

Presentation to Fixed Income Investors

**£100m retained sale of £250m
3.375% secured bonds due 2047**

June 2020

<https://www.karbonhomes.co.uk/corporate/>

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1. Credit highlights and introduction

Presenting team



Paul Fiddaman
Chief Executive

Paul trained as an accountant with Price Waterhouse and qualified in 1990.

Prior to the creation of Karbon Homes, Paul served as Chief Executive of the Isos Group.

Previously he held senior management positions at Fabrick Housing Group (now part of the Thirteen Group).



Scott Martin
Executive Director of Resources

Scott, FCA, started his career with KPMG before moving into senior finance and management roles in the housebuilding sector.

He spent 10 years at Barratt Homes as Finance Director and then Managing Director before taking the position as Group Finance Director at the £230million turnover Storey Homes.



Andrew Thompson
Assistant Director Treasury

Andrew is a Chartered Certified Accountant (FCCA).

He took up the position of Head of Finance at Derwentside Homes in 2015 and was heavily involved in the process of amalgamation to form Karbon Homes in April 2017.

Andrew led on Karbon's inaugural £250m bond in November 2018.

Credit highlights

1. Credit profile

Strong investment grade (A rated, S&P) 27,000+ unit, regionally focussed housing association, with a deep rooted history in local communities

2. Merger track record

Proven track record of successful merger integration, with sustained financial performance

3. Development focus on social housing

Low risk business model with core social housing strategy

4. Robust financial metrics

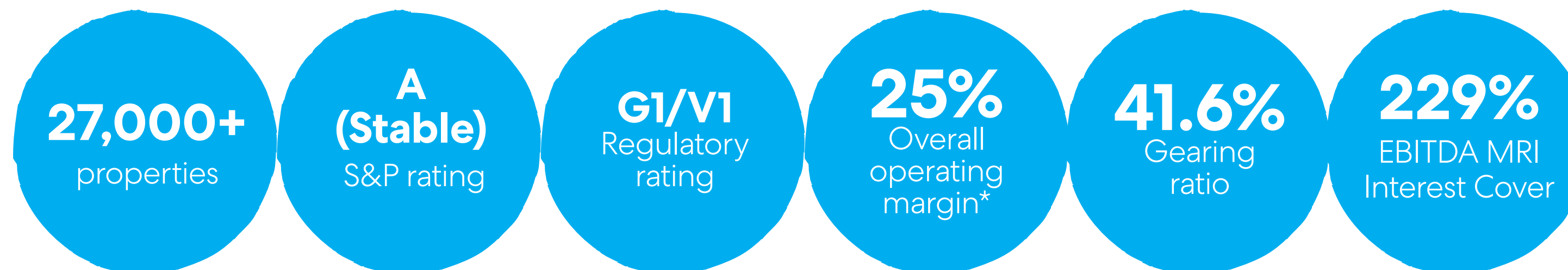
Strong operating margins, high income generation and relatively low levels of gearing

5. Excellent governance

Skilled and experienced Board, reflected in consistent G1/V1 rating and M&A track record

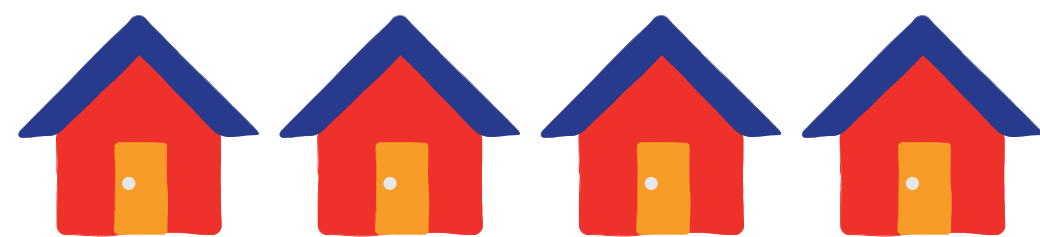
6. Strong ESG credentials

Committed to achieving EPC Band C across existing homes by 2030



Source: Metrics from Karbon Homes unaudited financial statements year ended 31 March 2020 * Overall operating margin, excluding asset sales

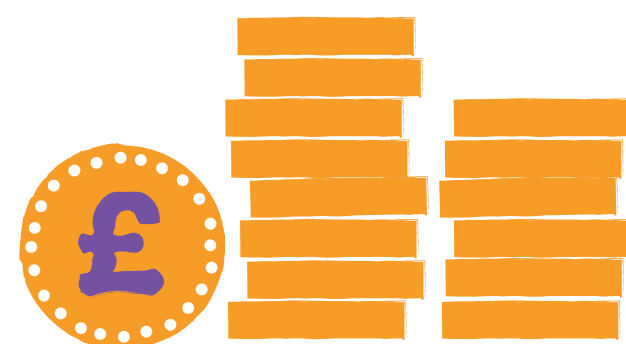
Our impact



Own or manage
27,000+
homes, housing over
55,000
people



We employ
800+
people who are
all on the living
wage or above



£135 million
annual turnover and
assets worth
**£865
million**

2,300+
new homes planned
over next four years,
an investment of
£318 million
and supporting the
local supply chain

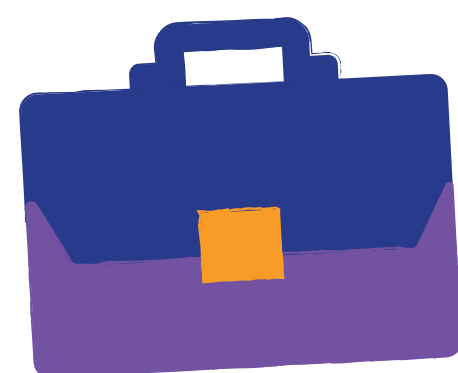


Identified
£6.4 million
in unclaimed benefits
for our customers

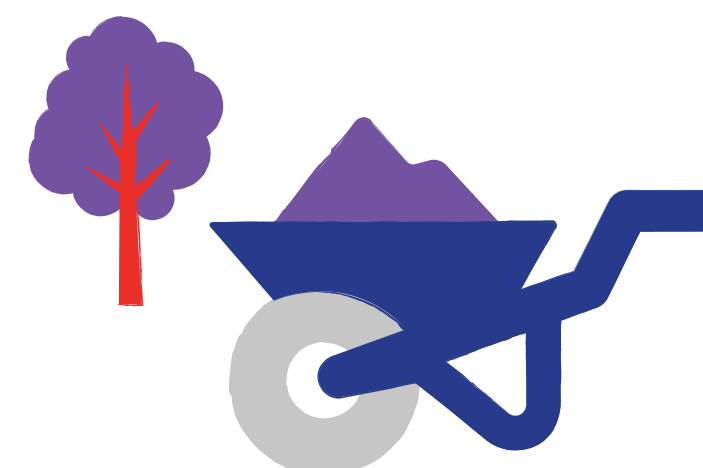


**£59
million**
invested in our existing
homes last year

Provided
benefit, money
and debt advice to
**5,396
customers**



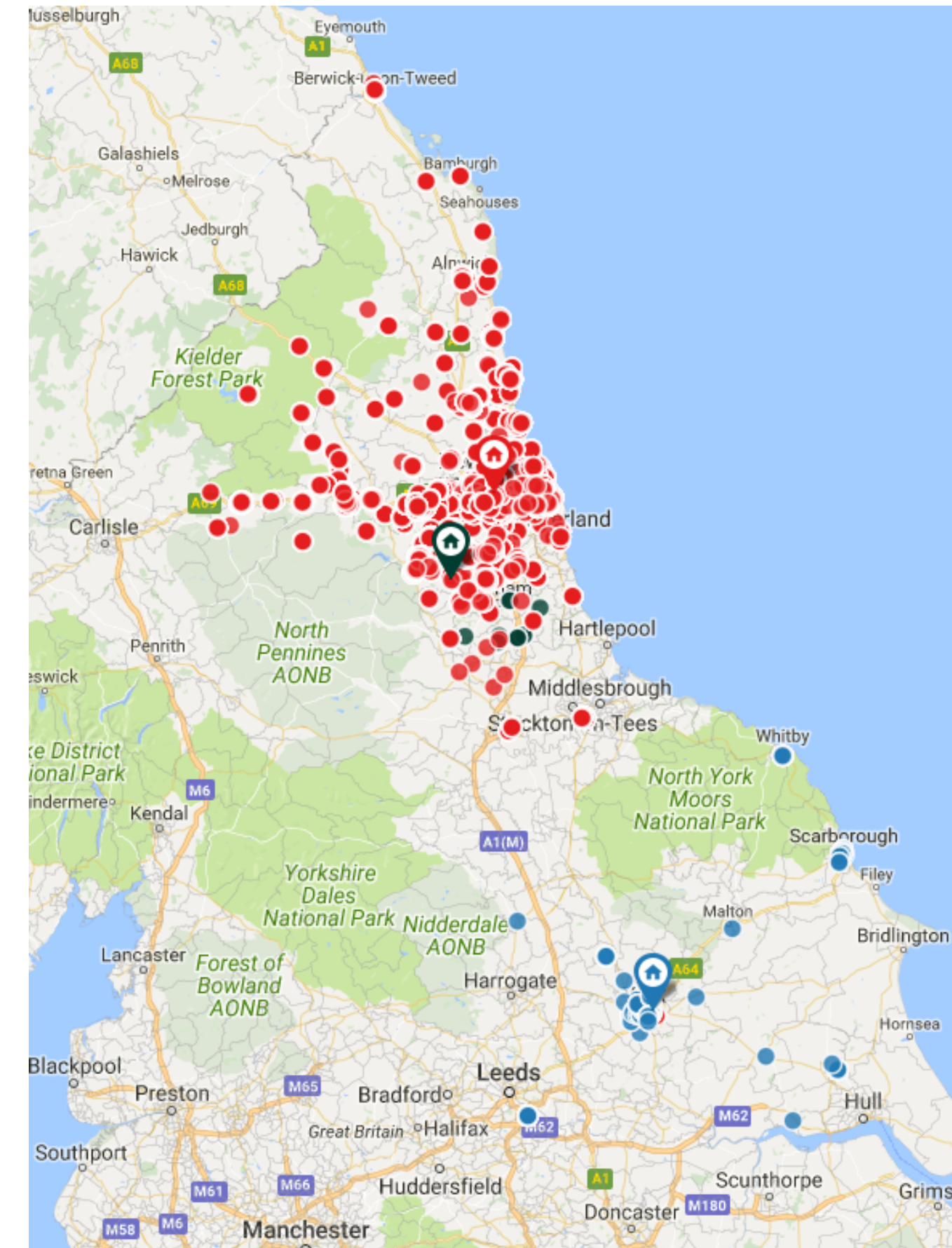
Supported over
106 residents
into employment and training
in the last year



Invested over
£286k
in **61 community projects**
last year

Introduction

- At Karbon we build, manage and look after affordable homes for people across the North. Furthermore, we give them the foundations to develop the life they want.
- Our three strategic aims:
 - ✓ **To provide as many good quality homes as we can**
 - ✓ **To deliver excellent service to our customers**
 - ✓ **To shape strong, sustainable places for our communities**
- Our footprint covers the North East of England and Yorkshire, with over 27,000 homes across diverse communities.
- By combining a sound business head with a strong social heart and staying true to our values, we hope to build strong foundations for even more people.



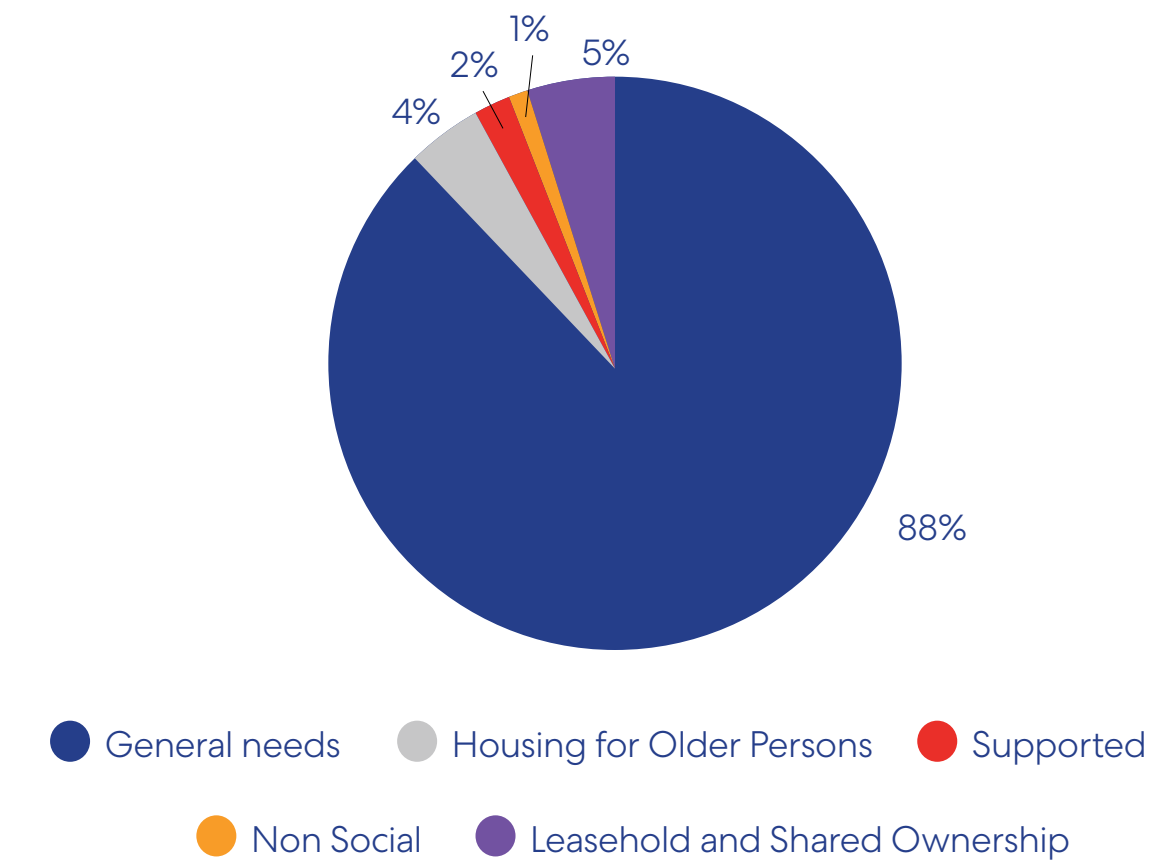
- Karbon Homes
- York Housing Association
- Prince Bishops Homes



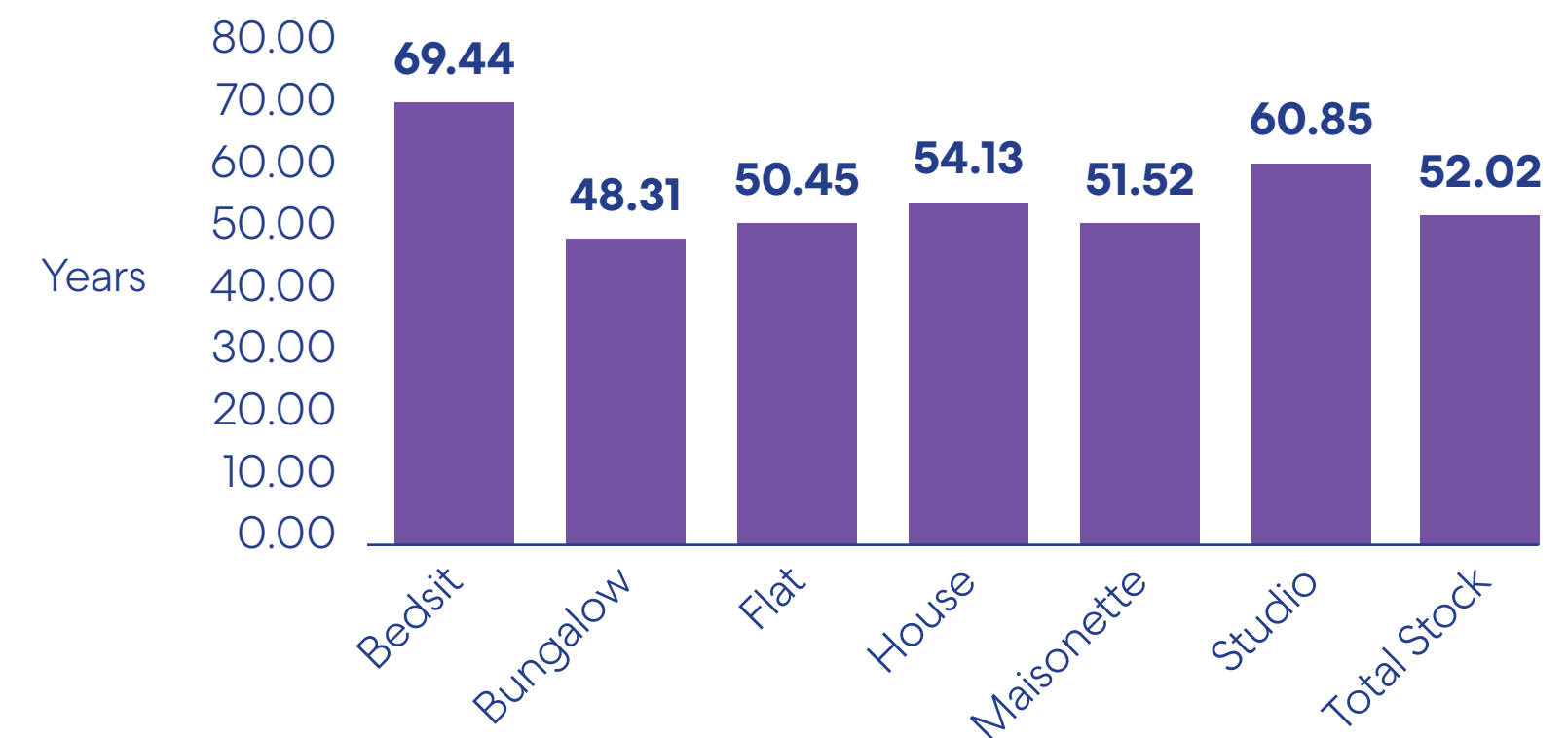
Introduction

- A large portfolio spread across the North-East and Yorkshire with significant concentrations in County Durham and Northumberland.
- Most of our homes are within a one hour drive of our main offices.
- The average age of our homes is 52 years.
- Average general needs rent charged was £75.06 per week in 2019-20.
- The Karbon Homes association portfolio of 25,714 homes (per 2019-20 draft SDR) is predominantly general needs and affordable:
 - 22,320 - General Needs – Social and Affordable Rent
 - 1,037 - Retirement Living including Extra Care
 - 527 - Supported Housing
 - 531 - Intermediate Rent and Non Social
 - 1,299 - Leasehold and Shared Ownership

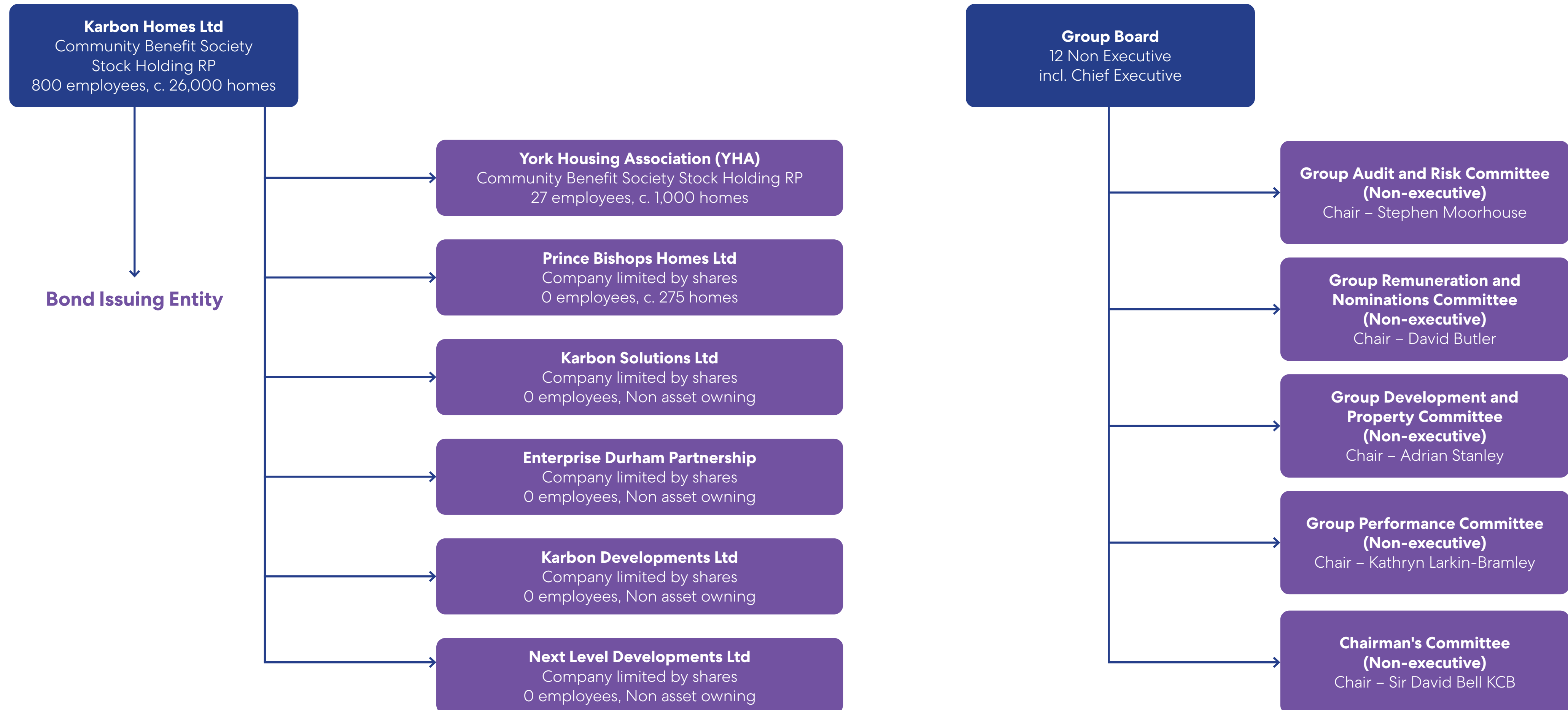
Karbon Homes portfolio



Average age



Corporate and committee structures



Chair and Executive Directors



Sir David Bell KCB
Chairman



Paul Fiddaman
Group Chief Executive



Richard Fryer
Executive Director of
Integration and
Company Secretary



Charlotte Carpenter
Executive Director of
Growth and Business
Development



Jo Ray
Executive Director of
Customer Services



Scott Martin
Executive Director
of Resources



Julia Histon
Managing Director of
York Housing
Association

- ✓ Group Board of 12 including the Chief Executive
- ✓ Strong controls and governance including internal audit, risk frameworks and detailed risk management, detailed stress testing of business plan.

Board member skills - wide range of skills on the Board including:

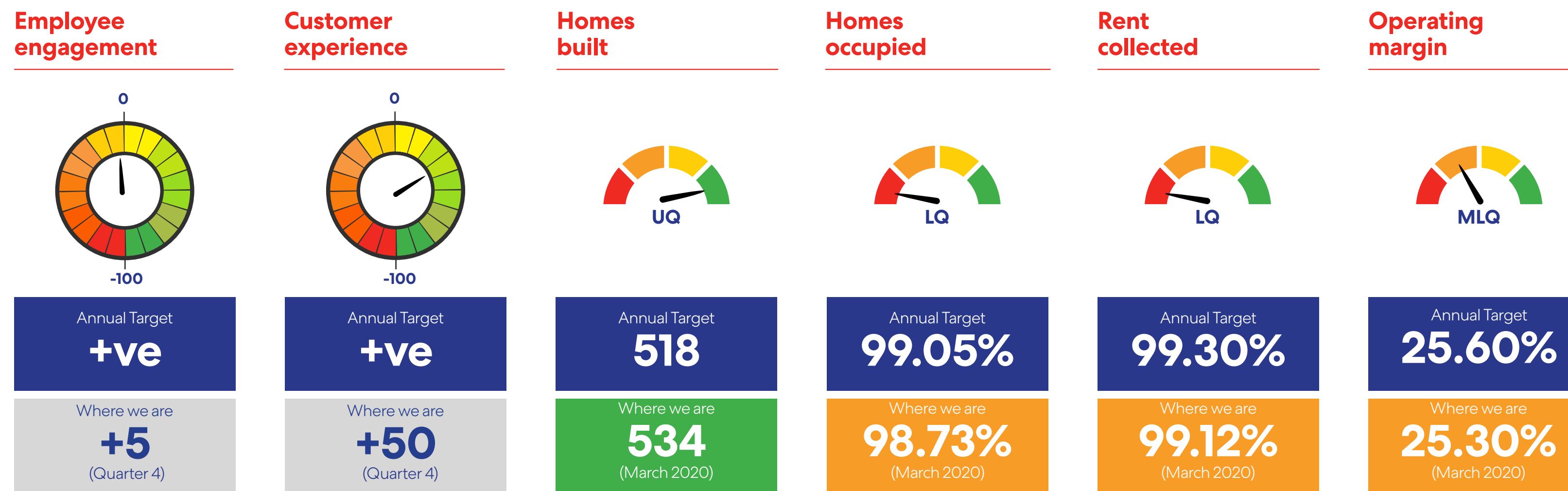
- ✓ Finance and treasury
- ✓ Risk management
- ✓ Design and development
- ✓ Customer experience
- ✓ Business and property management, legal and consultancy



2. Operational performance

Operating Model

- A fundamental part of our vision is to be one of the best service providers in the UK.
- We are moving from a traditional housing management model to a modern and digitally enabled service focussed on improving the customer experience and reducing the costs of delivery where possible.
- Karbon benchmarks itself using Housemark and the Sector Scorecard: we have included the headline indicators we report internally across all our employees via 'Team Talk' below.
- The speedometers show how our 2018/19 benchmarking scores compared to peers, so that our teams know where our journey to better performance is starting from. The KPI's listed below each speedometer display our 2019/20 target and year to date performance to March 2020.
- Benchmarks cover business health, development, outcomes delivered, effective asset management and operating efficiencies.



Operational performance

- Harmonisation of systems, processes, procedures, and teams took place during 2018/19 and into early 2019/20
- System changes and stock acquisition from Guinness have impacted on re-let times, however recovery actions are driving monthly performance back towards target levels
- Broadly, performance has been maintained during any periods of integration and increasing UC roll-out with current arrears in 19/20 at 3.19% compared to 18/19 of 2.66%
- Our headline social housing cost per unit for Karbon Homes Group in 19/20 is £3,102 (18/19: £3,135)
- Group operating margin in 19/20 is 25.3% (18/19: 24.6%)

Karbon Homes Association: Performance Benchmarking	Measure	FY 19/20 unaudited	Target 19/20	FY 18/19 audited
Rent collected against rent debit	%	99.11%	99.30%	99.17%
Void rent loss as % of annual rent debit (rolling 12 months)	%	1.60%	0.90%	1.57%
Average re-let time (Housemark Standard)	Days	48.33	32.00	51.00
Benefit income achieved for our customers	£	6.4m	5.0m	5.3m
Responsive repairs completed to target date	%	99.96%	94.00%	92.58%
Appointments made and kept	%	98.14%	94.00%	98.40%
Average number of calendar days to complete standard void repairs	Days	14.53	14.00	16.72
Average cost of responsive repairs	£	£147.57	£132.60	£143.79
Homes meeting Decent Homes Standard	%	100.00%	100.00%	100.00%
Gas servicing completed against service plan	%	99.91%	100.00%	99.99%
Customers very and fairly satisfied with responsive repairs	%	87.70%	95.00%	91.80%

Health and safety

Compliance related budgets for 2020/21 totalling £7m+

Fire safety budgets increased: spent £1.8m in 2018/19, £2.7m in 2019/20 and budgeted £2.4m for 2020/21



Robust response to Grenfell and Hackitt Review including a detailed review of all stock – no specific remediation works required

Target 100% compliance on all statutory measures (gas, electric, legionella, asbestos etc)

100% of stock at Decent Homes Standard

Operational excellence

Customer experience



- Reviewed our processes to make them simpler for customers
- Introduced a new Customer Satisfaction Framework
- Created our desired customer behaviours
- Strategic Residents Group

Welfare reform



- 5,172 Universal Credit (UC) claimants at the end of May 2020
- A Karbon-wide approach with one project team dedicated to welfare reform issues
- Key teams under single leadership for income management, money advice, employability and digital inclusion
- Impacts modelled and stress tested. Business plans robust and current performances, on target

Development



- Enhanced team, processes, controls and commercial experience to ensure robustly prepared for planned growth strategy
- Strong track record across full range of tenures, including grant funded
- Growth into higher value areas through York Housing Association partnership

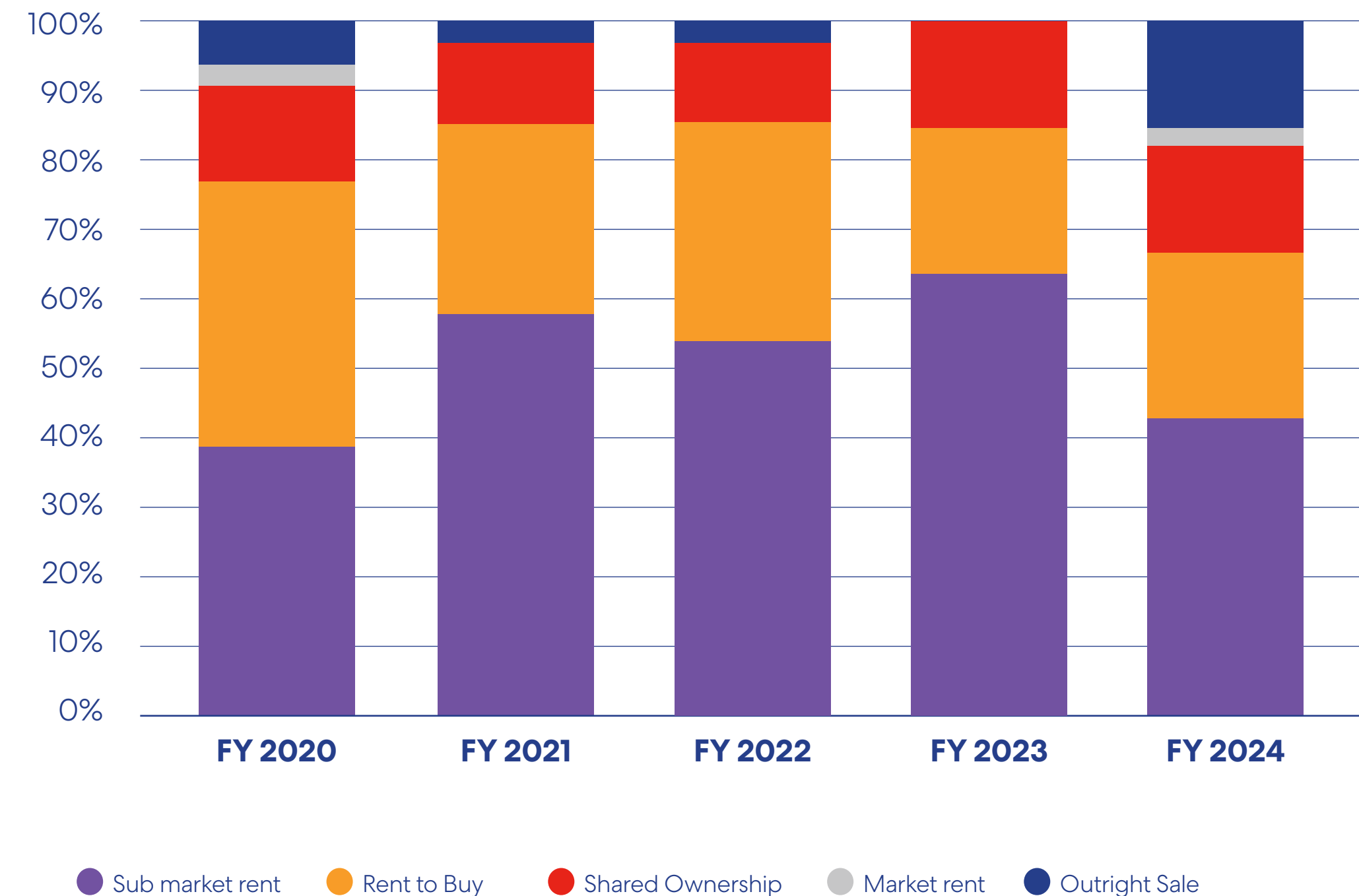
3. Development and assets

Development strategy

Karbon Homes Group	Actual 2017/18	Actual 2018/19	Actual 2019/20	Business Plan 2020/21	Business Plan 2021/22	Business Plan 2022/23	Business Plan 2023/24	Total expected new homes
New Homes Completed	351	371	534	556	759	471	555	2,341

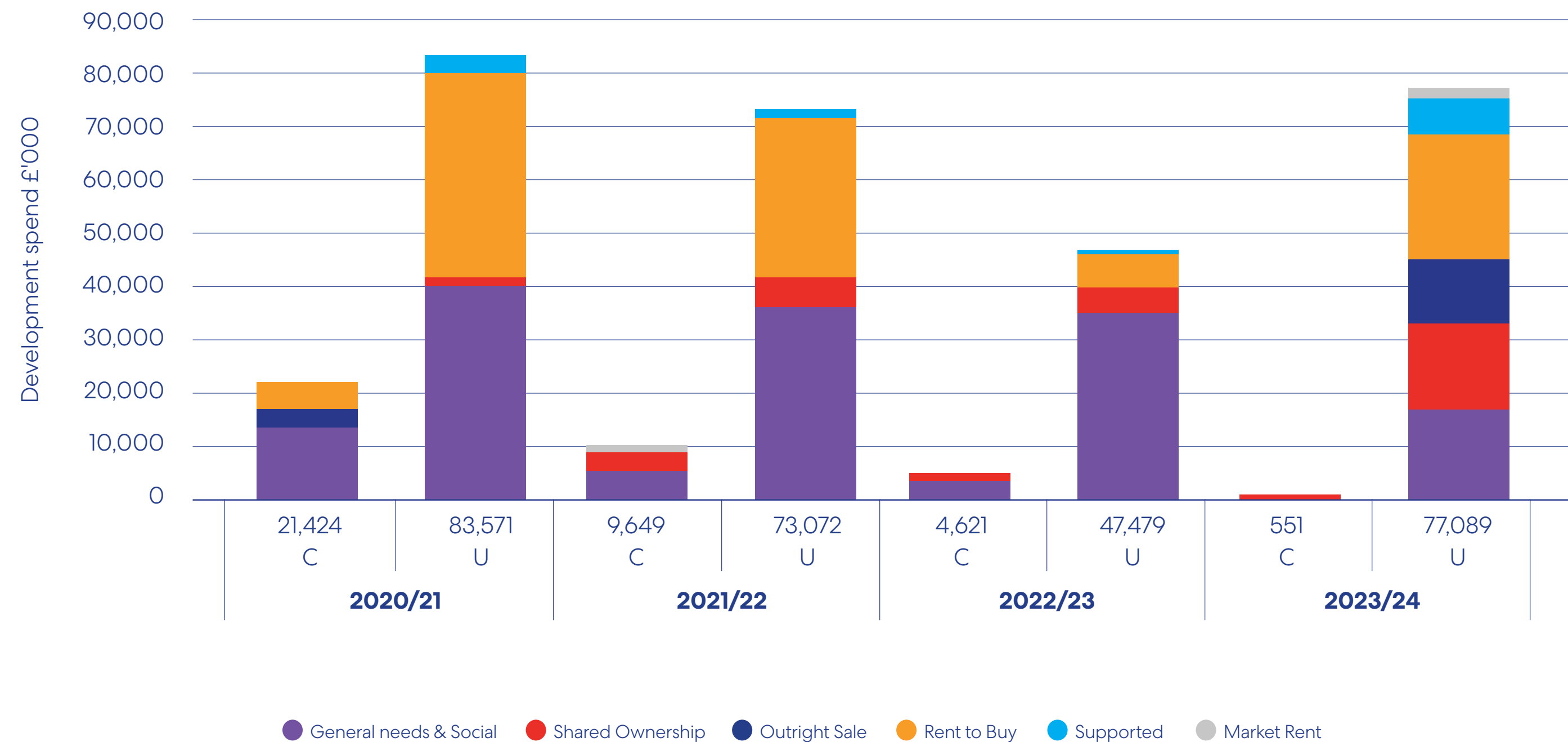
- Our 2018 -2023 strategic plan outlined our intention to increase development to 500+ homes per year
- Our forecast spend on new homes over 20/21 to 23/24 is £318m
- Focus on core social and affordable housing
- Modest amounts of commercial activity to assist in Karbon increasing social housing development
- Open to Joint Ventures for larger sites

Annual development programme mix

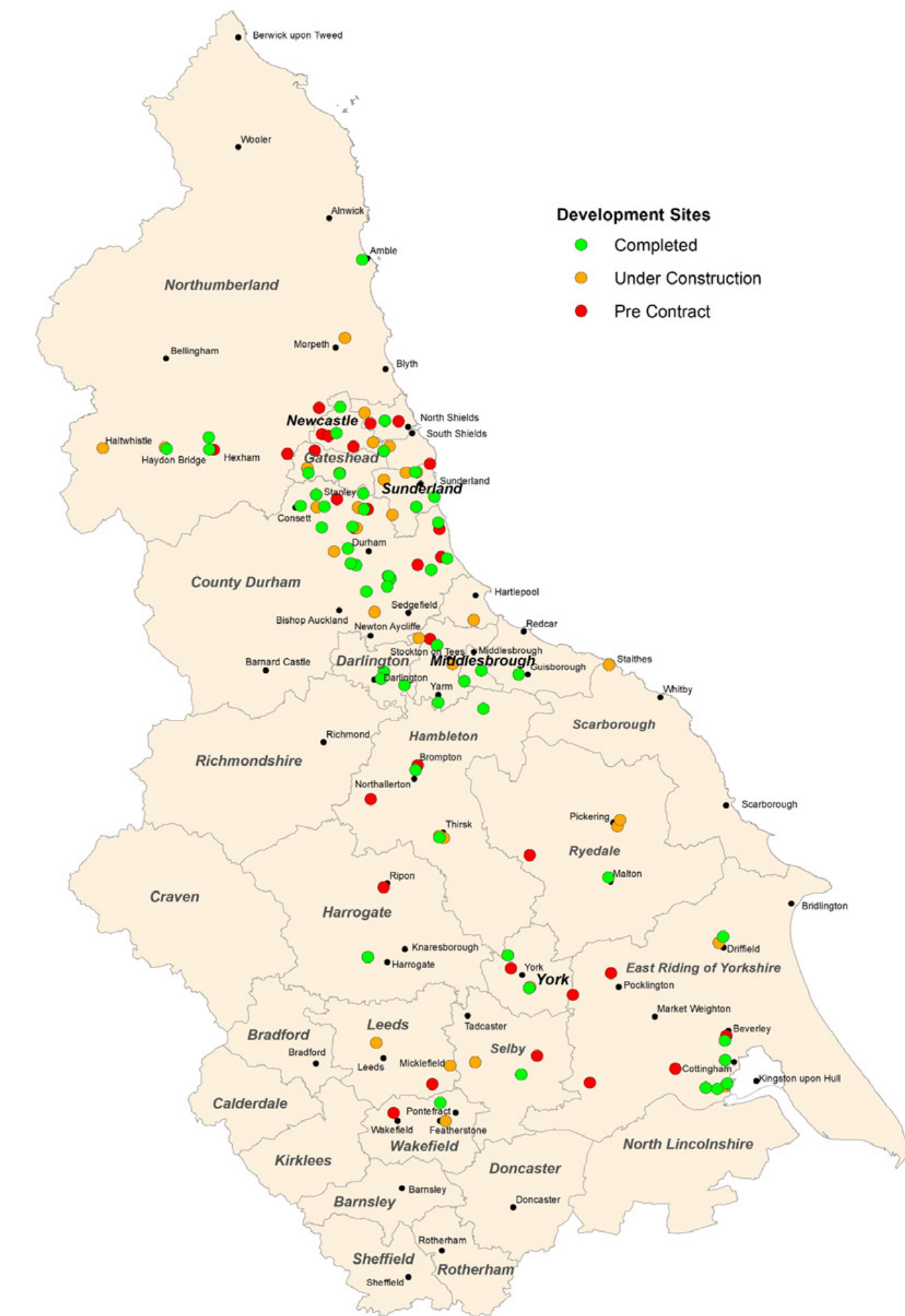


New homes development

Planned development spend



Committed development programme



Our development opportunities have evolved since York Housing Association came into the Group, taking us into some higher value geographical areas.

Contains Ordnance Survey data © Crown copyright and database right 2020

Recent homes completed – Springfield Meadows, Darlington



- Karbon Homes is delivering the £11m Springfield Meadows development in Darlington on the site of a former primary school.
- In total, the project will see 80 new homes developed, with a mixture of Rent to Buy, Affordable Rent and market sale homes available to serve the differing needs of the local community.
- Holly Avery, 33, has just moved into a four bedroom semi-detached home with partner Ben and their two daughters Pearl and Ruby, aged three and one.

She said: **“It’s a perfect location for us, as we used to live just around the corner. We have two young children and we wanted to get settled in our forever home. This one just ticked every box for us. I fell in love with it as soon as I saw it.”**

Recent homes completed – St Cuthbert's Hexham



- The new St Cuthbert's development of Retirement Living apartments in Hexham, Northumberland was completed in January 2020.
- A comprehensive £5.5m redevelopment of the site saw the demolition of the previous 1960s bedsit style flats, and two adjacent semi-detached homes, to make way for 38 high specification apartments for older residents.
- The apartments are mainly two bedroom homes, with 10 one bedroom properties.
- The project, designed by architects HMM, was supported with £2.4m funding from Homes England, the Government's housing agency.

Development and Modern Methods of Construction (MMC)

We are currently testing a range of MMC products to inform our future strategy and potentially seeing 10% of our annual programme delivered through MMC.

(Right) Karbon developed eight new properties working with HUSK pre-fabricated units. Garage blocks were part demolished, then the HUSK homes were simply craned into position in two sections. The eight units cost around £800,000 to deliver in total.



(Left) Karbon is well advanced on a 36 unit site of ICF (insulated concrete formwork) development in Greatham.



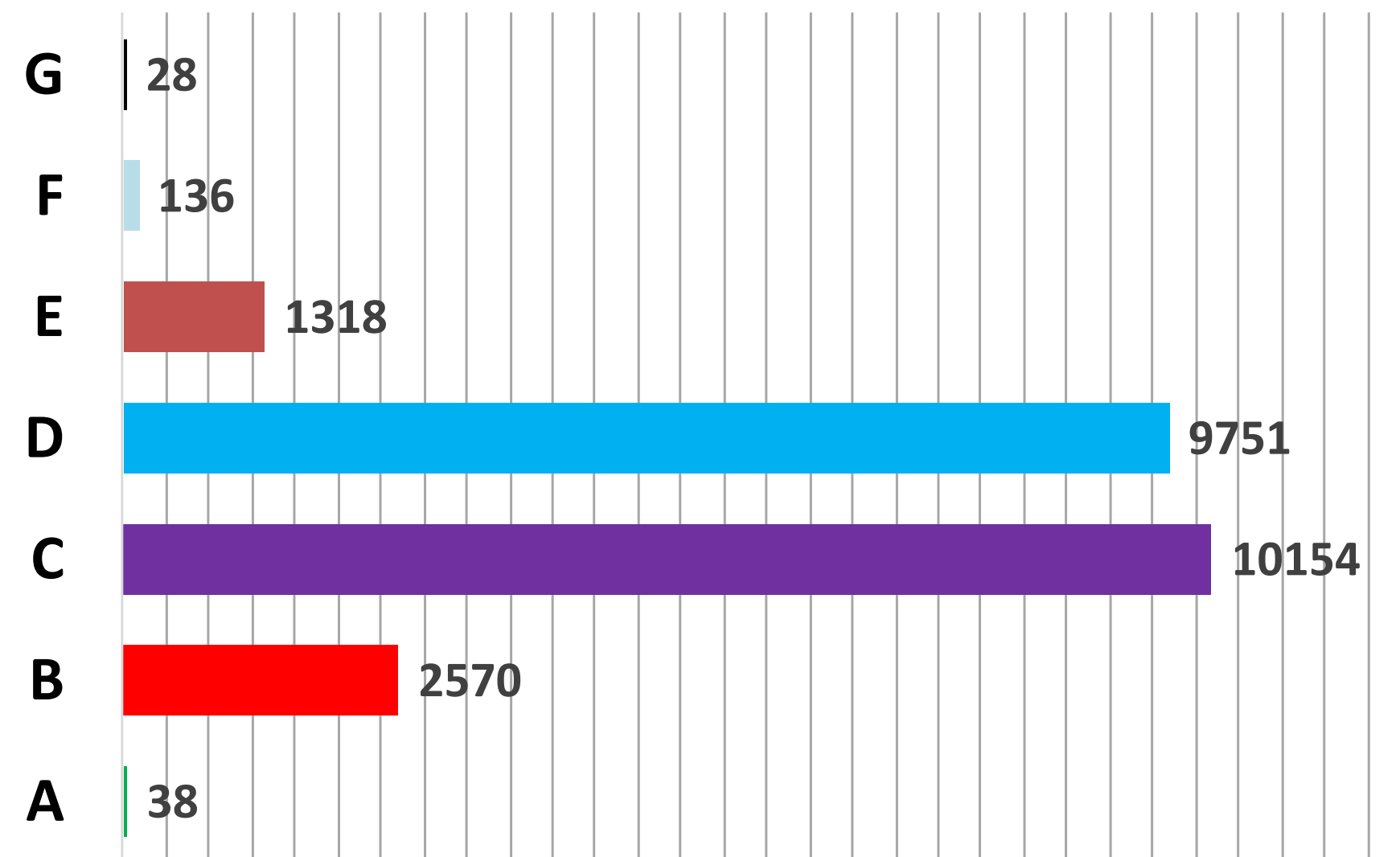
(Right) Karbon is working with Keepmoat Homes to deliver 17 affordable homes on the Central Park development in central Darlington, using ILKE factory-built homes.



Capital investment and EPC

Over the next four years, we intend to invest £193m in improving our existing homes.

We are currently formulating our strategies around achieving EPC B and C across our existing homes by 2030.



EPC C by 2030:

- Upgrading our systems and processes around EPC recording
- Purchasing specialist tools to identify investment requirements
- Recruiting new staff to lead on this

4. Financial performance



Performance summary

Metric	FY 19/20 Unaudited	FY 18/19 Audited
SH as % of turnover	87.1%	89.9%
SH Core EBITDA Margin	37.3%	35.5%
EBITDA Margin	38.5%	37.5%
EBITDA MRI Margin	30.7%	30.1%
Debt to EBITDA MRI	9.2x	10.0x
Gearing (VFM definition)	41.6%	43.8%
EBITDA MRI ICR	229%	206.0%
Average cost of borrowing	4.3%	4.3%
Capitalised major repairs	£10.6m	£9.5m
Development – completions	534	371

Sources: Audited Karbon Homes Group annual financial statements 2018/19, unaudited Karbon Homes Group 2019/20 financial statements.

Group statutory financials

£m	FY 19/20 Unaudited	FY 18/19 Audited
SH core turnover	113.1	111.3
Sales and other turnover	22.4	18.1
Turnover	135.6	129.4
Cost of sales and other operating costs	-17.4	-11.2
SH core operating costs	-83.9	-86.4
SH core operating surplus	29.2	24.9
Operating surplus	34.3	31.8
Surplus on disposals	4.3	1.7
Net interest cost	-16.8	-17.7
Other	0.4	-9.6
Surplus before tax	22.2	6.2

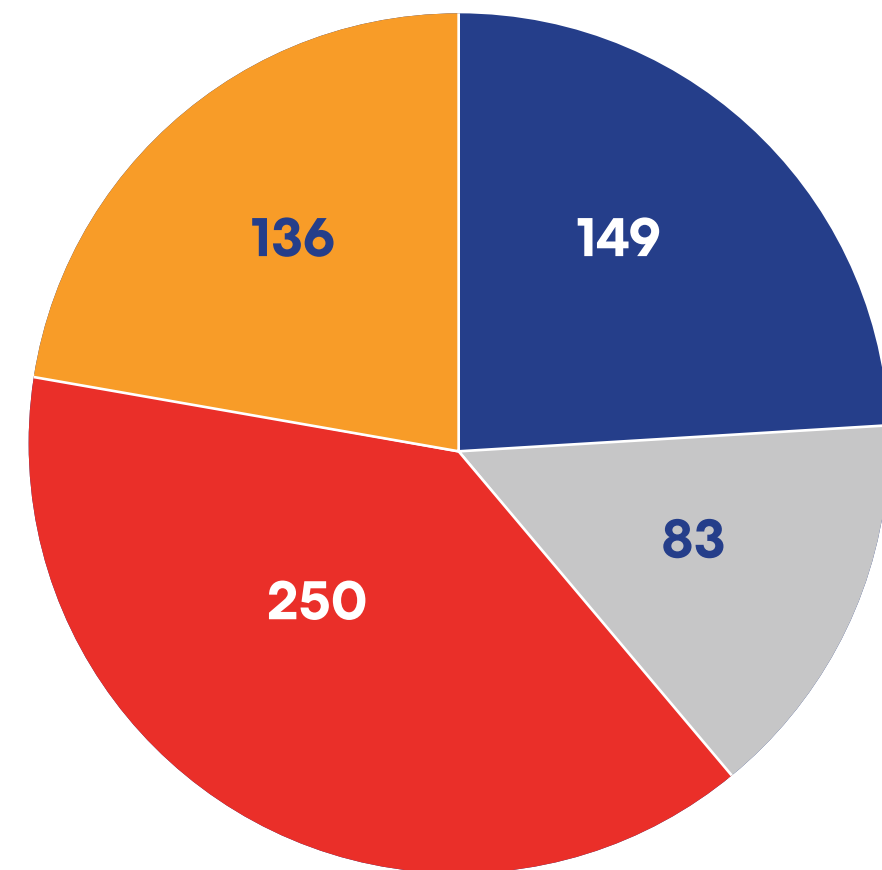
Sources: Audited Karbon Homes Group annual financial statements 2018/19, unaudited Karbon Homes Group 2019/20 financial statements.

A man with a beard and short dark hair, wearing a light blue button-down shirt, is smiling broadly while looking at a laptop screen. The background is a blurred office setting with large windows. The text '5. Funding and treasury' is overlaid in white on the left side of the image.

5. Funding and treasury

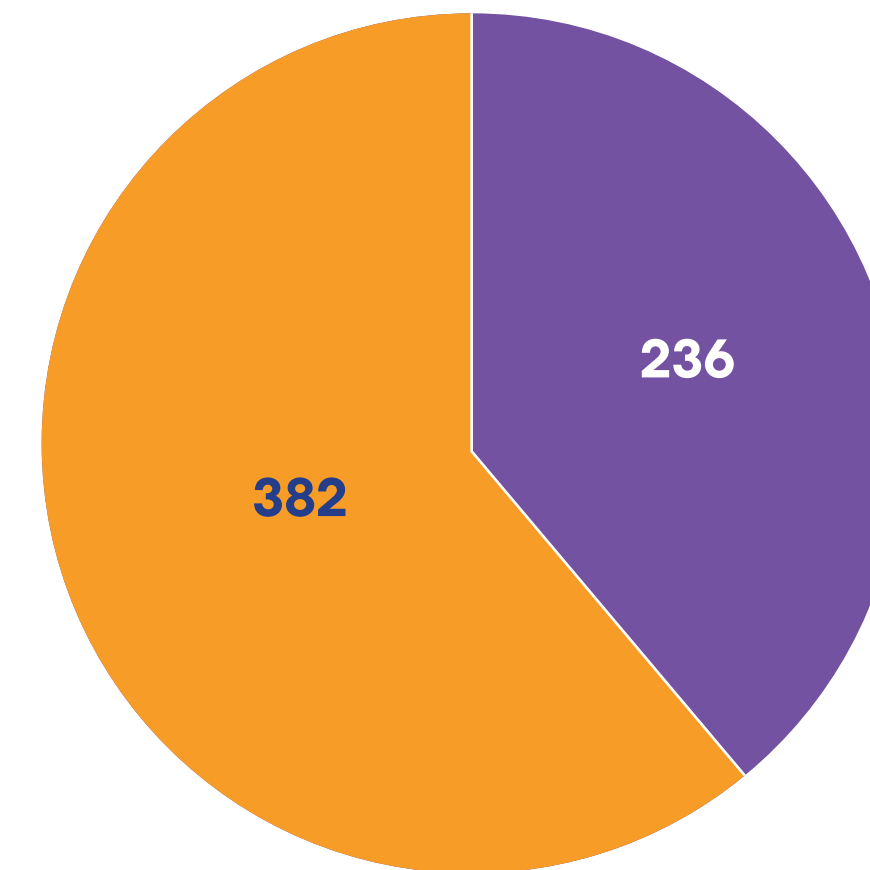
Treasury overview

Funding facilities of £618m at 31 March 2020



● Bank Loans ● Capital markets ● Bonds ● RCFs

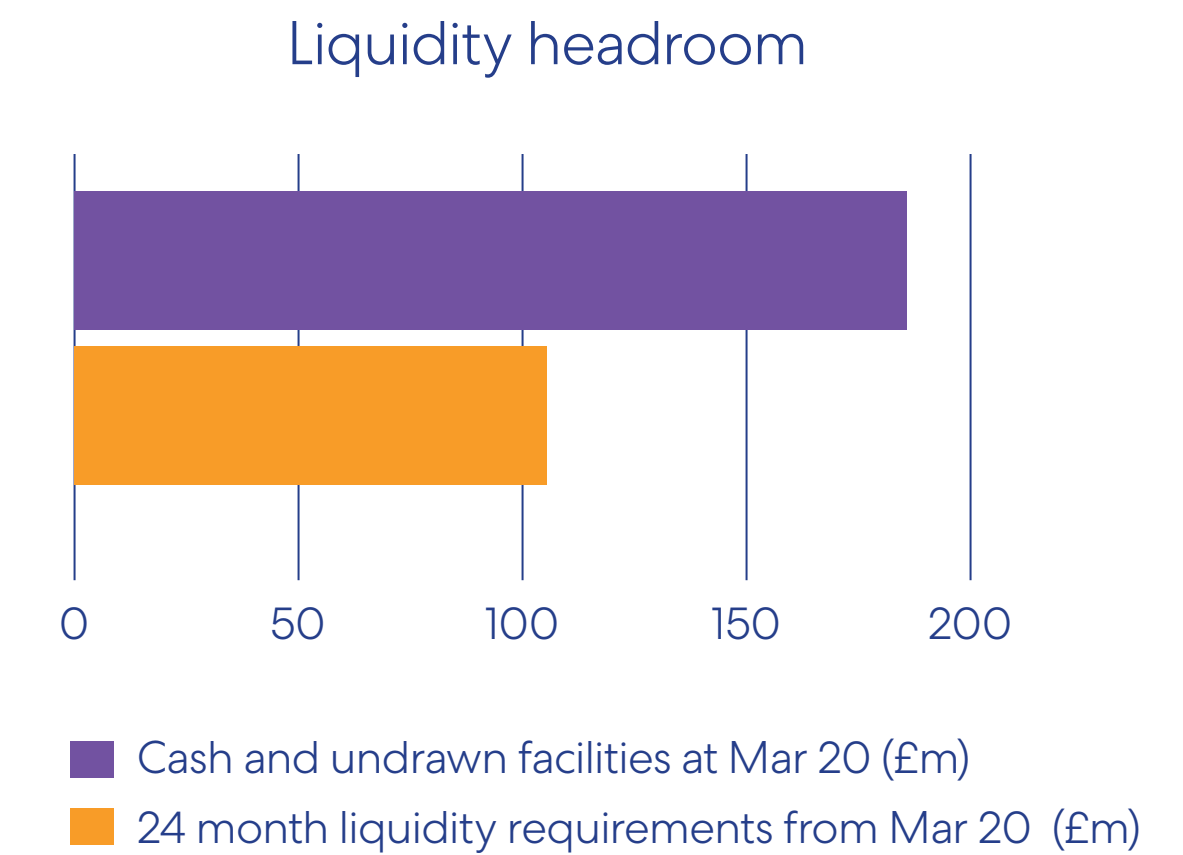
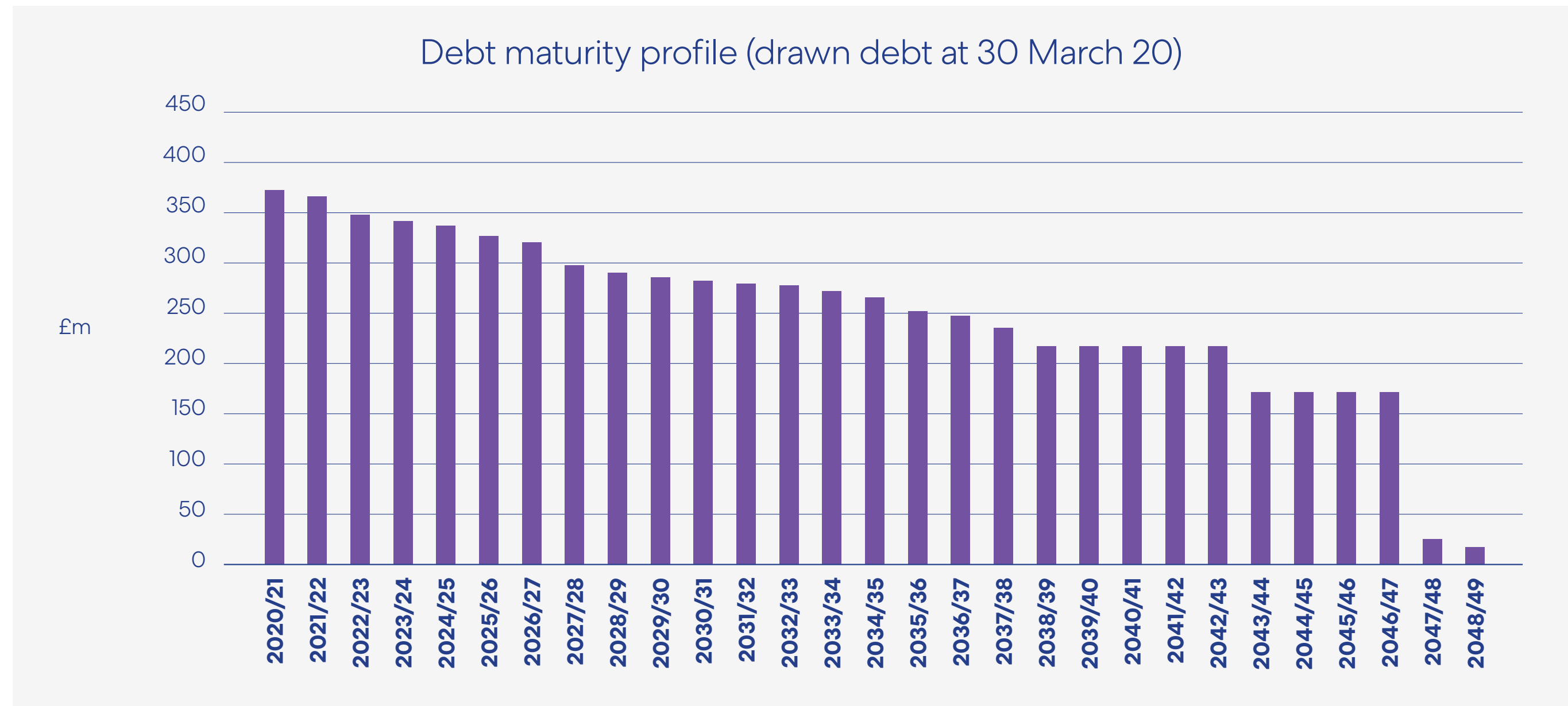
Drawn vs undrawn facilities (£m) at 31 March 2020



● Undrawn ● Drawn

Treasury overview

Current loan portfolio – business fully funded until 2023/24



- 96% of our currently drawn debt is at fixed rates of interest
- Security in place to draw on available facilities up to full utilisation
- Cash and deposits totalling £50.8m as at March 2020
- Currently £166m of unencumbered stock and £212m of excess or trustee held loan security, supporting £378m of potential new borrowings

Karbon Homes Golden Rules

Our currently approved 30 year Business Plan for 2020/21, shows healthy levels of compliance headroom with our two key banking loan covenants of interest cover and gearing

Karbon Golden Rule	Bank covenant or rule	Trigger	Stakeholder trigger	Actual at 31 March 2020	Comments (Compliant or breach)
Liquidity buffer	12 months	28 months	28 months	36+ months	Compliant
EBITDA MRI interest cover	1.1:1 times	1.3:1 times	2.0:1 times	2.41:1 times	Compliant
Minimum cash balance	£8m	£8m	n/a	£16.5m	Compliant
Maximum gearing*	45%	40%	n/a	33%	Compliant
Outright sales units unsold	>12 months	n/a	n/a	0 units unsold >12 months	Compliant
Joint Venture activity	£25m	£15m	<15% of programme	Nil	Compliant
Maximum on-lending to PBH	£43m	£33m	n/a	£22.0m	Compliant
Non reliance on outright sales	@ business planning	n/a	<15% of programme	n/a	Compliant

* The metric above is on the basis specified by our lenders and hence must be our 'Golden Rule', and uses the definition: 'Debt' divided by 'Housing properties at Cost'. This differs to the RSH VFM definition which is quoted elsewhere and nets off depreciation.

S&P credit rating

S&P Global Ratings

U.K.-Based Social Housing Provider Karbon Homes Ltd. Downgraded To 'A'; Outlook Stable

May 27, 2020

Rationale

Karbon Homes' focus on low-income activities, combined with its moderate levels of debt, help determine our rating on the group. However, we expect that the already-limited economic dynamism of the northeast will deteriorate further as a result of the COVID-19 outbreak, and will continue limiting Karbon Homes' ability to boost its operational and financial performance.

Outlook

We could upgrade the rating if Karbon Homes proves to be more resilient than we forecast, and manages to increase its EBITDA margins consistently above 30% and overcome regional operational risks, thereby mitigating pressure on the group's financial flexibility.

S&P recognised Karbon Homes' continuing strengths include 'low industry risk', low 'exposure to market sales', 'vacancy rates have remained very low, even compared with peers', a 'management team with extensive experience in the social housing sector', and a 'very strong liquidity position'.



6. Covid-19 Karbon's response

Covid-19: Karbon's customer and community response



£90,376

given to
73 charities
to support communities
through the coronavirus
crisis



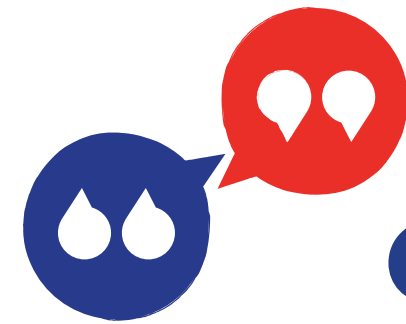
Rehoused
16

people and families who
were homeless or fleeing
domestic abuse



301

socially isolating
customers are
receiving weekly
social calls from our
Silver Talk service



9,806

vulnerable customers
contacted to offer
additional support

**Supporting
our
communities**



Our Money
Matters Team have
supported

1,014

customers
struggling with
financial and
budgeting issues

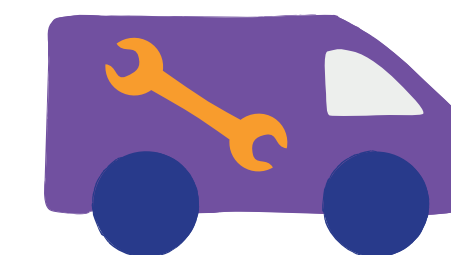
1,250

older customers in our
retirement living and extra
care schemes are receiving
a daily welfare call



3,057

emergency repairs carried
out by our property
services teams

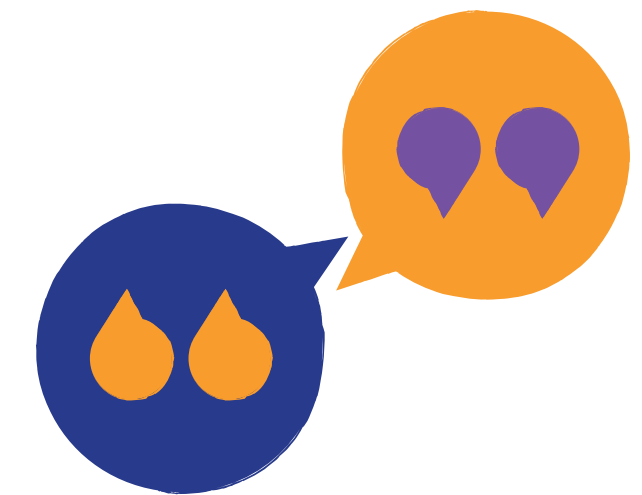


Covid-19: Our people and our business

As well as looking after our communities, the health of our colleagues and our business model has been paramount.

Areas of focus have been:

- Dedicated Coronavirus Response Group (CRG), with membership across the business.
- Rapid mobilisation of home working for office based colleagues.
- Initial focus on emergency or compliance related repairs only.
- Regular communication with our colleagues, customers and other stakeholders.
- Additional trend analysis and reporting within the business and to our Board, including detailed Covid-19 stress testing of our 30 year financial plan, outlining Karbon's resilience to a variety of potential scenarios. None of our stress testing causes breaches in banking covenants over the 30 years of the business plan.
- CRG now focussing on Karbon's recovery plans in line with national policy.





7.
**Investment highlights and
transaction summary**

Credit highlights

1. Credit profile

Strong investment grade (A rated, S&P) 27,000+ unit, regionally focussed housing association, with a deep rooted history in local communities

2. Merger track record

Proven track record of successful merger integration, with sustained financial performance

3. Development focus on social housing

Low risk business model with core social housing strategy

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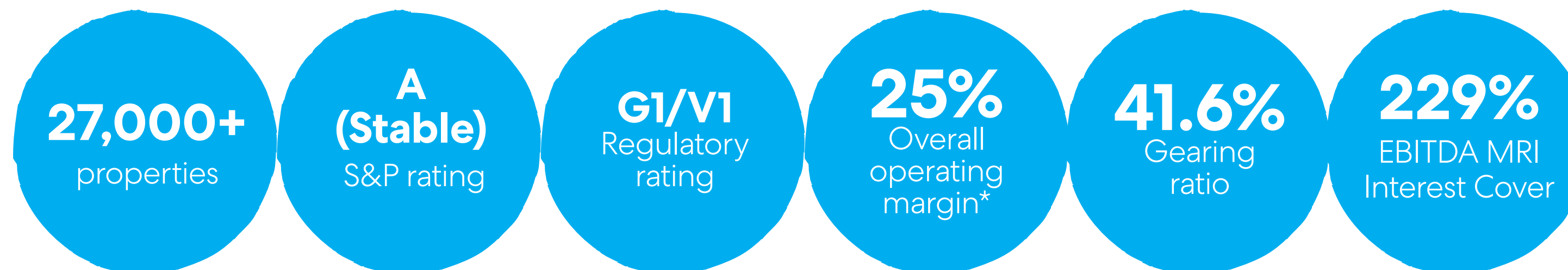
Strong operating margins, high income generation and relatively low levels of gearing

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Skilled and experienced Board, reflected in consistent G1/V1 rating and M&A track record

6. Strong ESG credentials

Committed to achieving EPC Band C across existing homes by 2030



Source: Metrics from Karbon Homes unaudited financial statements year ended 31 March 2020 * Overall operating margin, excluding asset sales

Any questions?