2018 Investor Presentation

21 November 2018
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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
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.
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.
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.
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%.
The view from the bridge
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
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
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
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.

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

* For VfM purposes we calculate interest cover as EBITDA MRI, but our actual loan covenants are based on EBITDA only
“We can and probably will go further on VfM”
Fiona MacGregor, HCA
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
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.
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
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.
## Financial Performance

### 2018 Highlights

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

- 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
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 Lee (Chair)
- Nigel Perryman
- Devan Bala

**Riverside Group Governance and Remuneration Committee**
- Pauline Davis (Chair)
- Susan Lee
- Max Steinberg

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

**Care and Support Committee**
- Ingrid Fife (Chair)
- Ian Campbell
- Judith Crowther
- Andy Deutsch
- John Glenton*
- Hetal Parmar
- Nellie Skinner
- Harry Soar
- Archdeacon Cherry Vann
- Peter White

**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*

**Riverside Group Audit Committee**
- Tim Croston (Chair)
- Adrian Crookes
- Maria Hallows
- Neil Skinner
- Sara Naylor

*Executives
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.
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
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
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
Debt and Liquidity

Levels of debt

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

Debt to Revenue 30 yrs

LY Debt to revenues (x times)

TY Debt to revenues (x times)
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.
• Tighest 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.
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

<table>
<thead>
<tr>
<th>Counterparty</th>
<th>MtM</th>
<th>Threshold</th>
<th>Margin Call</th>
<th>Collateral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abbey</td>
<td>(£0.2m)</td>
<td>£2.0m</td>
<td>£0.0m</td>
<td>Property</td>
</tr>
<tr>
<td>Credit Suisse</td>
<td>(£8.3m)</td>
<td>£5.0m</td>
<td>(£3.3m)</td>
<td>Cash</td>
</tr>
<tr>
<td>Lloyds</td>
<td>(£0.6m)</td>
<td>£5.0m</td>
<td>£0.0m</td>
<td>Property</td>
</tr>
<tr>
<td>NatWest</td>
<td>(£0.0m)</td>
<td>£5.0m</td>
<td>£0.0m</td>
<td>Property</td>
</tr>
<tr>
<td>RBS</td>
<td>(£0.9m)</td>
<td>£0.0m</td>
<td>£0.0m</td>
<td>PFI assets</td>
</tr>
<tr>
<td>Sumitomo</td>
<td>(£5.3m)</td>
<td>£0.0m</td>
<td>£0.0m</td>
<td>PFI assets</td>
</tr>
</tbody>
</table>