

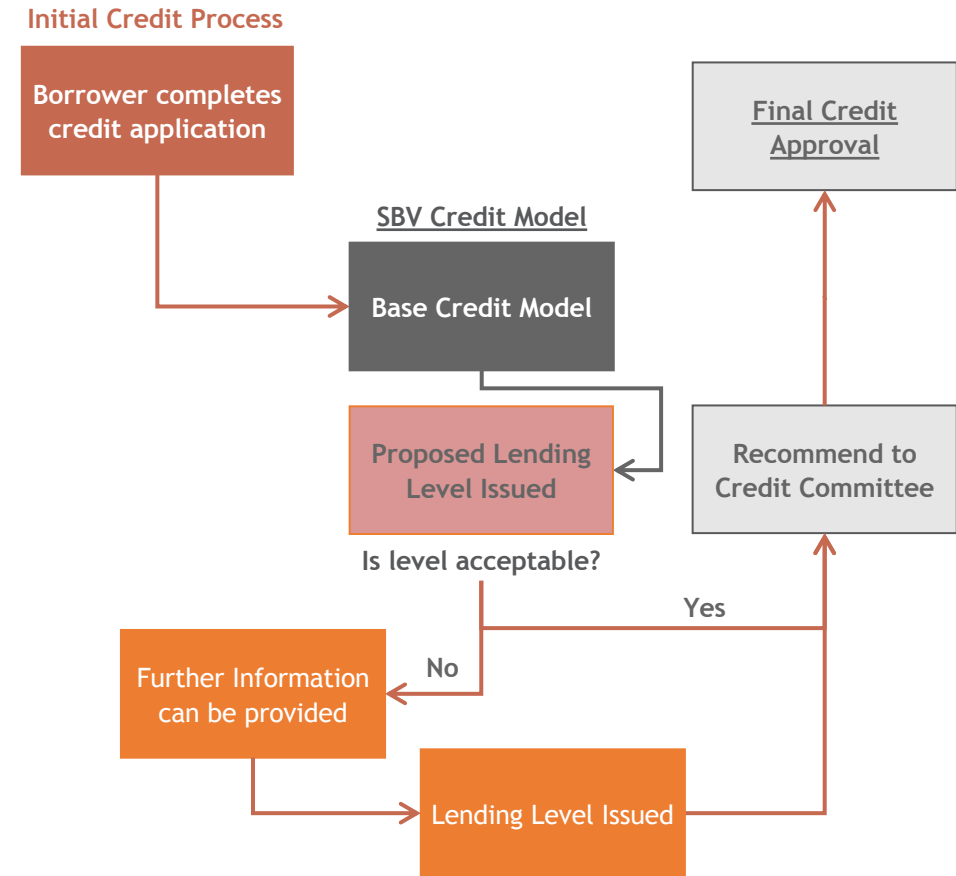


# Overview of the MORhomes Credit Process

# Credit Process

- Parties involved in the credit process
  - Board and Credit Committee **oversee process**, set credit criteria, approve individual credits
  - Management operates process and monitors credit on a quarterly basis
  - Edison undertakes initial credit analysis, annual updates and recommends borrower limits
  - Credits reviewed annually and credit applications are subject to audit

## Credit Process



# Predictable credit process: transparent for borrowers & investors

- The credit model incorporates
  - A credit scoring system based on credit ratios,
  - A credit report with face to face due diligence,
  - Individual review by the Credit Committee, and
  - Single and multiple name exposure limits
- Credit criteria and single name exposure limits set by Board on recommendation of Credit Committee and reviewed at least annually
- A single name exposure limit equates to a credit limit (“Lending Level”) for each HA on application.
- Historical information, business plan, credit score and profile of borrower is reviewed by Credit Committee which makes final determination of Lending Level
- Currently mapping broadly to rating agency categories as shown to the right of this page
- The Lending Level sets the maximum credit limit (the maximum borrowing) for each HA
- Assigned Lending Level reviewed each year or on occurrence of a corporate event

## Lending Levels

Level 1 - AA- / A+

Level 2 - A+

Level 3 - A+ / A

Level 4 - A / A-

Fail

# The credit model is based on rating agencies' methodologies

- Ratios reflect Moody's and S&P methodologies, with additional tests on security and liquidity
- Borrowers provide information on a consolidated basis
  - Historical information - 5 years
  - Business Plan (FFR) - next 5 years
  - Year 10 snapshot
- Credit Scores:
  - Each ratio is weighted by age of data:
    - starting at 1x for the current year to 0.2x in year 5
  - Average score on each ratio is allocated an outcome
    - corresponding to Lending Levels 1 to 4 or “fail”
  - Outcomes are adjusted to account for their weighting in the credit model
  - The weighted outcomes are added together to calculate the overall credit score

Type	Definition	Weight	Notes
Profitability	Adjusted EBITDA / Revenues	12.5%	
Interest Cover	SH EBITDA / Interest	15.0%	All social housing activity
Interest Cover	Adjusted EBITDA (all) / Interest	17.5%	All operating activities
Debt Service	Debt / EBITDA	15.0%	
Debt Repayment	Net Debt / (Annual voids x OMV values)	2.5%	
Net DpU	Net debt by total whole units	15.0%	While gearing was preferred, too many variations in sector for consistency
Liquidity	Cash & undrawn facilities as % of commitments	15.0%	Committed spend
Capacity	Uncharged assets as a % of total assets	7.5%	

# Clear Credit Limits & Diversification Requirements

- The financial terms of loans are the **same for all** qualifying borrowers
- With the credit levels setting limits according to credit quality
  - Allows stronger credits to borrow more than weaker ones
  - Thus **balancing** the loan book towards stronger Borrowers
- Until MORhomes has issued £500m, single name exposures are based on a notional £500m issue. Thereafter they are set as a percentage of the total portfolio
  - There is also an **aggregate limit** for each Level
  - The board may use discretion to merge Levels within certain limitations

## Single name exposure

Category	Exposure
Level 1	12% of MORhomes total borrowings
Level 2	10% of MORhomes total borrowings
Level 3	8% of MORhomes total borrowings
Level 4	6% of MORhomes total borrowings
Fail	does not meet the credit requirements

## Collective Exposure

Category	Exposure
Level 1	No limit
Level 2	60% of MORhomes total borrowing
Level 3	30% of MORhomes total borrowing
Level 4	20% of MORhomes total borrowing

# Thorough ongoing credit monitoring, surveillance & remediation

- **The Credit Committee is responsible for ongoing oversight of the loan book:**
  - Regular monitoring based on quarterly management accounts and information,
  - Annual review and update of the Lending Level by Edison,
  - Borrower obligation to notify MORhomes of amendments to its or its group's business plan which could lead to a downgrade of the borrower under the credit model
  
- **The Credit Committee has a number of options to address credit deterioration & remediation**
  - Increased monitoring
  - Discussions with Borrower about financial performance
  - An independent review of the credit
  - Cancellation of any unutilised credit limit on further borrowings
  - Reduction in the Lending Level allocated to the Borrower
  - Requirement to pledge additional collateral where the maximum borrowing limit for that Lending level is exceeded
  
- **In addition, in the event of any payment failure**
  - Reduction to a Fail
  - Discussions on remediation