network Rail helping to manage and issue through its £20bn EMTN programme. He started his career at Diageo and qualified as both a Chartered Management Accountant (CIMA) and Corporate Treasurer (ACT)	Appointed 2023 (Joined THFC in 2021)		×
Julie Coetzee Finance Director	Julie is a chartered accountant with over 30 years of experience. Julie has spent the last 20 years at JP Morgan Chase & Co, holding several different positions in financial controlling and regulatory reporting. Prior to that, she worked at KPMG Australia in their audit practice.	Appointed 2023		
David Stokes Credit and Risk Director	More than 40 years finance sector experience across a range of financial institutions. A credit risk specialist, he was Head of Credit at Fortis Bank, the Bank of Ireland, and at Santander he was Head of Corporate Credit with responsibility for large corporates, specialised finance, real estate and social housing.	Appointed 2023 (Joined THFC in 2012)		×

THFC Executive Management



ESG

Significant Investment in ESG

THFC has published three new ESG-related reports within the last month, reflecting our steadfast commitment to improving the quality of our ESG reporting and activities.

- Sustainability Reporting Standard (SRS) Report and inaugural Sustainability Report published on Monday
- DEI Strategy and Action Plan published earlier this month

3rd SRS Report



Third consecutive Sustainability Reporting Standard Report, reflecting aggregated ESG progress of bLEND borrowers

DEI Strategy and Action Plan



Formalises our DEI strategy and sets out board-approved targets and actions; developed in collaboration with THFC staff and external DEI consultant

Inaugural Sustainability Report



Provides transparency on THFC's ESG risk factors, sustainability progress, and ESG activities; serves as baseline for THFC's group-level ESG reporting

Significant Investment in ESG

Other ESG activities throughout the last year have included:

Cost of Living seminar in February 2023

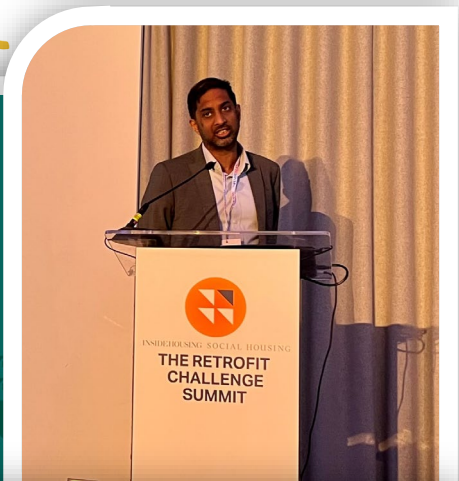
Thought leadership on ESG and retrofit topics

Health and Housing seminar, taking place on 9th November

Sponsorship of The Trussell Trust

Involvement in Welsh Pathways to Board initiative

More than homes.

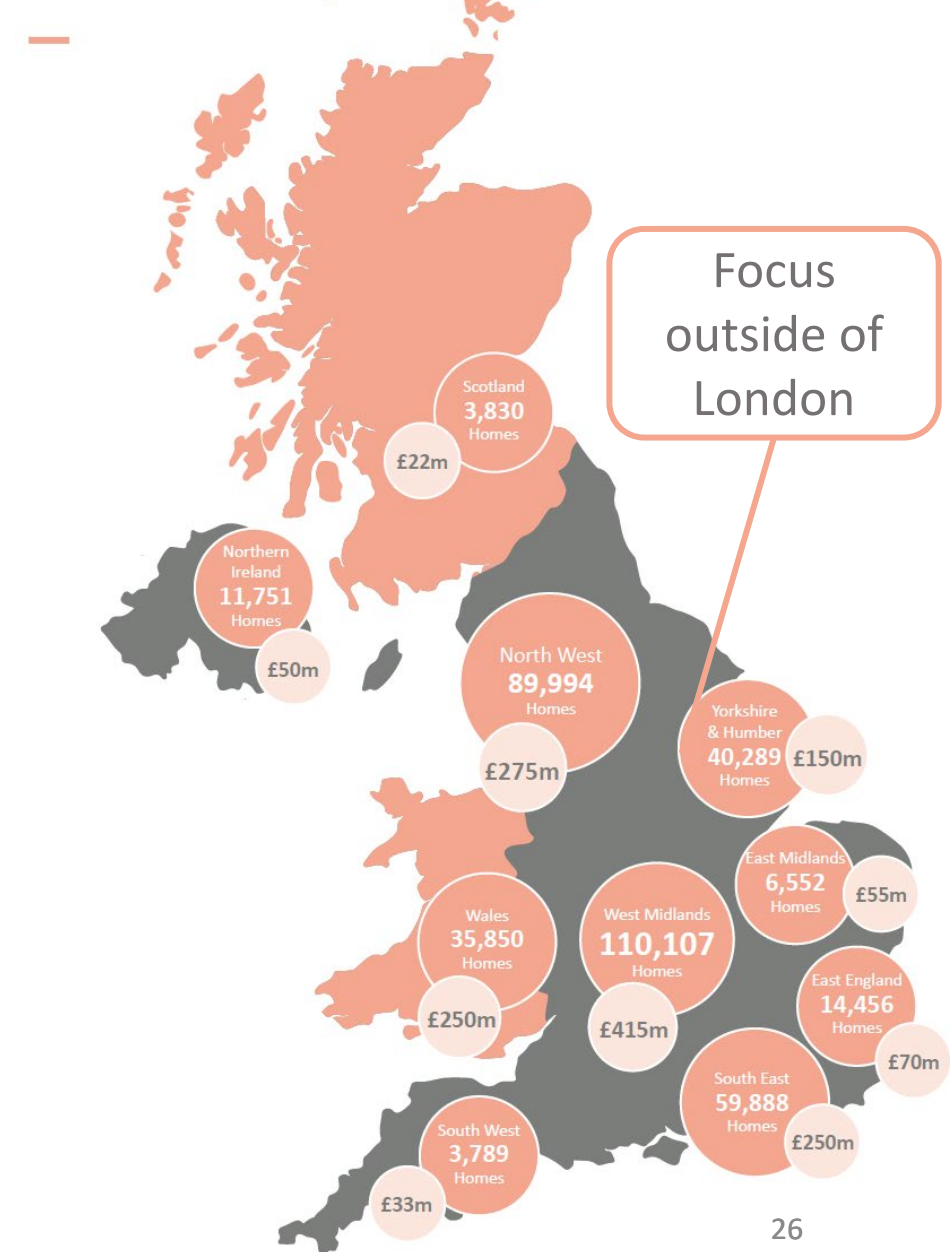


bLEND and TSF

£1.47bn issued in 5 years

- Entire £1.47bn issued to date accredited as Social Bonds
- £75m accredited as Sustainability Bonds
- 2047 and 2054 series both of benchmark size
- £425m of deferred drawdown loans written, £40m pending drawn down
- Portfolio concentrated on mature LSVTs
- Geographically diverse portfolio with a focus outside of London
- Borrower business model focussed on predominantly social and affordable housing
- Loans are always fully secured by either cash or property security

bLEND footprint





A snapshot of bLEND borrowers at 31/03/2023, based on data from borrowers' Sustainability Reporting Standard (SRS) returns for the 2022/23 financial year.



6%

median gender pay gap



98%

average fire risk assessment completed by borrowers



59%

average rents vs private rent levels



5.8 : 1

CEO-worker pay ratio

30

number of HAS disclosing against SRS

376,506
of all
home
tenures

total homes owned and managed across bLEND portfolio



7,192
NEW
HOMES

delivered by borrowers

EPC ratings for existing homes

67% C
and above

EPC ratings for new homes

98% C
and above

THFC Sustainable Finance

- New vehicle THFC Sustainable Finance (“TSF”) created to offer similar market terms to bLEND but whilst using the THFC brand and with a focus on sustainability
- Loans will support sustainable projects with TSF gathering and reporting data such as EPC rating of newly constructed units and EPC rating improvement of retrofitted units
- All credit due diligence undertaken using THFC’s proven credit processes
- This new vehicle under the THFC brand will benefit from S&P’s A (stable) rating of the THFC Group
- The structure allows for borrowings from other secured creditors outside of the EMTN programme, including USPPs under NPA documentation
- EMTN programme live and ready to go once market conditions, borrower demand and investor demand are suitable



Summary and Conclusion

THFC – Measured Growth

- The acute political/policy focus on tenant interests and remediation environment has shifted spending priorities of HAs away from development
- Higher interest rates are driving HAs to prefer short term funding
- Given the lower demand for long term fixed rate debt alongside increased sector risks our approach to customer accumulation will be cautious and deliberate
- However, THFC's proven business model provides strong cash generation and stable earnings, and this enables the THFC to remain patient and be committed to **measured** growth based on its risk appetite.
- THFC will seek to capitalise on its track record as a long-term, stable business that can access the market at competitive pricing levels and leverage existing relationships with 149 customers.
- We will also continue to innovate and develop our offering to meet the changing funding needs of our clients and anticipate opportunities from refinancing of short-term funding in a stable rates environment.

Conclusion – Patient Capital Needs Patience

- The recent period of significant political and market volatility, potentially presaging political change, is likely to continue until 2024/25
- Monetary focus on reversing the inflationary spike taking longer than initially forecast
- Around since 1987, THFC's strong revenues, large and stable customer base and deep stakeholder relationships support its consistently strong credit ratings
- This market leading presence will continue to underpin capacity for business development and innovation
- Strategic investments in staff, products and operations will consolidate resilience and capacity.
- With continued focus on credit and risk and in-house policy expertise, THFC remains extremely well-placed to provide a high-quality service to existing borrowers, as well as seeking out opportunities for new lending

