2017 Investor Presentation

27 November 2017

Transforming **lives**
Revitalising **neighbourhoods**

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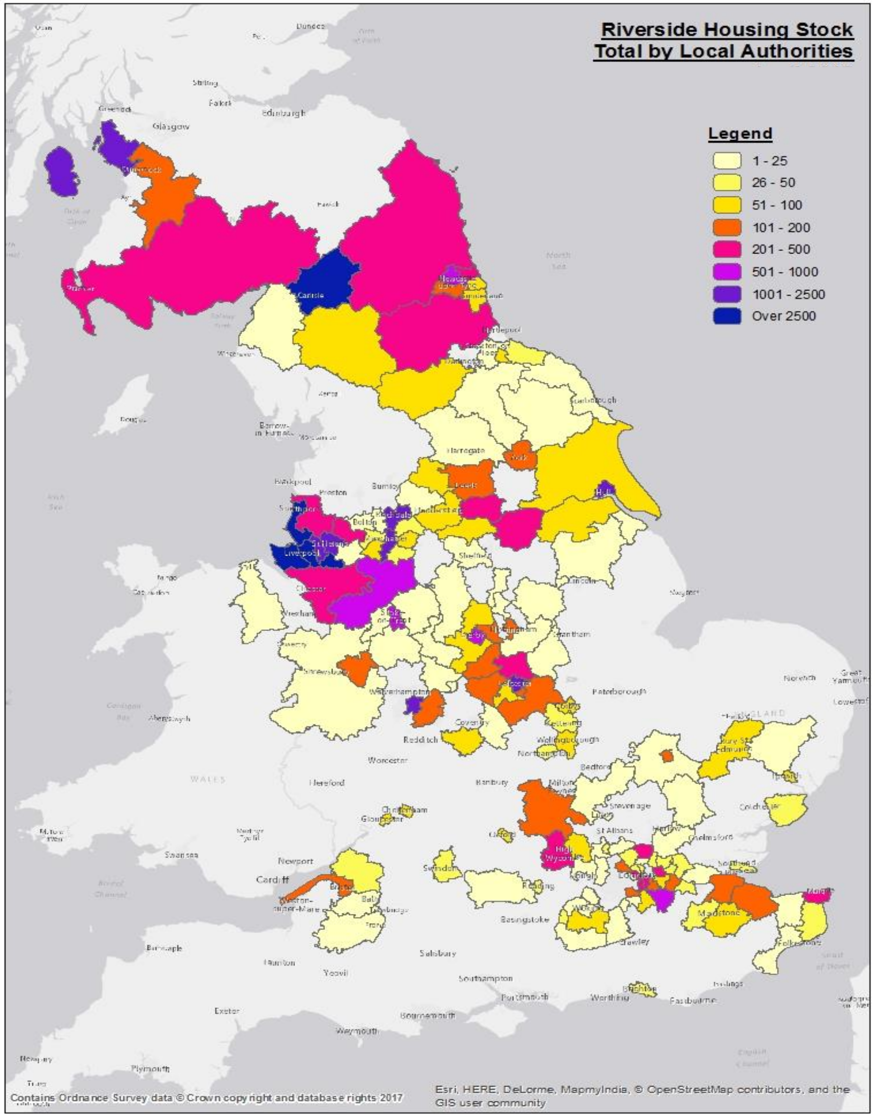
Riverside

About Riverside

- Responsible for portfolio of over 56,000 units
- Turnover £370m, Surplus £70m
- Undergoing transformation to deliver our core social objectives and step up supply to respond to the housing crisis
- Strong balance sheet with significant headroom against loan covenants
- Driving margin
- A1 Moody's rating following whole sector downgrade in September 2017 – currently still one of leading two



Riverside

2017 - 18

Year of change planned

- Ambition to increase supply of new housing units
- Risk aware in the current economic climate
- Internal transformation continues to improve services and reduce costs
- Constantly evolving business plan – ready to be agile and respond as required
- New strategy mix being deployed to drive margin harder
- Boost to governance and risk mitigation
- We will seek growth but not at any cost

Riverside

Governance

Inside Riverside - Planning for the future

Movement in 2017:

Joiners:
Tim Croston
Ingrid Fife

Leavers:
Philip Raw
Philip Han
Joy Baggaley (as co-opted member)

New appointments:
Pauline Davis as Vice Chair

Future plans:
Susan Jee to retire in 2019

Max Steinberg remaining as chair until 2020

Max Steinberg (Chair)

Pauline Davis (Vice Chair)

Susan Jee (Treasurer)

Jonathan Dale

Sally Trueman

Tim Croston

Peter White (Co-opted)

Carol Matthews (Co-opted)

Ingrid Fife

Riverside

Governance

Board and sub-committee structure

Board of Riverside Group

Max Steinberg (Chair)
Pauline Davis (Vice-Chair)
Susan Jee (Treasurer)
Jonathan C Dale
Sally E Trueman
Tim Croston
Carol M Matthews* (Co-opted)
Peter White (Co-opted)

London Development Committee

Pauline Davis (Chair)
Jenny Coombs
Dale Meredith
Paul Newbold
John R W Wood*

Scotland Committee

Duncan McEachran (Chair)
Margaret Burgess
Gerard Darroch
Pauline Davis
David Green
Sue Powell

Riverside Group Treasury Committee

Susan Jee (Chair)
Philip J Han
Robert Towers
Nigel Perryman
Devan Bala

Riverside Group Governance and Remuneration Committee

Pauline Davis (Chair)
Jackie Green**
Susan Jee
Max Steinberg

Riverside Group Audit Committee

Tim Croston (Chair)
Adrian Crookes
Susan Jee
Neil Skinner

Neighbourhood Services Committee

Peter White (Chair)
Rowan Carstairs
Jackie Grannell
David Green
Mary McAndrew
Duncan McEachran
Maria Milford
Sara Naylor
Sue Powell
Patrick Rice
Darren Warneford
John R W Wood*

Care and Support Committee

Anne Parker (Acting Chair retires 28 Oct 17)
Ingrid Fife (Chair from 29 Oct 2017)
Richard Austin
Ian Bennett
Judith Crowther
Pauline Davis
Andy Deutsch
John Glenton*
Hetal Parmar
Neill Skinner
Archdeacon Cherry Vann
Peter White

Key:
* Executives
** Jackie Green acts as Committee Chair for meetings at which non-executive remuneration is reviewed

Riverside

Governance

Executive team

- Executive team with combined experience of 171 years in Social Housing
- Influencers of government policy; selected for proof of concept and as pilot leaders
- Sounding board to the Regulator

Riverside

Governance
Regulation

Homes & Communities Agency
The social housing regulator

In-depth assessments

Component	Element
Strategy	The provider's strategic direction , priorities and its operating markets
Structure	The provider's structure, the interaction between the various companies within the organisation and the activities they carry out
Financial Resilience	In-depth analysis of the provider's long term viability: financial strength and financial management.
Risk profile and mitigation	Rounded assessment of the provider's understanding of the significant risks facing its business and how effectively it is managing them in the context of its risk appetite so that it can deliver its objectives, maintain its financial position and protect social housing assets.

13

- IDA completed Feb to Apr 2017
- Retained G1 / V1 rating
- All CQC rated services are at a minimum of 'Good'

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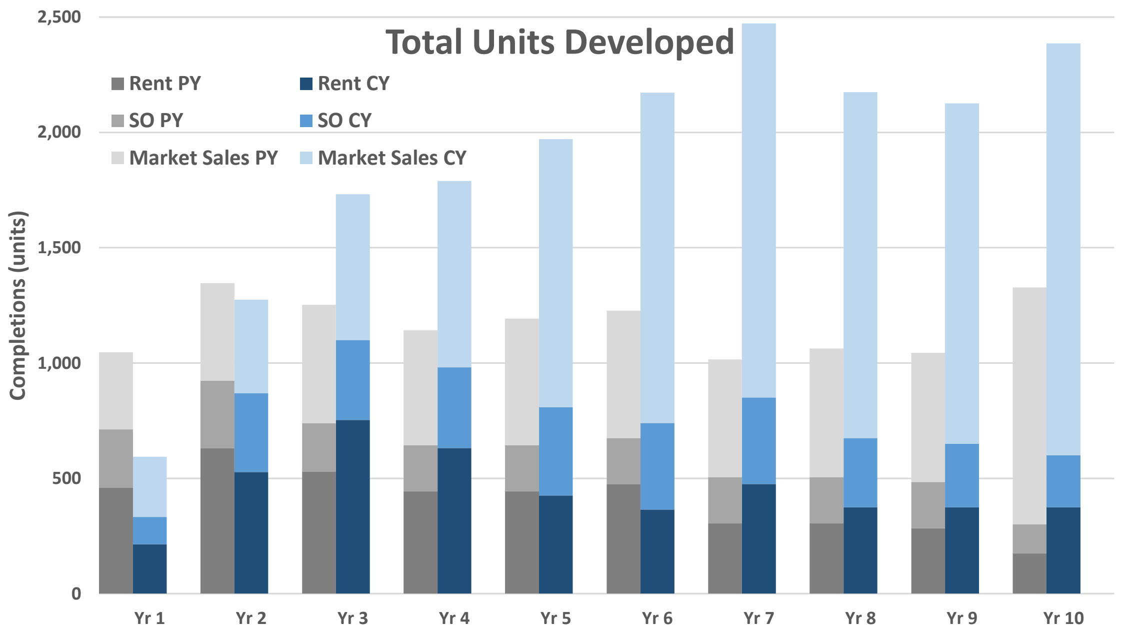
Strategy
2017 - 2020 Corporate Plan

- We are building
- We are connecting
- We are renewing

Strategy

We are building



- The graph illustrates the stepping up in supply of the new business plan (blue lines) versus the previous business plan (grey lines)
- Whilst the May 2017 business plan assumed a significant increase in market sale properties to cross subsidise affordable units, the mix is being re-evaluated given the change in market conditions over the past 6 months. However, the ambition to deliver the increased unit numbers overall has not diminished

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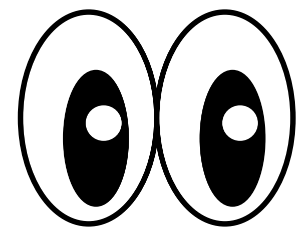
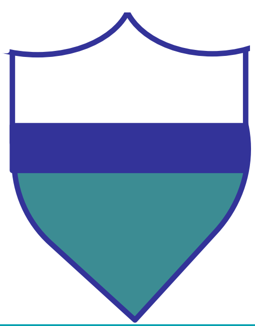
Strategy

Shaping the business plan

Ambition to step up supply and build more units across all tenure types to support the need for more housing in the UK



Board are entering into the Plan with ‘eyes wide open’; increased development = additional risk



Mitigation strategies are in place and being further developed to manage the risk and protect charitable assets

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Strategy
Shaping the business plan

- Influencing and responding
- Transformation
- Sales and development
- Driving margin
- Welfare reform

London Asset Development:

- Additional resource and governance to mitigate risk
- Understanding the challenge of timing, especially post Grenfell and with current downturn in London housing market.
- Engaging with tenants at the earliest possible opportunity and every step of the way

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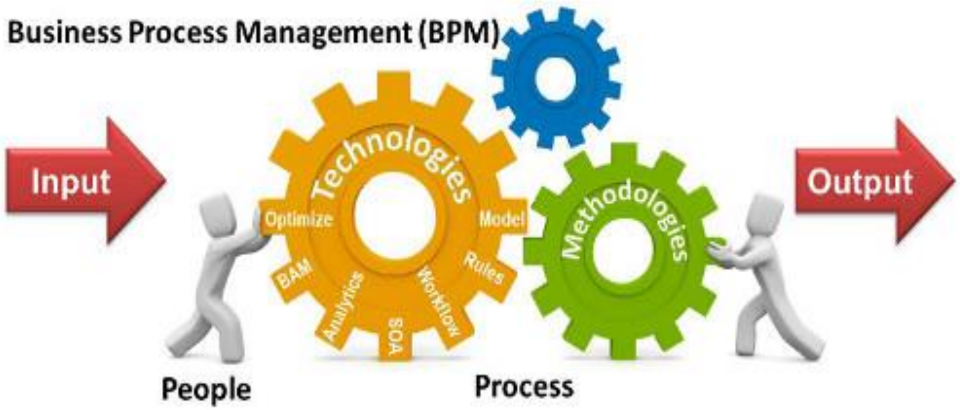
Business Plan – A change in pace

Transformation

Progress so far

- The operating model for Social Housing and Shared Services
- New model for Retirement Living in Care & Support
- A Business Partnering model for professional services
- A more modern approach for engaging with our customers and delivering local projects
- Deliver culture change across the business
- Update Housing system, agile working and virtual desktop



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Business Plan – A change in pace

Transformation so far – Saving 6 Ps

First year of Transformation in Riverside delivered **£15m** savings:

- £6.3m from People and Pensions
  (207 posts removed in the year)
- £2.3m from Procurement
- £5.0m from Properties
- £1.6m from Personal Responsibility
- (£0.2m) from Programme
  (Higher proportion of non-capitalised costs)

Raising performance

£15m

Saved in first year of Riverside transformation programme

Last year: Pre Target Operating Model

£1.9m

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Plan for the future

Six Point Plan

Rebalance tenure mix

Consider existing tenure types and whether to add new tenures into portfolio, including possibly sub-market or market rental units

Other revenue raising activities

Consider other revenue raising activities as opportunities arise or are sought out; e.g. managing stock for others, offering repairs service to others

Improve stock value

Improve returns from existing stock by enhancing investment in properties, reducing reactive maintenance and embedding delivery of our proactive MOTs

Driving Margin

Recognition that viable alternative financing strategies need to be available as an alternative to sales in an uncertain housing market; driving margin as a way to cross subsidise ambitious growth plans is a key element to this

Review sales strategy

Ensure that focus and resource is directed towards sales of most lucrative opportunities, most likely those in southern market with better margins

Reduce costs

Continuation of our internal Transformation Programme to deliver costs savings in all parts of the business; people, processes and procurement

Reduce overhead costs per unit

Reducing overall costs per unit by stock purchase, complemented by the delivery of the Target Operating Model in improving existing overhead costs

- New business plan will drive margin from 25% to 30%

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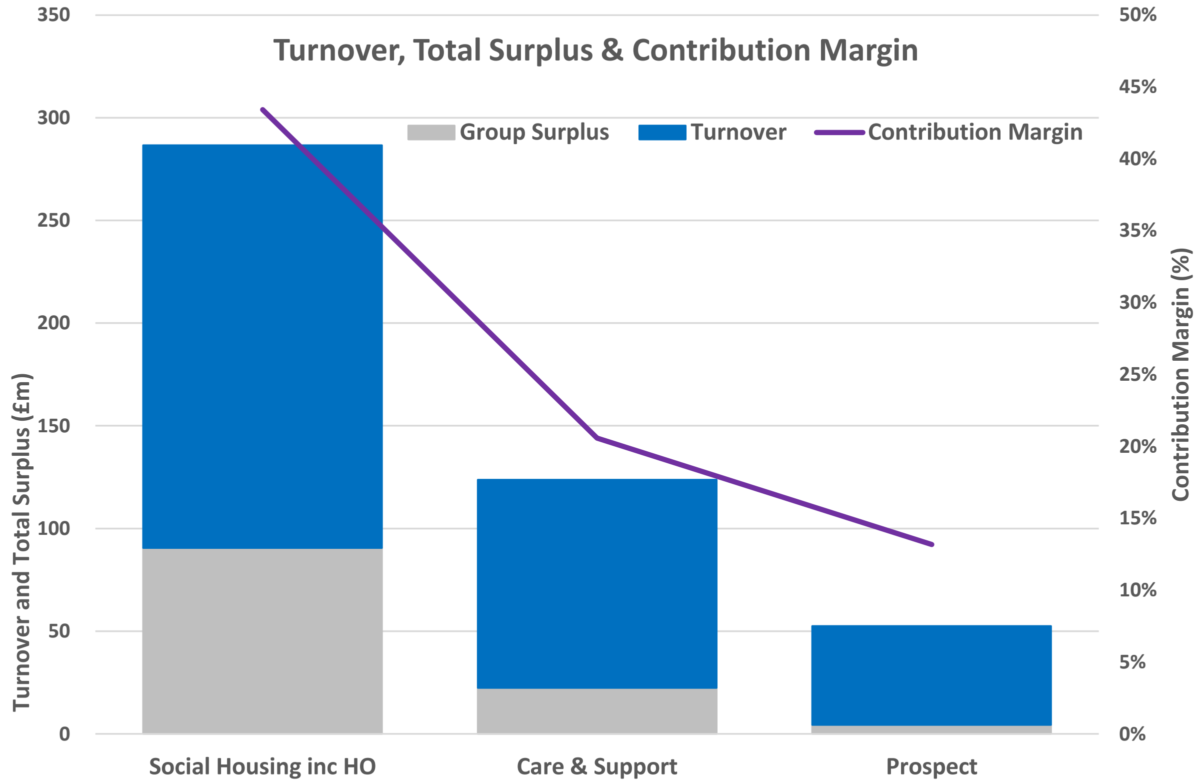
Business plan

Contribution from different business areas



- The line illustrates the difference in contribution from different business areas to central costs and overheads; our core social housing business remains the key contributor to margin (2017 / 18 business plan)

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2017/18 Business Plan

Summary – Ambitious but not at any cost

Objectives

- Continue to satisfy charitable objectives
- Continue to explore ways of managing the business prudently
- Work to return to target operating margin (25%) as quickly as possible and then push on to new objective of 30%
- 30 years covenant compliance
- Respond to the pressure to provide more new homes

Risk Mitigation

- Planned provisions in early years
- De-risking the balance sheet with pension exits and self-sufficiency drive
- Aware of risks of stepping up supply in current market conditions; remaining vigilant with processes to support this
- Making TRGL more agile to respond as required
- Grants on their way back? Additional source of funding before needing to utilise Riverside resources to build
- Programme change – s106 developments increasing

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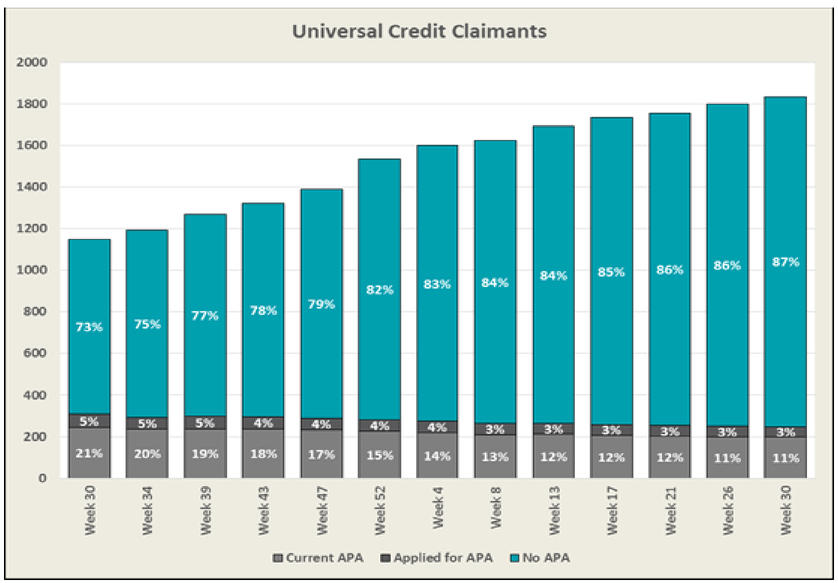
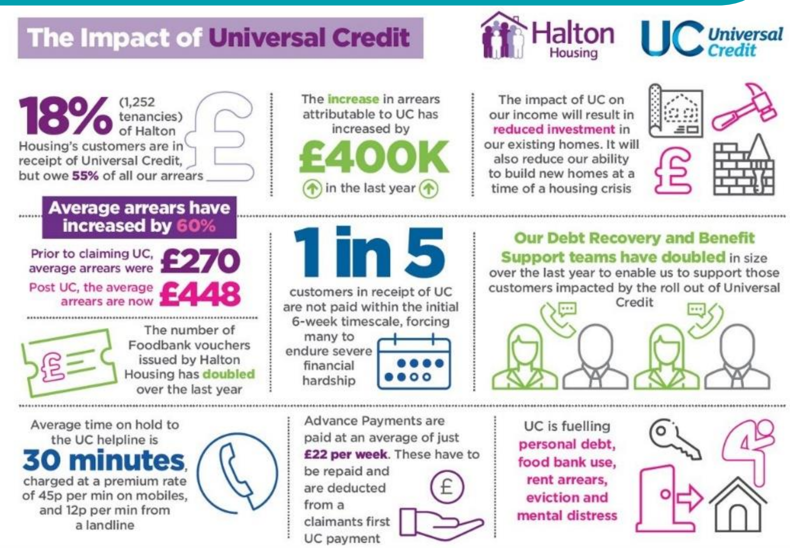
Welfare Reform

Universal Credit - Roll out

Rollout of Full Service Universal Credit

- Around 10% of working age HB claimants are now on Universal Credit – just under 2,000 households out of a potential 17,000
- Based on what has happened in Halton (our main stock area that has transitioned to Full Service), we expect this to increase to just over 8,000 tenants by September 2019 - that's nearly half of working age HB claimants
- Of our current UC claimants, approximately 11% have already reverted to direct payments to Riverside (APAs)





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Welfare Reform

Universal Credit – Arrears risk

Arrears Risk
Data on average arrears from Halton suggests

- Increases in arrears for the first three months of a UC claim – £150 at the highest point.
- After three months, we start to claim the money back however it may take just over a year for arrears balances to return to their pre-UC position
- After this point, we start to claim back existing arrears

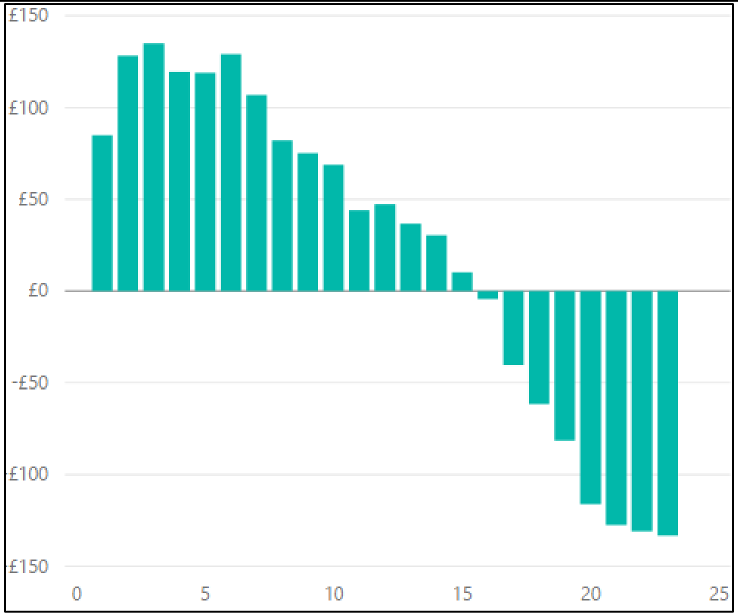
Financial Impact

- Data shows the highest point of UC related arrears is 12 weeks into the claim
- In Riverside, we anticipate 19% convert rate (from 10% to 48% in two years)
- Financial impact (cashflow) is £3.5m at worst point calculated:

[eligible households] x [avg rent] x [12 weeks]

17000 x 19% x £89.18 x 52 x (12 / 52) = £3.5m per annum

Arrears Change Since UC Start Date for TRG by Length of UC Claim



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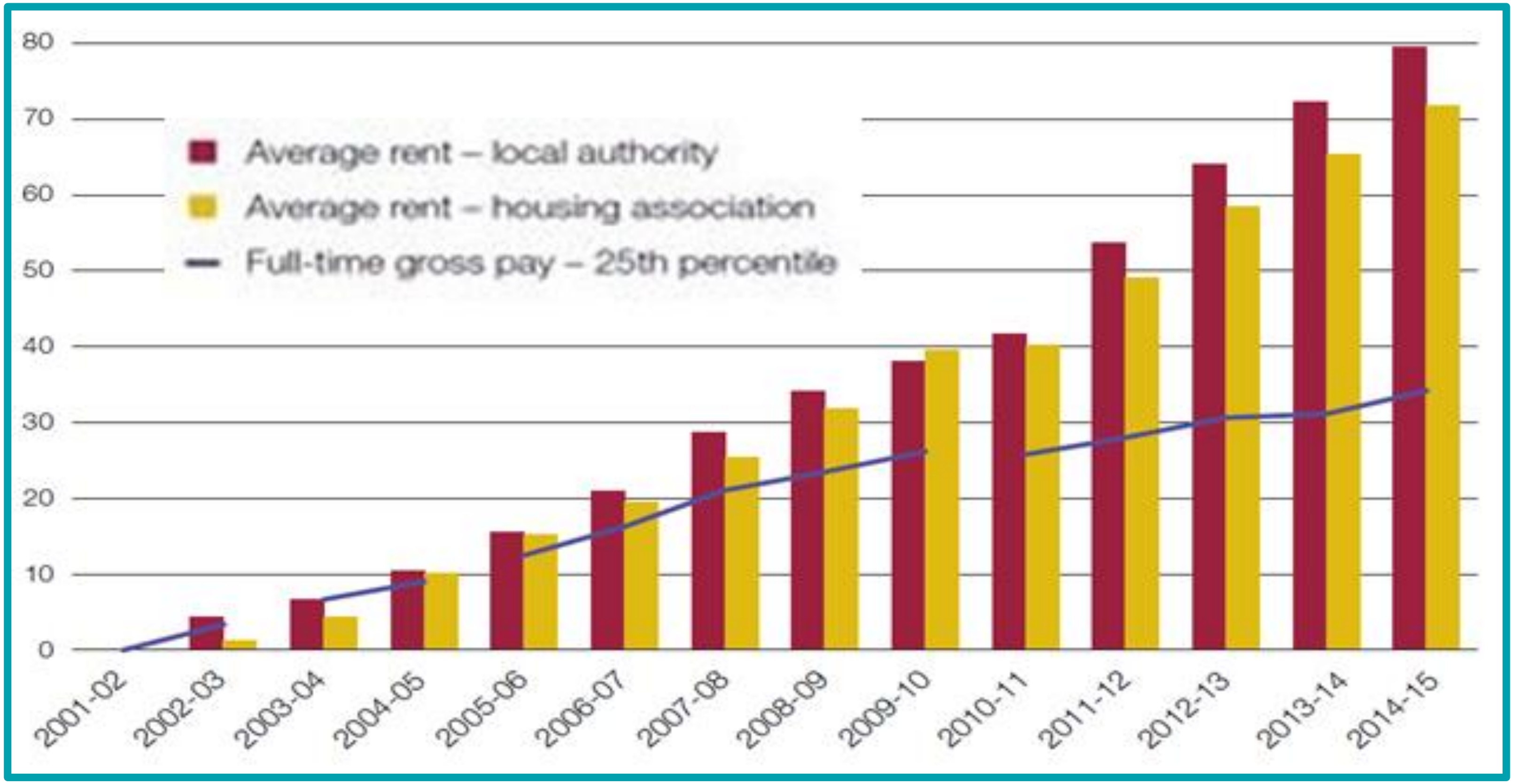
Welfare Reform

LHA Cap – Scrapped!

Welfare Reform

Rent settlement – back to the ‘good’ old days?



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Financial Performance

2017 Highlights

For the year ended 31 March	2013 Actual (UKGAAP)	2014 Actual (UKGAAP)	2015 Actual	2016 Actual	2017 Actual
Turnover (£'m)	291.9	303.9	326.0	365.6	370.1
Operating Costs	233.1	235.6	245.4	292.8	290.0
Operating Surplus (before property sales)	58.8	68.4	80.5	72.8	80.1
Operating Margin	20%	23%	25%	20%	22%
Surplus for the Year	32.7	49.1	48.0	49.9	68.9
Of which: gain on FA sales	7.9	15.2	5.0	13.5	22.3

Turnover – Strong finish on development for sale (+£13m) offset by final year of Hull PFI construction (-£12m)

Margin includes one-off pension exit fees £12.4m, and £4m impairment on BCH

Gain on FA sale enhanced by £11.6m VRTB Pilot in 2017 only.

Headroom on TRGL covenants – interest cover £61m and gearing £410m

How we did in 2017?

FY Act vs Bud

£80.3m
£16.7m
Fav

OPERATING SURPLUS

21.7%
0.8% Fav

OPERATING MARGIN

£69.8m
£24.6m
Fav

GROUP SURPLUS

INTEREST HEADROOM

£60.5m

TARGET = £27.2m

GEARING HEADROOM

£410m

TARGET = £368m

FACILITY AVAILABLE

£169m

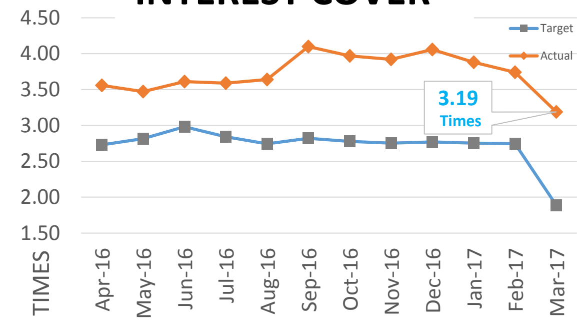
TARGET = £160m

MONTHS COVER

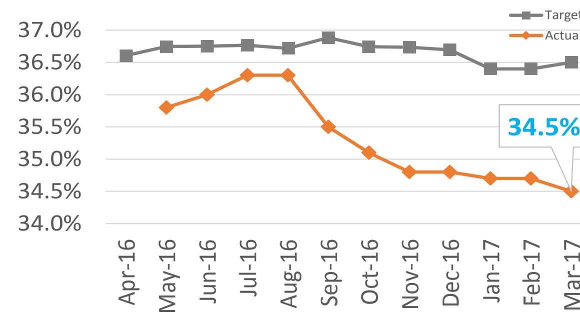
51

(golden rule = 18)

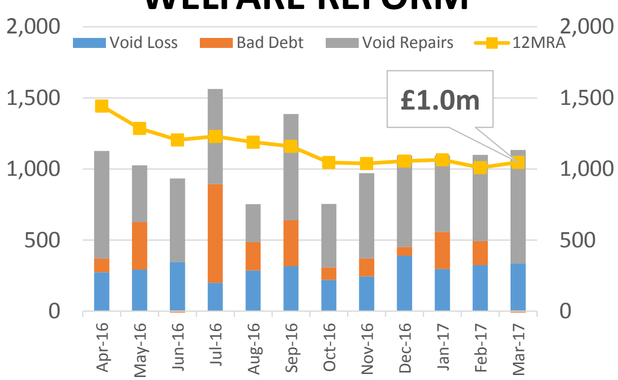
INTEREST COVER



GEARING

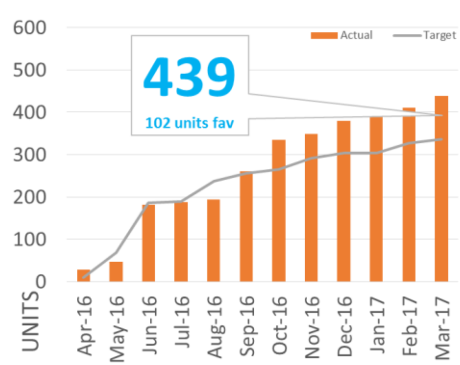


WELFARE REFORM

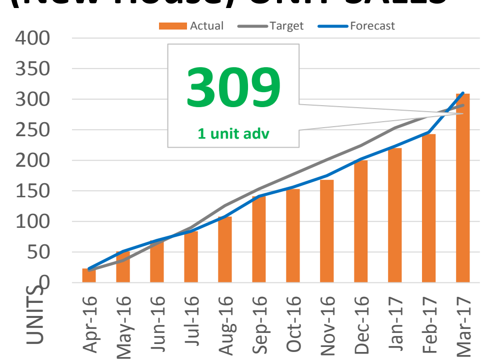


12 Mth Rolling Average

UNIT HANDOVERS



(New House) UNIT SALES

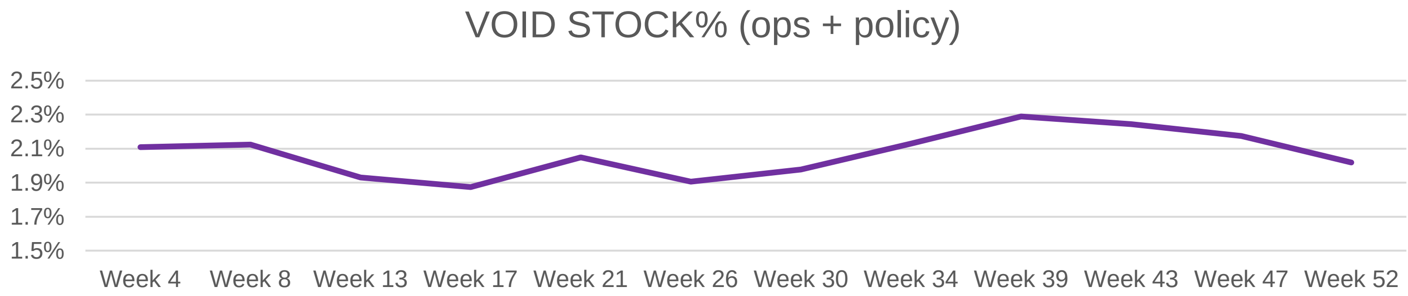


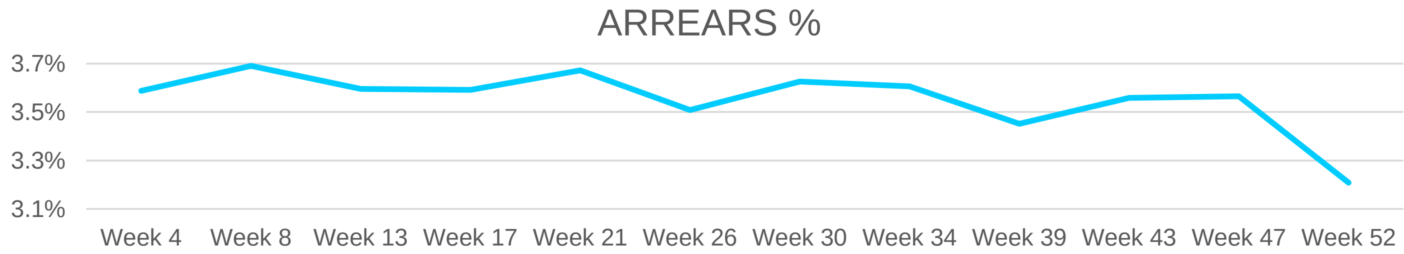
Exc RtB & Broadway

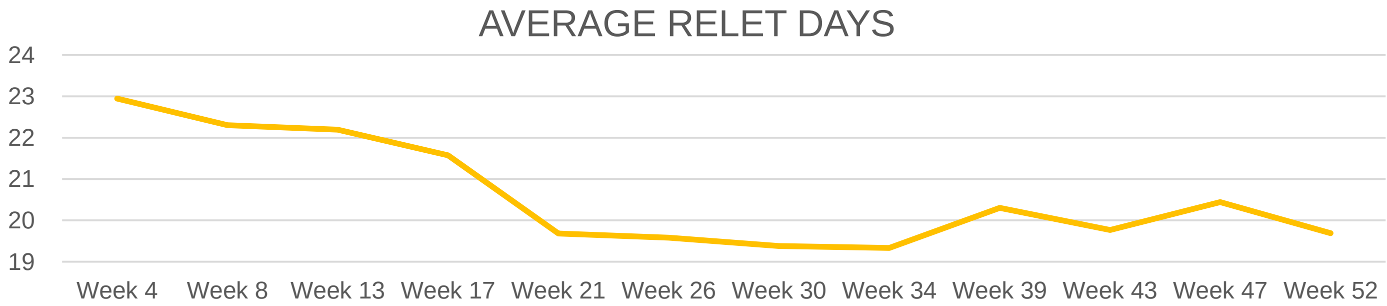
How we did in 2017

Operations

Steady improvement in all cash leakage KPIs over the last 12 months







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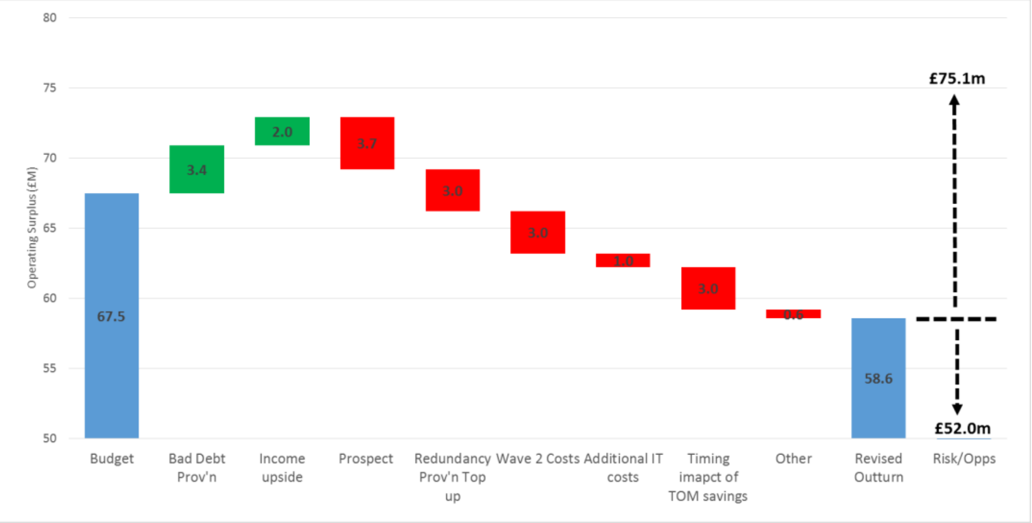
Forecast for end of 2018

Based on current year performance to date

Financial Performance	Full Year Forecast	Full Year Budget
Operating Surplus (£m)	58.6	67.5
Operating Margin (%)	17.1%	19.3%
Total Surplus (£m)	28.7	26.5

Risk/Covenants		
Interest Headroom (£m)	29.5	26.6
Interest Cover (times)	2.0	1.9

Cash		
Facility Available £m	194.7	172.6
Months Cover	28.0	



2017 Treasury highlights

- New team – upskilled to deliver better treasury services
- New Treasury Strategy and Investment Policy
- Early prepayment of old and expensive debt; replaced with more agile facilities
- Increased focus on cash management and cashflow forecasting – able to make better use of resources
- Better support offered to commercial subsidiaries – centralising cash and revisiting intra-group lending facilities
- Improved reporting to Treasury Committee regarding liquidity and unencumbered stock numbers
- More to follow, including improved cash management platform and operational banking put out to tender……

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Treasury update

Group debt profile – as at 30 September 2017

- Less than 1% of the portfolio is indexed linked; c6% is variable; 94% is fixed, some by standalone swaps as detailed below:

Counterparty	Nominal value	MtM	Collateral
Abbey	7,000,000	(440,962)	Under threshold
Credit Suisse	100,000,000	(11,189,112)	Cash
Lloyds	21,388,519	(1,200,802)	Under threshold
NatWest	67,000,000*	(35,387)	Under threshold
Relating to PFIs	35,141,125	(7,766,835)	PFI assets
Total	**230,529,644**	**(20,633,099)**	

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Treasury update

Portfolio management (September 2017)

- Immediately available liquidity totals £205m:
  - £59m cash
  - £146m committed and fully secured loan facilities (excluding retained bond of £100m and overdraft facilities of £8m)
- 28 months cover based on the latest business plan
- New RCF facilities being agreed (£190m) to extend liquidity out further and introduces two new counterparties to spread risk:
  - HSBC
  - Handlesbanken
- 12,000 unencumbered units available for charging with average EUV-SH of £37,500, capable of supporting over £560m of new debt

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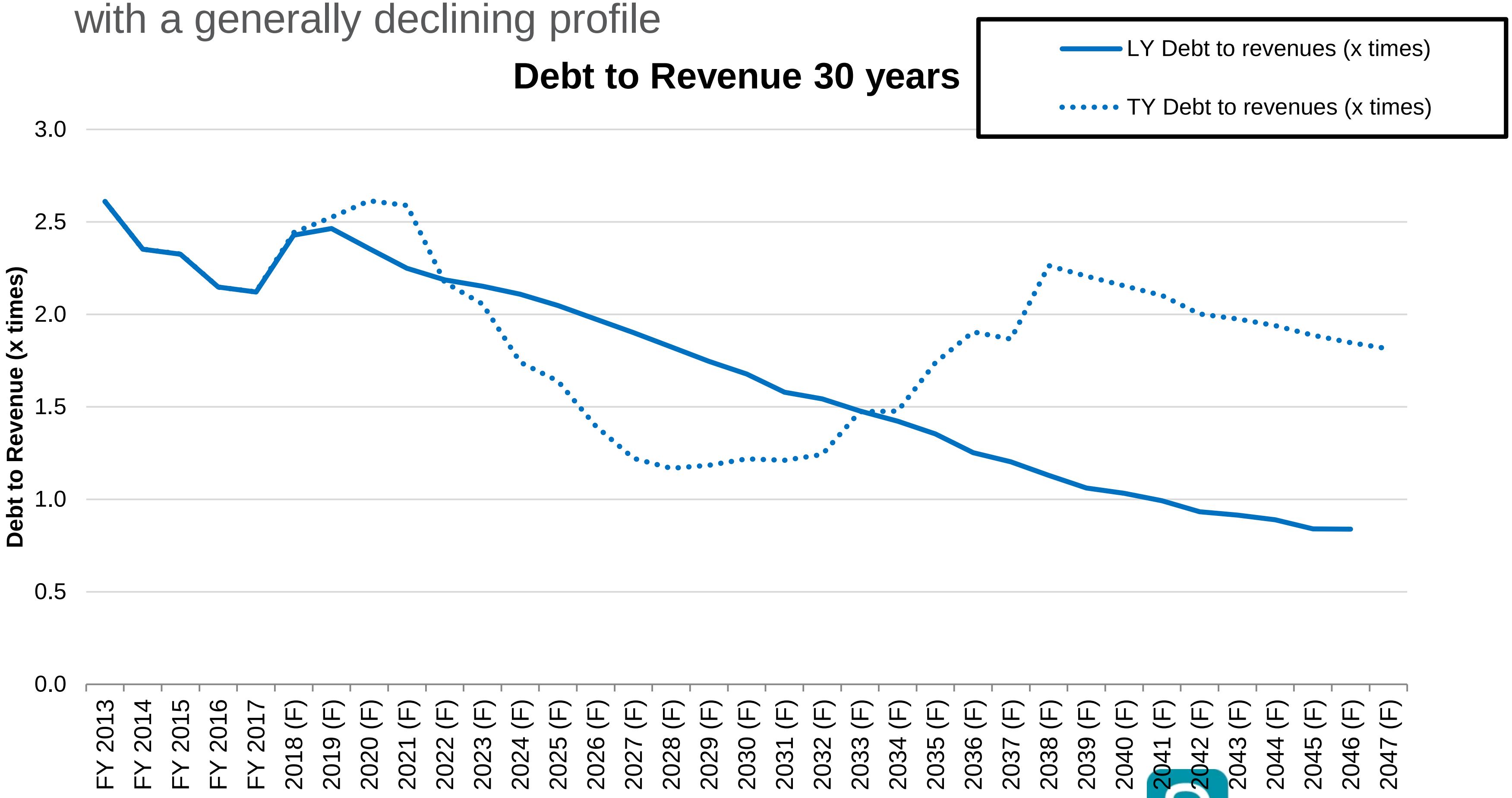
Treasury update

Levels of debt – business plan 2017 / 18

Despite higher overall levels of debt, debt to revenue metrics remain strong with a generally declining profile



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Summary

Carol Matthews

- Turnover £370m, Surplus £70m
- Stepping up supply – ambition to deliver substantially more units p.a.
- Transforming organisation to be fit to deliver core objectives in the modern world
- But not growth at any cost
- A1 Moody's Credit rating and G1 / V1 rating from HCA

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Questions?

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We
Riverside