Riverside

2018 Investor Presentation

21 November 2018

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

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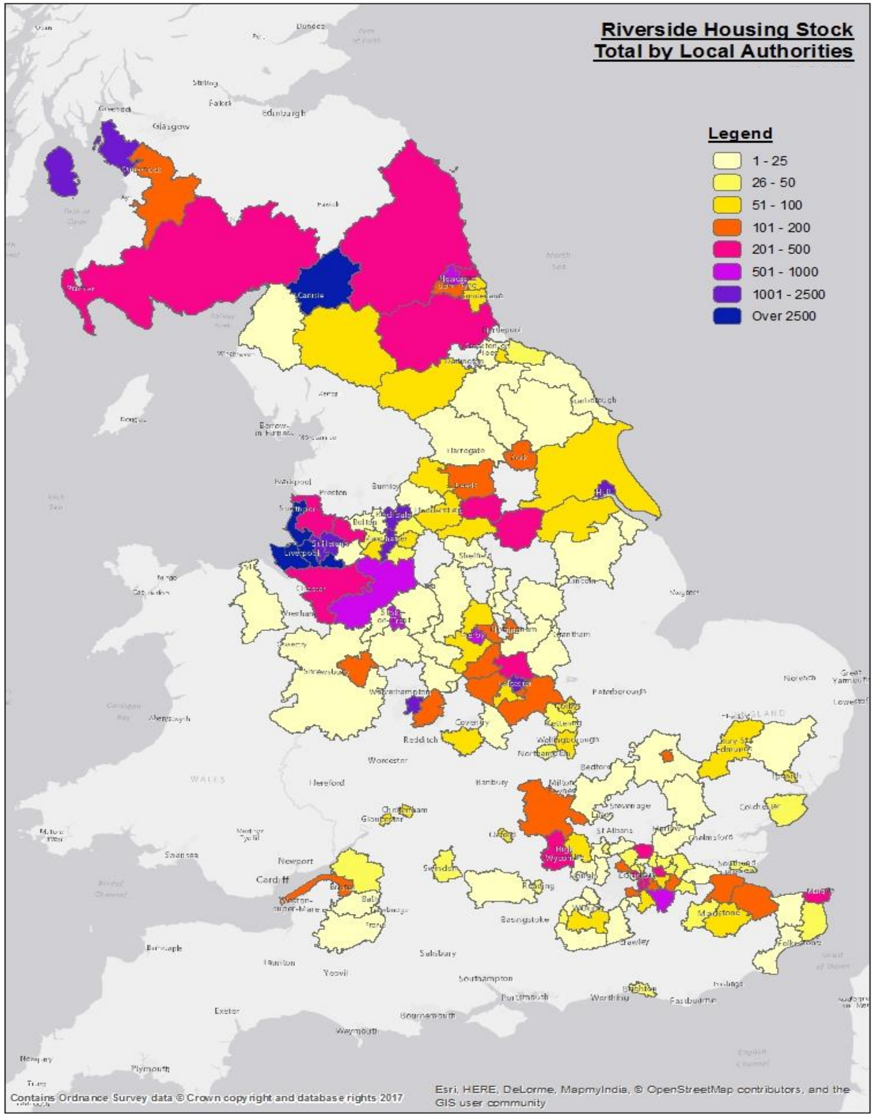
About Riverside

- Responsible for portfolio of over 56,000 units
- Turnover £346m, Surplus £60m
- Transformation continues 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 the margin up
- A1 Moody's rating re-confirmed January 2018; still one of leading rated RP's



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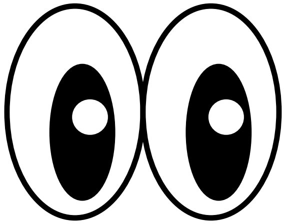
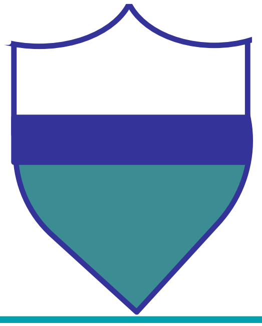
Update on strategy

Remaining focused on delivery but with caution

We continue with our ambition to build more houses; our partnership with Bovis is intended to help us to deliver this.



Board remain vigilant with regards to commercial development and provide appropriate challenge to safeguard Social Assets.



Mitigation strategies have been activated; we have taken a more measured approach within Prospect this year.

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Growing

- Development Programme
- London Regeneration
- Stanton Cross
- HE Wave 2
- M&A Activity

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A new member of the Riverside family

Impact Housing Association

Impact Housing Association joined the Group on 20 August 2018:

- Added 2,770 homes to complement our existing stock portfolio in Cumbria.
- We have already successfully refinanced Impact's existing loan portfolio to provide financial stability.
- We have committed to a c£25m investment programme to repair, modernise and improve homes across Cumbria; works have already been approved to deliver on this.
- Secured the future of popular community projects in the area, such as the Furniture Resource Centre in Carlisle.

Bovis Homes
Stanton Cross development

- Stanton Cross is a 714 acre, residential led development in Wellingborough, Northamptonshire.
- This is seen as an investment opportunity by Riverside – the success of our business plan is not reliant on the income generated from these open market sales.

The development has outline planning consent for:

- 3,650 homes, of which 5% will be affordable;
- 1.5m sq. ft. of commercial space for high tech/R&D, industrial and distribution units;
- Two local centres providing new retail and community facilities and a doctor’s surgery
- Two primary schools and one secondary school
- A 143 acre country park;
- An enhanced railway station at Wellingborough including provision for 1000 car parking spaces; and
- A new transport hub and a new road bridge over the River Ise linking Stanton Cross to Wellingborough town centre.

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London development update

- Regeneration of six sites across five boroughs.
- Sites currently contain 527 affordable rent units.
- Plan is to develop a total of 1,271 units of mixed tenure. Replacement of all affordable units.
- Riverside will spend £251m on construction and purchasing the affordable units.
- Riverside due to receive £30m grant for the construction of affordable units on the three largest sites.
- Construction due to commence on first site in September 2019.

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Riverside Estuary update

- 316 Extra care units across three sites in Hull with 100% occupancy.
- Delivered via PFI; a 25 year contract with Hull City Council, funded by Aviva Investors.
- Following the handover of the units, the build contractor did not respond to correct snagging issues in accordance with the time scales set out in the project agreement. Riverside used powers of step-in to maintain the level of service and quality our customers deserve.
- Aviva, Hull City Council and the Regulator were supportive of the actions taken by Riverside.
- Customer satisfaction consistently scored at c96%.

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The view from the bridge

Brexit

- Cash
- Confidence
- Colleagues
- Contractors

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2018/19 Business Plan

Building on the groundwork laid in 2017/18

Objectives

- Increased transparency – especially around development
- Stepped approach towards a target operating margin of 30% within 5 years
- The introduction of a new set of Golden Rules
- 30 years covenant compliance
- Respond to the pressure to provide more new homes

Risk Mitigation

- More moderate levels of development in the early years of the plan
- Attention drawn to available unencumbered units over the life of the plan and embedding the future chargeability of new development works into the business now
- Stress testing linked to the Group risk map

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2018/19 Business Plan
Golden Rules

The Golden Rules are best described as the business critical, high priority performance measures which must be maintained.

They are intended to act as trigger points for intervention, so have specifically been designed to be forward looking.

- Gearing – 55% (Creditors / Cost of Properties)*
- Interest Cover – 135% (Adjusted Operating Profit / Total Interest Payable)*
- Liquidity cover for 18 months of normal business commitments
- Minimum of 3,000 units of unencumbered stock (should be sufficient to secure c£100m of debt)

* Golden rules for covenants are set 5% tighter than the actual tightest covenant

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2018/19 Business Plan

Development – Risk Mitigation

- Investment Approval Committee now embedded in business; all proposals require Treasury approval prior to consideration to understand impact on available security
- All development proposals must have a ‘Plan B’ setting out our fall back position
- Business plan stress and scenario testing revealed a number of mitigating actions that could be taken in the very worst of cases that would ultimately protect the social assets of the Group:
  - Slow or stop development
  - Cost reduction
  - Sale of assets

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Value for Money

We do not see VfM as something that is 'separate', it is embedded into everything that we do. We report the seven mandatory metrics as defined by RSH for comparison purposes with the rest of the sector, but we also supplement them with five key metrics of our own.

Class	Type	Metric	*Result 2016/17*	Result 2017/18	Target 2018/19
Mandatory	Efficiency	Reinvestment %	*4.3%*	**3.6%**	**5.6%**
Mandatory	Economy	New supply delivered %			
		a) Social housing units	*0.8%*	**0.9%**	**0.9%**
		b) Non-social housing units	*0.5%*	**0.3%**	**0.4%**
Mandatory	Efficiency	Gearing %	*40.3%*	**38.9%**	**39.4%**
Mandatory	Efficiency	Interest cover (EBITDA MRI)*	*205%*	**189%**	**140%**
Mandatory	Economy	Headline social housing CPU	*£4,880*	**£4,337**	**£4,026**
Mandatory	Efficiency	Operating margin %			
		a) Overall	*21.6%*	**23.1%**	**25%**
		b) Social housing	*29.3%*	**30.7%**	**33.1%**
Mandatory	Economy	Return on capital employed	*5.22%*	**4.75%**	**4.4%**
Riverside	Stepping up supply	Customer satisfaction with new home	*N/A*	**91.3%**	**92%**
Riverside	Stepping up supply	NPV/unit - affordable programme	*(4,410)*	**(1,123)**	**(4,410)**
Riverside	Customers first	Net promoter score	*15.9*	**21.4**	**20.0**
Riverside	Customers first	Key service transactions completed online %	*38.1%*	**45.6%**	**50%**
Riverside	Neighbourhoods matter	Customer satisfaction with area as a place to live	*86%*	**86%**	**87%**

* For VfM purposes we calculate interest cover as EBITDA MRI, but our actual loan covenants are based on EBITDA only

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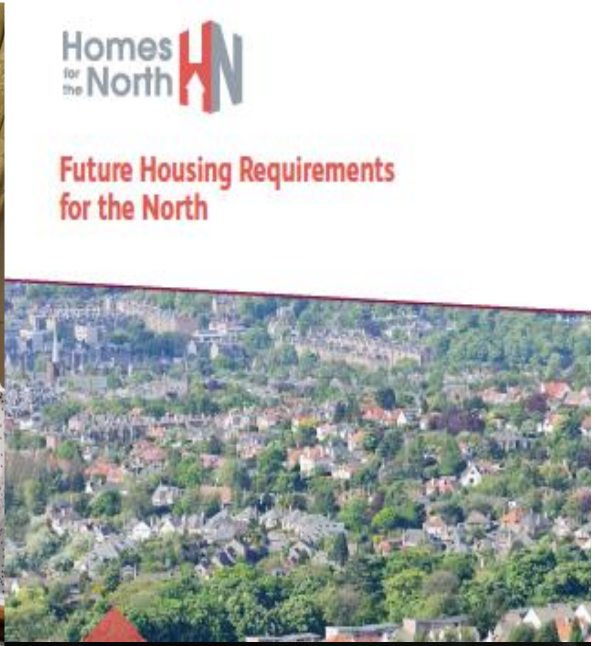
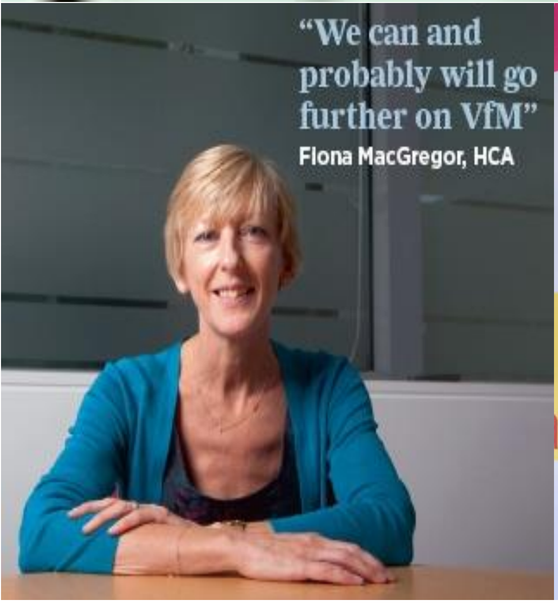
Parliament


Homes for the North
HOMES AT THE HEART OF THE NORTHERN ECONOMY


Homes for the North
Future Housing Requirements for the North


"We can and probably will go further on VfM"
Fiona MacGregor, HCA


NATIONAL HOUSING FEDERATION
NATIONAL HOUSING SUMMIT 2018
savills

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We are influencing

….. and leading the way

Riverside's Executive Director for Care and Support, John Glenton, has been elected Chair of the newly formed NHF Homelessness Steering Group

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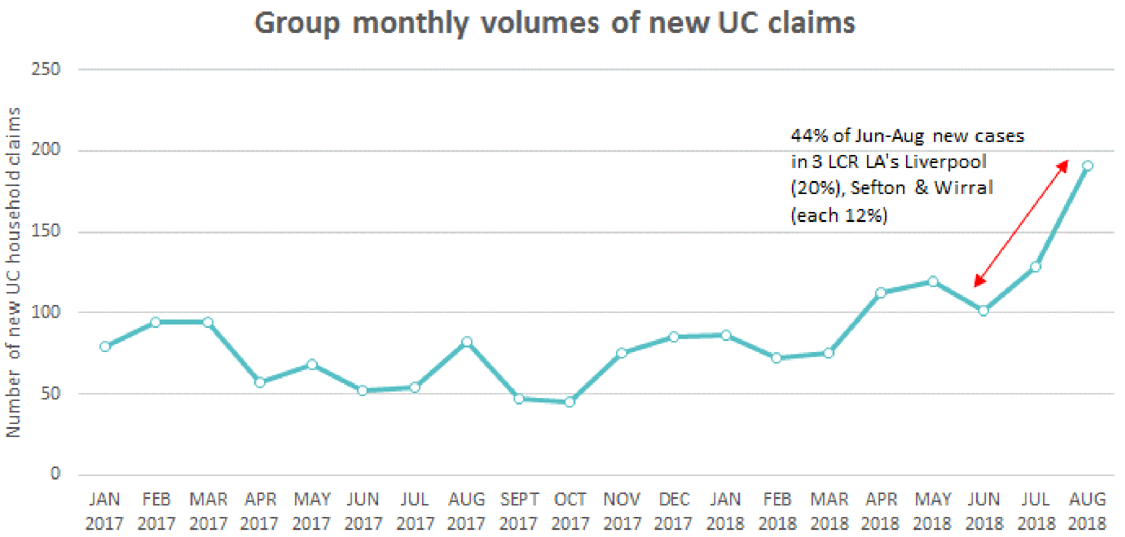
Welfare Reform

Universal Credit - Roll out

Rollout of Full Service Universal Credit
Currently around 20% of working age HB claimants are on Universal Credit – just over 3,500 households out of a potential 17,000



- Since April 2018, we've consistently seen over 100 new claims per month.
- As rollout intensifies and areas of LCR transition to Full Service, we're seeing around 200 new cases per month
- Ultimately, we expect to have around 17,000 UC cases once the rollout and managed migration is complete.

Current Arrears
- 84% of UC households are in arrears (2,838 households) and owe a total of just over £2m between them
- On average, UC claiming households have a current balance of £623
- Majority of UC claims are from single tenants who account for 38% of UC claimants and 37% of UC arrears

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Welfare Reform

Future changes?

- Original proposal on LHA caps with regards to supported housing proved a threat to the sector.
- Policy now abandoned by Government for ALL types of supported housing, with confirmation that housing costs will continue to be met through the benefit system.
- Government seeking greater assurance regarding value for money of service charges; downward pressure likely to continue. Riverside involved in key discussions.
- Beyond supported housing, the next significant challenge will be the 'managed migration' of current housing benefit claimants to Universal Credit from 2019 onwards – representing around 80% of Riverside claimants who still remain on housing benefit.
- This will result in significant acceleration of UC roll-out.
- Riverside (and others) calling for a measured approach, which will allow careful planning, comms and support for vulnerable customers.
- DWP already confirmed that nos. migrating in 2019 likely to be small

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Compliance reform

- Grenfell - No buildings with ACM cladding. Only 8 buildings that are 6 storeys and above. All 8 have their summary FRA on our website.
- Hackett Review – We only have 1 building in excess of 10 storeys. We are adopting all the main principles and extending it to all compliance risk areas and to all of our buildings.
- Compliance Staffing capacity - the existing staff have recently completed the latest Statutory Compliance Qualification. Increasing staff in this area by over 40% from November 2018.
- Head of Compliance is first person in the UK to complete a nationally recognised Asset and Building Management Qualification.
- We have been working within our engaged residents throughout the summer to look at the information they want to see re Fire Safety and other safety issues and the best means with which to share it.

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Financial Performance

2018 Highlights

UK GAAP

For the year ended 31 March	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Actual
Turnover (£'m)	303.9	326.0	365.6	370.1	346.2
Operating Costs	235.6	245.4	292.8	290.0	266.2
Operating Surplus (before property sales)	68.4	80.5	72.8	80.1	80.0
Operating Margin	23%	25%	20%	22%	23%
Surplus for the Year	49.1	48.0	50.0	69.8	60.0
Of which: gain on FA sales	15.2	5.0	13.5	22.3	15.4

- Overall reduction in turnover is mainly due to PFI construction completion
- SHL income only reduced by £2.5m despite the 1% rent reduction
- Increase in sales income from Shared Ownership offset by fall in non-social housing revenues
- £15m contribution from fixed asset sales is due to the proactive asset management programme. Income is reduced as compared to the prior year as no vRtB sales

Governance

Board membership provides a guiding hand

Movement in 2018:

Joiners:
None

Leavers:
None

New appointments:
Peter White becomes a full member from a co-optee

Future plans:
Susan Jee to retire in 2019; succession plans are already operational to provide a smooth transition

Max Steinberg (Chair)

Pauline Davis (Vice Chair)

Susan Jee (Treasurer)

Jonathan Dale

Sally Trueman

Tim Croston

Ingrid Fife

Peter White

Carol Matthews (Co-opted)

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Governance

Board and sub-committee structure

London Development Committee

Pauline Davis (Chair)
Jenny Coombs
Dale Meredith
Paul Newbold
Victor Andrews
Cris McGuinness*

Scotland Committee

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

Riverside Group Treasury Committee

Susan Jee (Chair)
Nigel Perryman
Devan Bala

Riverside Group Governance and Remuneration Committee

Pauline Davis (Chair)
Susan Jee
Max Steinberg

Board of Riverside Group

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

Riverside Group Audit Committee

Tim Croston (Chair)
Adrian Crookes
Maria Hallows
Neil Skinner
Sara Naylor

Neighbourhood Services Committee

Peter White (Chair)
Rowan Carstairs
Jackie Grannell
David Green
Mary McAndrew
Duncan McEachran
Maria Milford
Sara Naylor
Sue Powell
Patrick Rice
Ian Gregg*

Key:
* Executives

Care and Support Committee

Ingrid Fife (Chair)
Ian Campbell
Judith Crowther
Andy Deutsch
John Glenton*
Hetal Parmar
Neill Skinner
Harry Soar
Archdeacon Cherry Vann
Peter White

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Governance

Executive team

- John Wood retired in 2018 after more than 30 years service to Housing
- Darren Levy joined us in June as Interim Director of Place, bringing with him a wealth of experience from across the sector.
- Leann Hearne left earlier in October 2018 to move into a new role within the sector……
- … and Tom Rennie joined us the same month as Interim Director of Business Support to cover IT, HR, MICI and facilities.

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Target Operating Model update

- Transformation costs for Phase 1 totalled **£15m**
  - delivering **£6.2m p.a.** of recurring savings
- Transformation costs of **£44m** are built into the business plan spread over the next two financial years
  - expected to deliver a further **£18m p.a.** in recurring savings

Effective business

£10.1m

Transformation investment

Last year: £3.5m

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The transformation journey continues…

- Move to agile working – successful implementation of our new housing services in February 2018
- Transforming our repairs and maintenance services in the South with the introduction of Riverside Direct in July 2018
- Changes coming to our Asset Services division in the new few months
- IT transformation within Head Office and the Regional Offices; move to working with a Virtual Desktop environment from any device
- Strategic office closures to further reduce costs, whilst maintaining service levels for our customers
- Updated Pension strategy

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New Treasury Strategy
2018 Highlights

- Issued retained own name bond £100m.
- Prepayment of Newcastle Building Society debt.
- Finalised the raising of £190m of new RCFs – including two new counterparties (HSBC and Handelsbanken).
- New liquidity headroom statement produced to aid decision making at Investment Appraisal Committee.
- Active asset management – released £47m of excess security.
- Supported the transition of Impact into the group – successfully refinanced the Impact debt portfolio.
- Shortlisted for Treasury Team of the Year at the NHF Awards.
- Renegotiating Irvine’s facility to remove index linked debt

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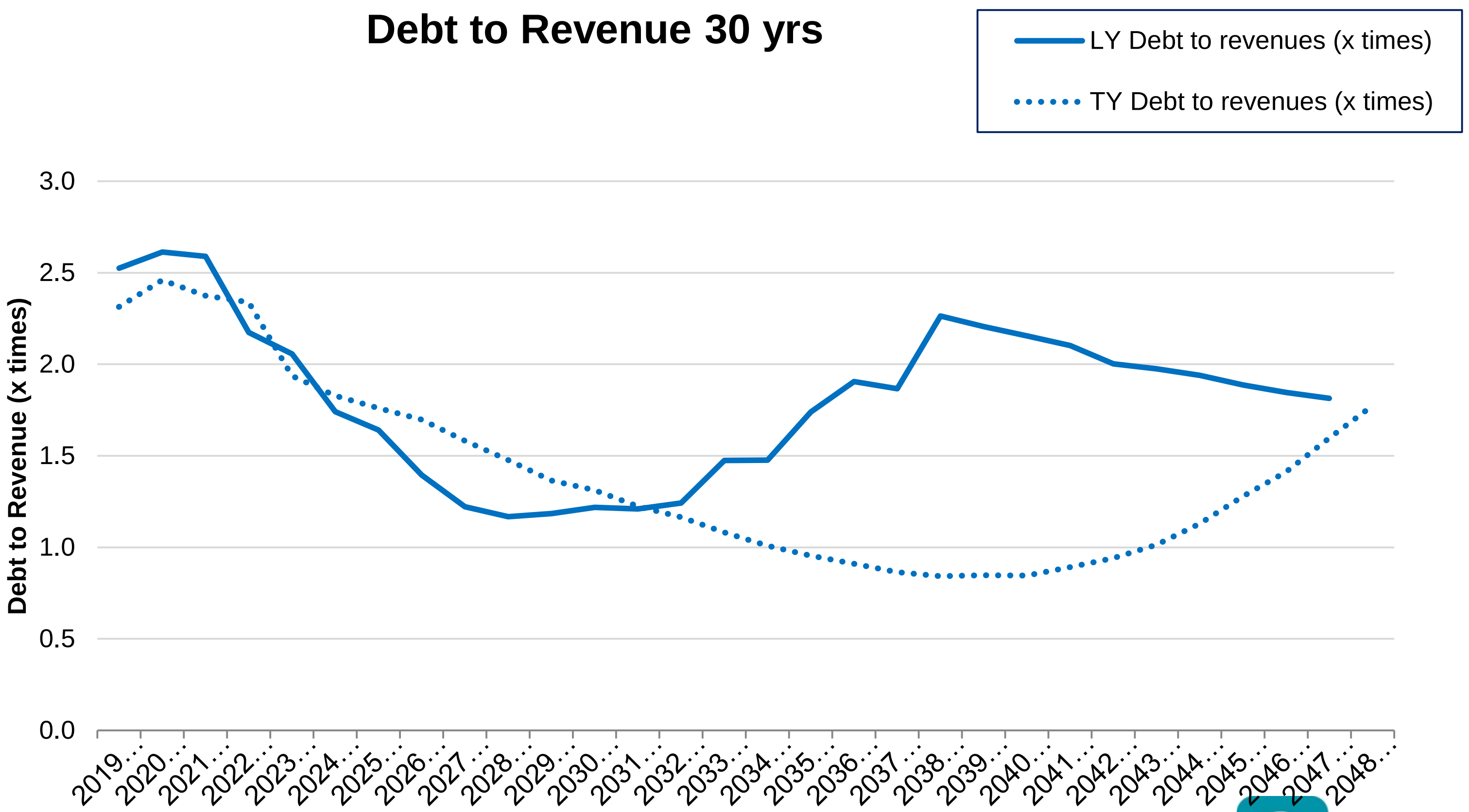
Debt and Liquidity

Levels of debt

Generally lower levels of debt, with smoother declining profile until increased development spend at end of plan



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Debt and Liquidity

Treasury update - September 2018

- Immediately available liquidity totals £281.5m:
  - £96.5m cash
  - £185m committed and fully secured loan facilities
- Further £140m facilities agreed but not yet secured.
- 30 months cover based on the latest reforecast of business plan.
- Tightest headroom currently predicted to be Dec 2018 at £206m of availability until remaining £100m facility secured – expected to be completed by March 2019.
- 13,467 unencumbered units available to charge; should be capable of securing in excess of £400m of new debt.

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Debt and Liquidity
Interest rate management

- Only Irvine has indexed linked debt and this is currently being renegotiated to replace it with fixed rate debt instead
- TRGL is 92% fixed and 8% variable rate debt
  - ➢ Stand alone interest rate swaps have fallen to notional of £192m

Counterparty	**MtM**	**Threshold**	**Margin Call**	**Collateral**
Abbey	(£0.2m)	£2.0m	£0.0m	Property
Credit Suisse	(£8.3m)	£5.0m	(£3.3m)	Cash
Lloyds	(£0.6m)	£5.0m	£0.0m	Property
NatWest	(£0.0m)	£5.0m	£0.0m	Property
RBS	(£0.9m)	£0.0m	£0.0m	PFI assets
Sumitomo	(£5.3m)	£0.0m	£0.0m	PFI assets

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Q&A