



Information Memorandum

April 2023

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Key Individuals & Content



Mark Washer
Chief Executive Officer



Ken Youngman
Interim Chief Financial Officer



Graeme Gilbert
Treasury Director



Helen Evans
Chief Executive Officer



Peter Benz
Executive Director of Finance



Anup Dholakia
Director of Corporate Finance

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Existing Organisations – At a Glance Full Year 2022

Sovereign

- 61,216 Units
- South of England
- 29.3% Operating Margin from Social Lettings
- Turnover £439m
- Open market value of assets £13.7bn
- Average EPC C or above – 65%
- 1,196 homes completed, 93% affordable
- G2 / V2
- Moody's 'A3', S&P 'A+'

Network

- 21,229 units
- London, East Herts & Home Counties
- 26.9% Operating Margin from Social Lettings
- Turnover £244m
- Open market value of assets £6.5bn
- Average EPC C or above – 68%
- 232 homes completed, 100% affordable
- G1 / V2
- Fitch 'A'

Rationale for Combination & Ambitions

Ambition

- To create a stronger, more financially resilient organisation which can build more quality, affordable homes
- This is a merger of two strong entities, neither party needs to merge but we believe we will thrive together and be better than both associations run individually
- To invest £5.9bn in building 25,000 new homes and £3.3bn of investment in our existing homes through retrofit and regeneration over the next 10 years
- To provide excellent services for our current and future customers
- A new standalone Community Fund investing £100m over 10 years
- Influence local and national policy as one of the country's leading housing associations and as a member of G15

Benefits

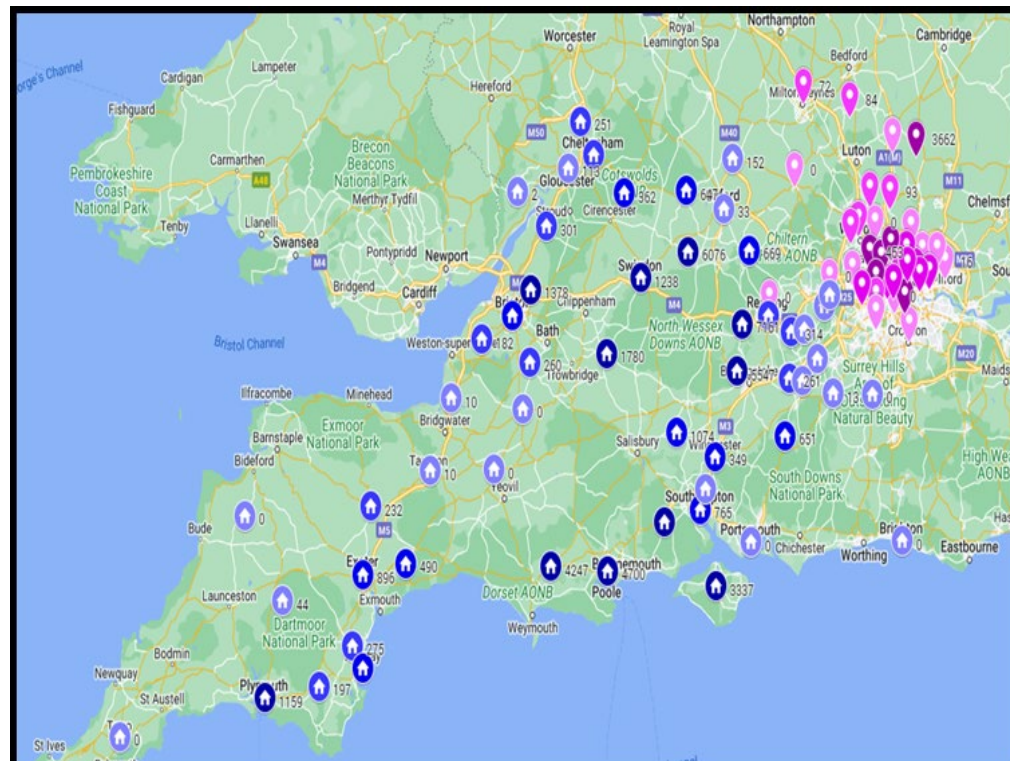
- More affordable homes for people who need them most
- Improved quality of existing social housing stock
- Enhancing our ambitious decarbonisation programme through joining complementary strengths
- Building a new organisation that is more than the sum of its parts
- More opportunities for our people in a more diverse organization, with a culture that is focused on excellent customer service, using merger as a catalyst for change
- Economies of scale

Challenges

- Inflationary, economic and sustainability pressures and housing supply challenges
- Tighter regulatory regime requiring more investment in data and systems
- Unprecedented economic and social challenges for our residents

Key Characteristics of Sovereign Network Group

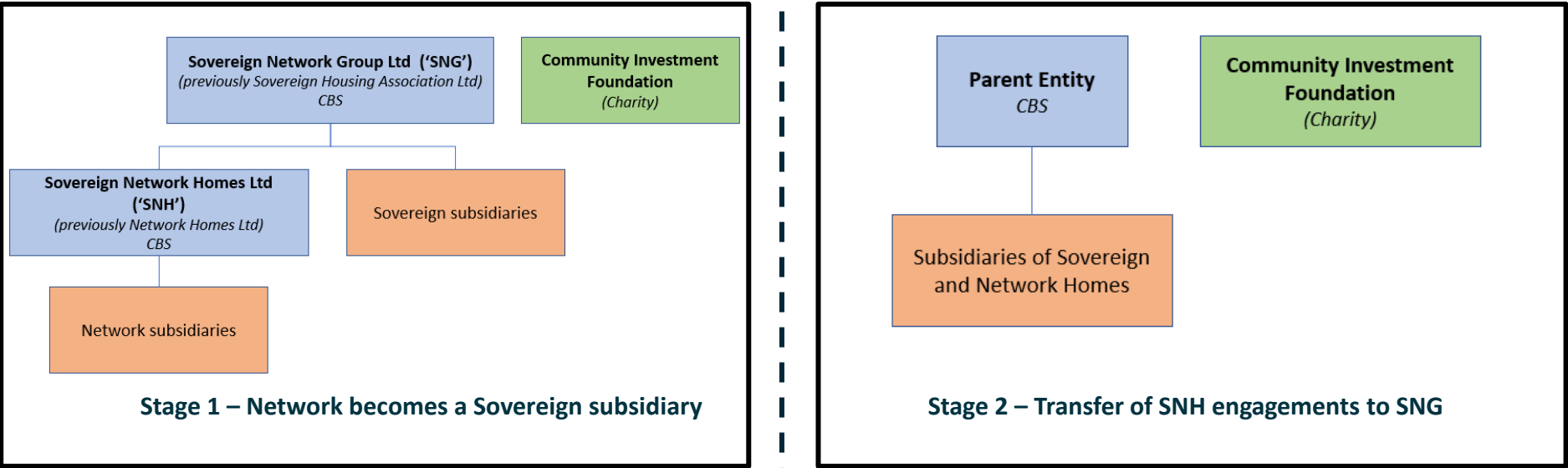
- A regional powerhouse with greater influence and impact, the 6th largest housing association by homes and the 3rd largest by development programme
- Building and owning homes from Cornwall to London in cities, towns and villages
- Building on the existing strengths of two well-regarded and strong housing associations
- Focus on stock investment, delivery of much needed new homes & VfM



Network Homes		Sovereign	
Local Authority	No. of Homes	Local Authority	No. of Homes
L. B. Brent	6,619	West Berkshire	7,940
East Herts	4,378	Vale of White Horse	6,589
L. B. Lambeth	1,952	Basingstone & Deane	6,560
City Of Westminster	1,517	BCP	5,843
L. B. Ealing	956	Isle of Wight	3,730

Sovereign	Network Homes
0 - 250 homes	0 - 250 homes
251 - 500 homes	251 - 500 homes
501 - 1000 homes	501 - 1000 homes
1001 - 10000 homes	1001 - 10000 homes

Corporate Structure



Proposed New Structure

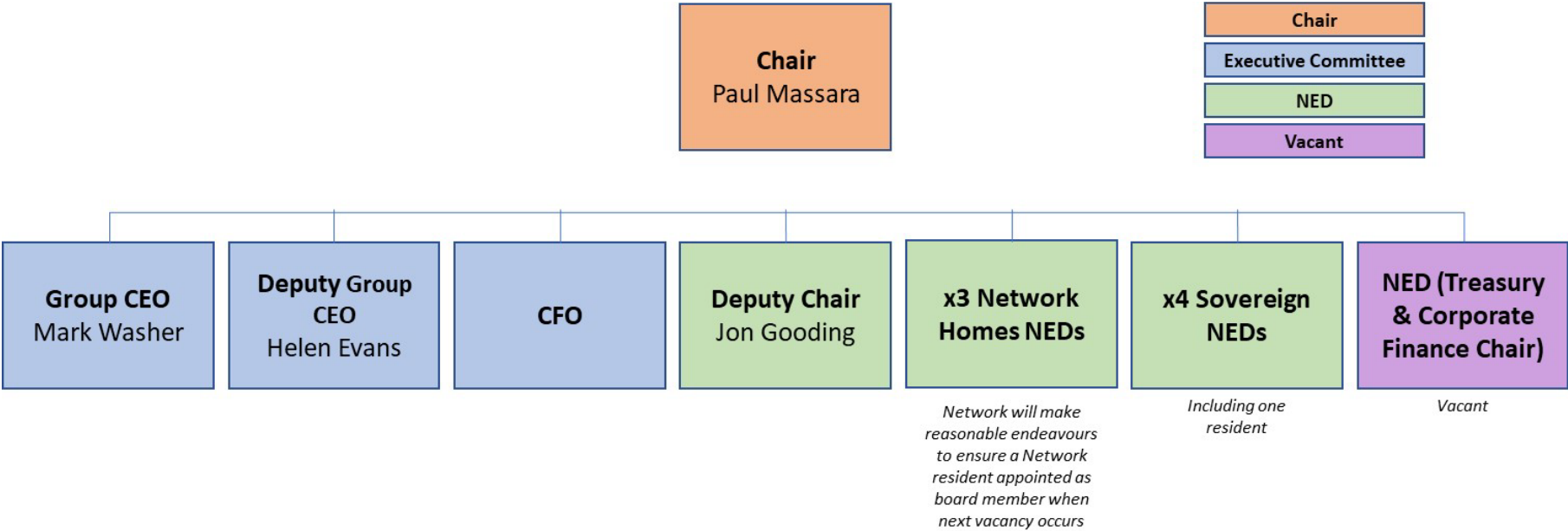
Stage 1 (01/10/2023 - FY2024): Sovereign acquires Network (Network becomes a subsidiary of Sovereign). Sovereign is repurposed to create a new Group parent and Network Homes changes its Rules to become a subsidiary of Sovereign, to sit alongside Sovereign's existing subsidiaries but with the governance and branding to reflect a "combination of equals". Sovereign, as the parent, is renamed 'Sovereign Network Group' and Network Homes renamed Sovereign Network Homes Limited.

Stage 2 (01/04/2025-FY2026): Network transfers its engagements into Sovereign

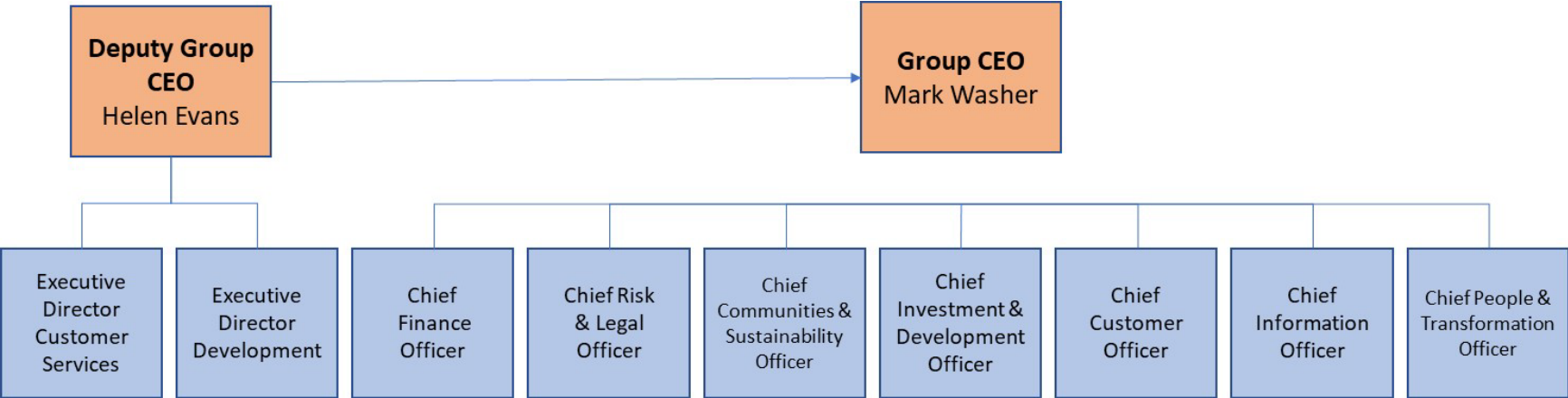
For existing structures please see Appendix C

Section 1 | Overview of Sovereign Network Group

Governance & Management – Board Designate & Committee Structure



Executive Board – To be appointed April 2023



ESG - Both Housing Associations are Early Adopters of SRS

Sovereign Network Group will develop a specialist ESG function, with a dedicated Executive Board role. Enhanced combined environmental commitments will be shaped through the Homes and Place Standard covering all our homes and neighbourhoods with £3.3bn investment into existing homes by 2034. We will legally ring-fence our commitment to communities, aiming to invest £100m over ten years making them more resilient and successful.



**Sovereign
Network Group**

Environmental

EPC C 69.9% – Successful bid for £9.5m to upgrade 1,000 homes to C+ through SHDF, additional £22.5m allocated spend to take these properties to EPC B+ via a sector leading digital approach to retrofit, investing in smart home technology, renewable energy and battery storage. Average SAP 72.35.

90% new homes EPC B+

£375m of sustainability linked facilities, Sustainable Finance Framework in place for future bond issuance

EPC C 70.9%. Successful bid for £9.3m to upgrade 2,043 homes to C through SHDF, with matched funding of a further £9.3m from Network Homes. Average SAP 71.66 .

100% new homes EPC B

£200m of debt issued under a Sustainable Finance Framework

EPC C 70%+, delivery plan to increase this to 100% by 2030 and commitment to SHDF bids of predecessor organisations.

72.18 projected SAP. Operationally zero carbon housing portfolio by 2050.

Social

16,264 new homes by 2034.

Annual investment of £3.5m through thriving communities programme.

The Resident Board and Partnership influences strategy, policies and service standards, alongside monitoring the quality and performance of services.

4,787 new homes by 2034.

Budgeted £140k for charitable fund in 2022/23, which is set to be exceeded.

Secured £2,440,523 in benefits for residents through welfare advice. Chairs of two Resident Panels (and resident Chair of SW9 subsidiary) formally involved in governance through Customer Services Committee.

25,000 new homes by 2034.

New charitable foundation, aiming to create £100m of investment over the next 10 years deploying a mix of internal and external funding.

Increase ease of service for customers by building on the best of both and find new ways to engage with customers with new group-wide structures and pathways to ensure that customer voice shapes what we do and how we do it.

Governance

NHF 2020 Code of Governance. RSH rating G2/V2 advanced on journey to be regraded to G1, with Regulatory Notice withdrawn in 2022.

Ten board members, 60% female, 10% ethnic minority.

NHF 2020 Code of Governance. RSH rating G1/V2.

Ten board members, 50% female, 20% ethnic minority.

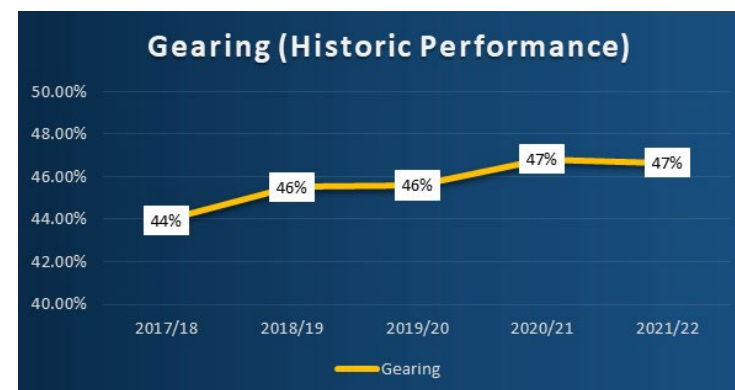
NHF 2020 Code of Governance. Working towards being G1/V2.

Thirteen proposed board members to be confirmed.

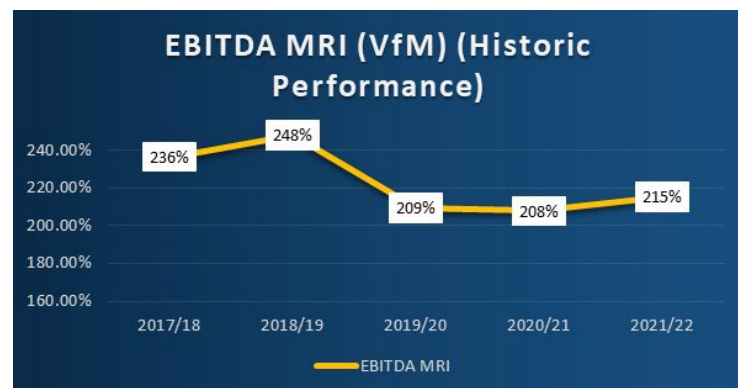
Section 2 | Financial Profile

Historical Financial Performance

Performance on a Sovereign Network Group (Sovereign & Network consolidated) basis



(Gearing: ND / HC Inc. WIP)



(Interest Cover: EBITDA basis)

Financial Year	2018	2019	2020	2021	2022
Housing Properties (£m)	5,367	5,660	6,052	6,291	6,581
Total Debt (£m)	2,451	2,694	2,896	3,075	3,200

Shadow Credit Rating

Credit Rating strategy

At present, across the two standalone entities, all three major credit rating agencies are represented:

- Sovereign reaffirmed its 'A+' rating with S&P in March 2023, with S&P providing their opinion that the combination is credit neutral.
- Network Homes retained its 'A' rating with Fitch in November 2022, but had its outlook revised to negative from stable.
- Sovereign's credit rating with Moody's is A3 (Feb 2023).

Sovereign Network Group would retain at least one strong investment grade credit rating at all times. The combination of the two entities would be credit positive or credit neutral in the medium term.

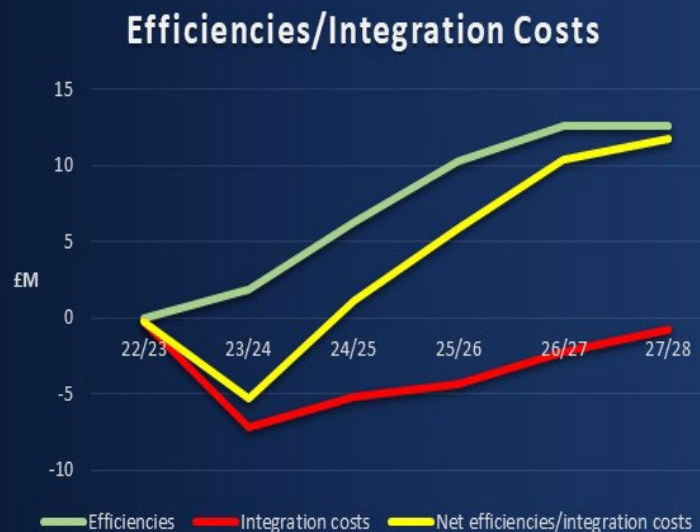
The combined business plan returns strong performance against most of the key assessment measures used by the agencies.

Combination Integration Costs and Synergies

Approach

- The combination is not predicated on producing savings, as both organisations enter the combination financially sound and resilient.
- The combination will incur additional costs with new investment in IT, the potential for early write-off of some existing systems, colleague departures, and a new integration team. These costs will be offset over time against the recurring £13m annual efficiencies that will be achieved from Year 6 onwards.
- Savings have been forecast to be prudent and deliverable.

Key Headline Costs & Efficiencies Nominal Terms



£m / Financial Year	2023	2024	2025	2026	2027	2028
Efficiencies						
as a % of Operating Expenditure	0.0%	0.3%	1.0%	1.7%	1.9%	1.9%
TOTAL						
Integration Costs						
as a % of Operating Expenditure	0.0%	1.2%	0.8%	0.7%	0.3%	0.1%
TOTAL						

Complementary strengths for Stock Investment benefiting our Customers

Sovereign Network Group

The coming together of both organisations will enhance the complementary strengths of each in respect of its investment in stock.

Sovereign Network Group will have a sector leading approach to asset management and decarbonisation with its Homes and Place Standard (HPS) which evaluates the lifecycle of each individual unit from a cost and sustainability perspective.

Sovereign Network Group will have a strong building safety team with expertise and experience of the investigation and remediation of tower blocks to ensure customer safety and safe homes, with a demonstrable record of asset management in complex areas of urban regeneration.

Also following detailed due diligence and scrutiny of their Social Housing Decarbonisation Fund ('SHDF') bids, Network Homes bid for £9.3m to upgrade 2,043 homes has been accepted. Sovereign's bid for £9.5m to upgrade 1,000 homes has also been accepted. In combination this would be one of the largest number of homes being upgraded by any single organisation under SHDF.

Development Aspirations

Approach to development and benefits of combination - SNG will:

- Use an expanded geography and range of housing products to spread development risk with the flexibility, financial strength and appetite for calculated risk to move quickly in response to local market conditions.
- Have breadth and resilience as a housing provider, equally skilled in small rural developments, market town expansion and major urban regenerations.
- Have a larger balance sheet with greater annual surpluses to allow greater choice and opportunity whilst providing expanded headroom to withstand financial stress.
- Create sector-leading research and development capacity which will enable us to identify the best way to retrofit our homes bringing them up to EPC C initially then zero carbon.
- Unlock unallocated funding headroom for an additional 3,600 units over 10 years assuming current grant levels and a prudent maximum gearing level.
- Utilise the scale and variety of the overall programme to better manage risk by matching long-term capital-intensive schemes with turnkey developments that rapidly produce new homes, whilst maintaining standards.

No. of Units / Financial Year	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Business Plan Assumptions										
General Needs	1,019	1,075	1,236	1,220	1,470	1,426	1,394	1,285	1,385	1,409
Shared Ownership	711	851	1,017	801	651	883	953	918	930	862
Outright Sale	72	87	266	720	348	263	356	544	253	264
Total Units	1,802	2,013	2,519	2,741	2,469	2,572	2,703	2,747	2,568	2,535
% Spend Committed	100%	58%	23%	8%	4%	1%	1%	1%	1%	1%
Existing Standalone Business Plans – Total Units	1,802	2,013	2,519	2,741	2,469	2,034	2,033	1,908	1,892	1,640
Additional Units – Aspirational						538	670	839	676	895
<i>Comparisons to standalone business plans refer to business plans from December 2022</i>										

Section 3 | Treasury

Sovereign Network Group - Aggregated Treasury Profile (External Debt)

Network Homes and Sovereign each have robust treasury risk management profiles with prudent Golden Rules designed to safeguard financial resilience and maximise the efficient utilisation of financial resources within each organisation.

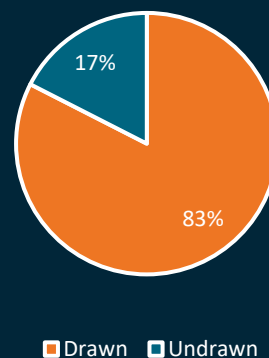
Sovereign Network Group fully intends to build on this foundational strength through a combination of their experienced Treasury functions.

Sovereign and Network both have strong Governance in place, the new Board and Committee structures of Sovereign Network Group will be pivotal in:

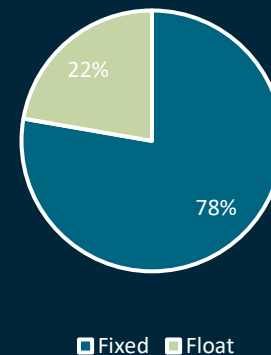
- continuing to mitigate interest rate risk through appropriate hedging
- continuing to mitigate refinancing risk (existing WAL 15.1. years) through a smooth maturity profile and a layered approach to funding

£m (notional)	SNG	Sovereign	Network
Term Debt	1,541	1,143	398
RCFs	897	580	317
Debt Capital Markets/PP	1,578	800	778
Other	84	63	21
Total	4,099	2,585	1,514

% Drawn vs Undrawn



% Drawn Debt - Fixed vs Float



(all as at 28/03/2023)

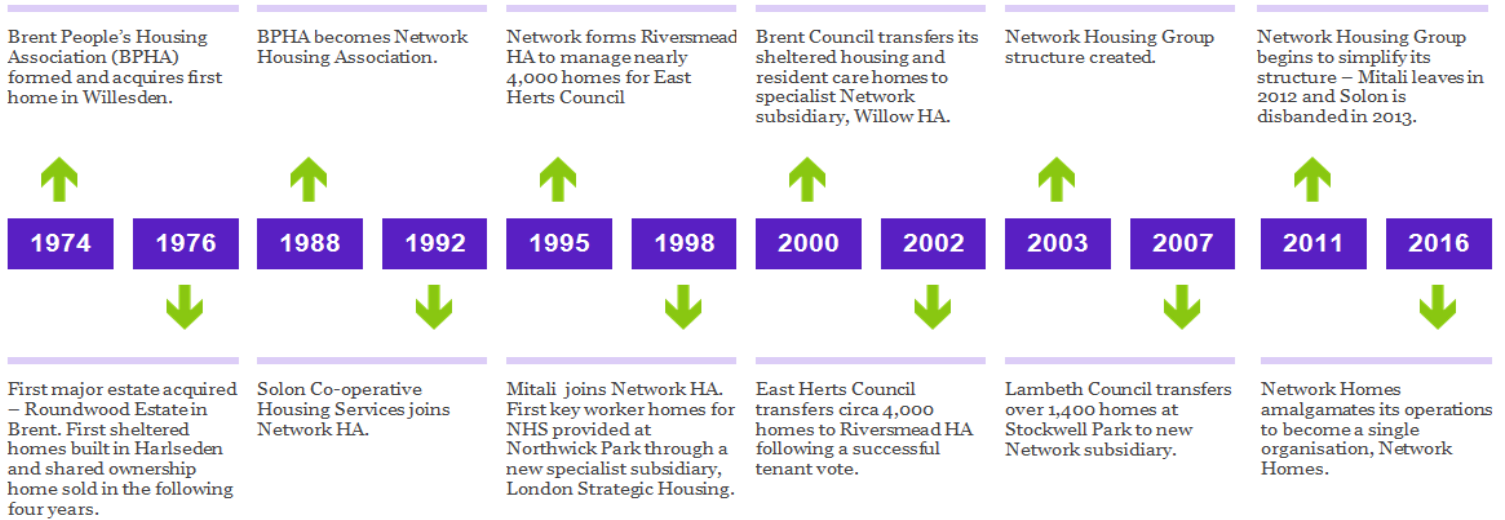
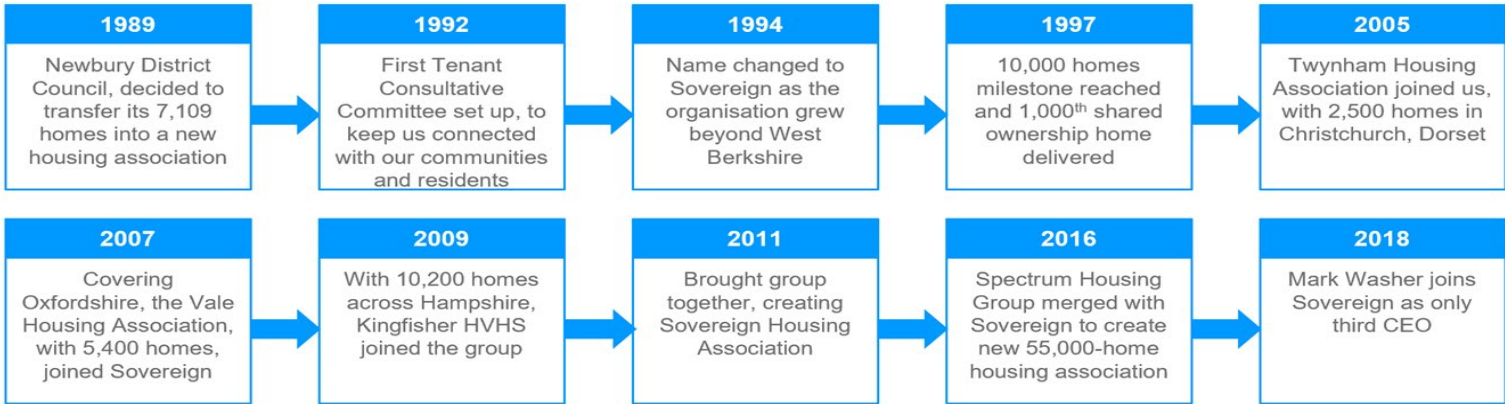
Section 4 | Summary & Timeline

Summary

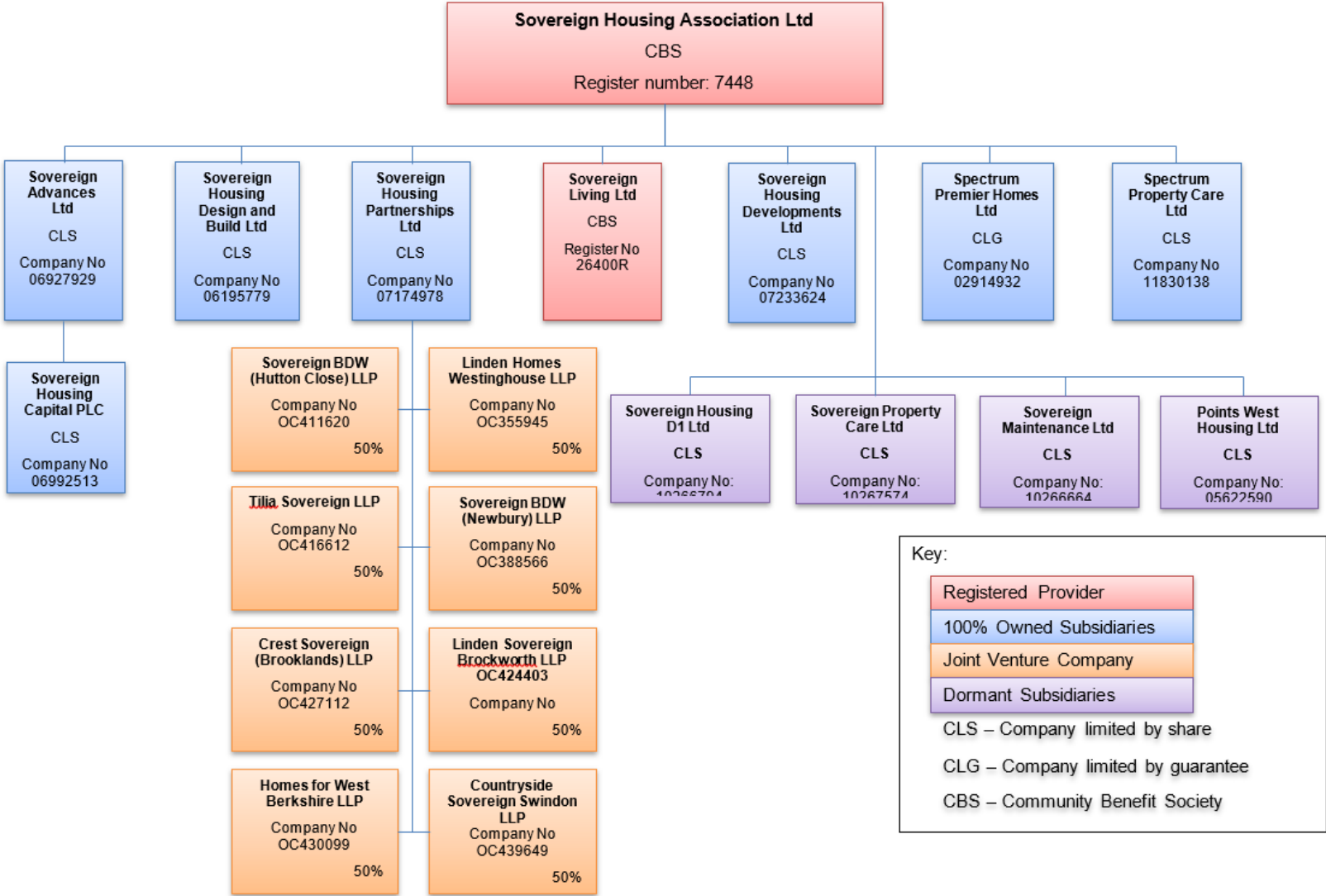
- Creation of a financially strong, more resilient combined organisation which will be the sixth biggest by size nationally and have a top three development programme, with OMV of c£20bn – with a view to providing a greater number of good quality affordable homes
- To improve the quality of and sustainability of existing homes through retrofit and regeneration
- Provide excellent services for our current and future residents, including £100m of Community Fund investment over 10 years
- An organisation which will have turnover of £1bn by year 8
- Influence local and national policy as a prominent, developing G15 Housing Association
- A credit neutral proposal in the short term, and a credit positive proposal in the medium-to-long term

Appendices

Appendix A | Existing Organisations – Historic Growth

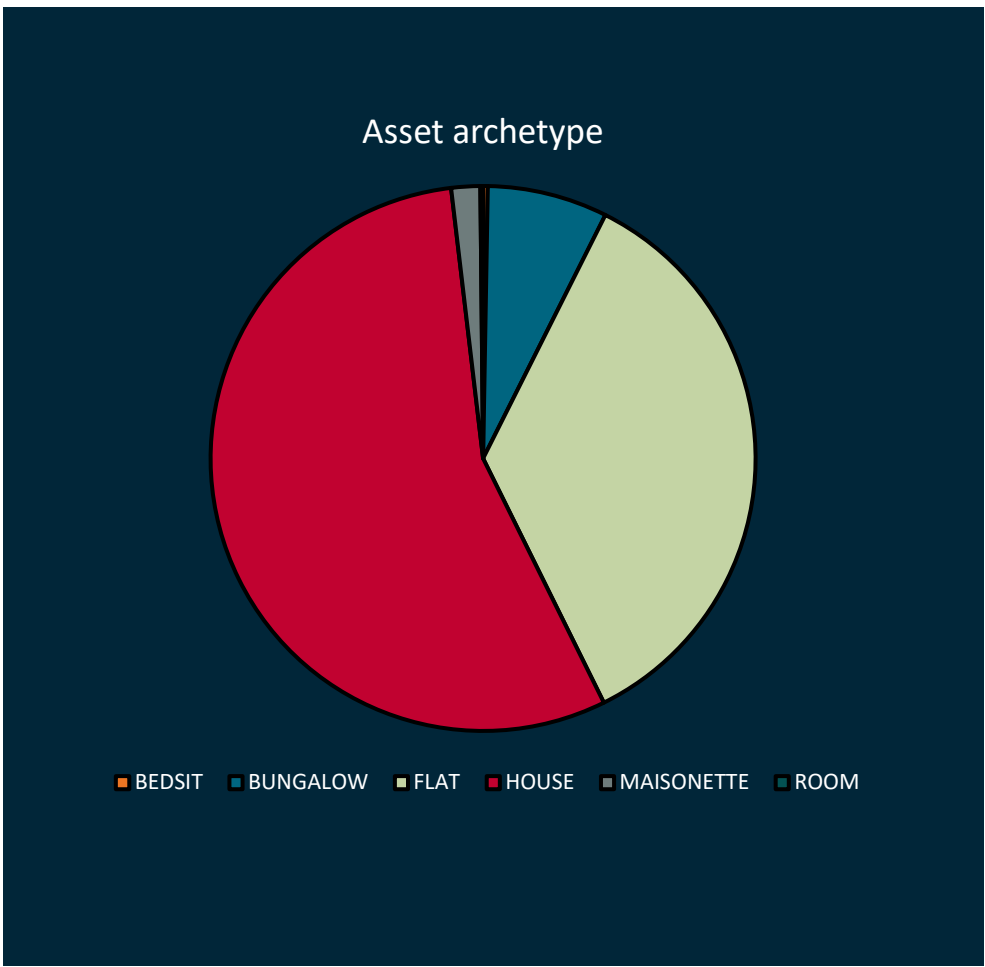
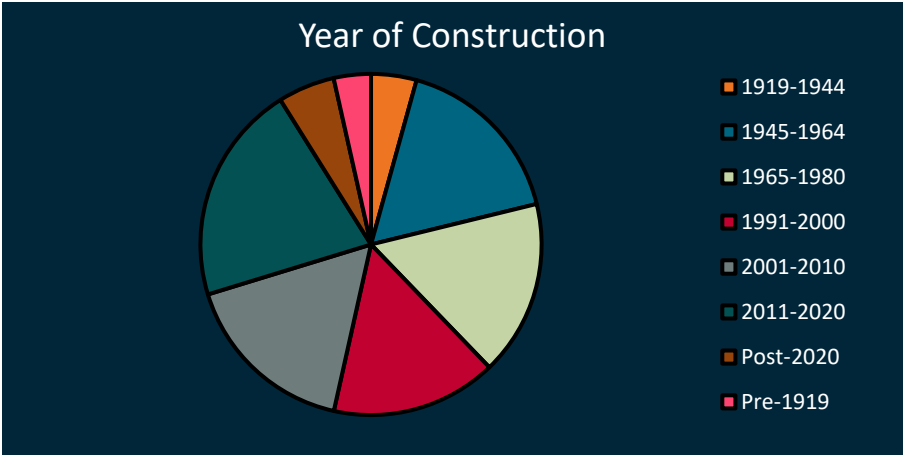
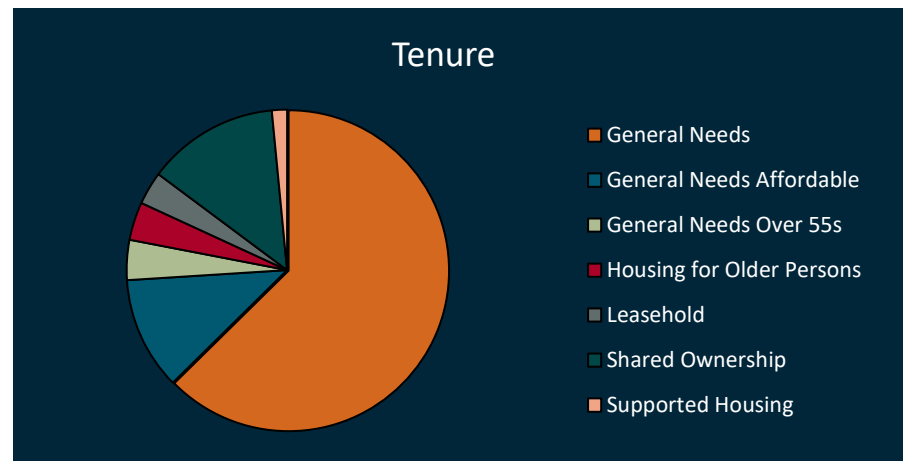


Appendix B | Sovereign – Legal Structure



Appendix B | Sovereign – Legal Structure

Sovereign Housing Developments Limited ('SHDL')	Undertakes mixed tenure development schemes which are not undertaken on a joint venture basis or where it is a contractual joint venture only. It is anticipated that all affordable housing developed by SHDL will be acquired by Sovereign Housing Association Limited (the parent) and that SHDL will sell outright sale units direct to the market. Some sites may be split from the outset to maximise charitable benefits. As SHDL is outside the VAT group it can undertake 100% affordable schemes under Golden Brick arrangements with the charitable RP. NB: whilst SHDL is intended to be a vehicle for private development of mixed tenure schemes, these are primarily intended to be mixed tenure schemes in which the charitable RP is achieving social housing development. It is not intended to be a semi-independent developer acquired or established solely with profit making objectives.	Sovereign Living Limited	Undertakes any non-charitable social housing development (e.g. some potential shared ownership schemes where the target purchasers may exceed the income or capital appropriate for them to be treated as proper beneficiaries of charities) or non-charitable social housing services (e.g. Homebuy Agency or similar services). It may hold some investment assets e.g. PRS and it may also undertake some mixed tenure schemes where considered to be advantageous compared to using SHDL (e.g. using the RP SDLT relief)
Sovereign Housing Partnerships Limited ('SHPL')	SHPL exists is to hold Sovereign's share of joint venture LLPs or more rarely (as less tax efficient) any JV companies. Separate from SHDL due to contamination risks from SHDL 'own name' development schemes and potential loss of JVs on failure of SHDL. Investments in the JV LLPs may also be channelled through SHPL.	Sovereign Advances Limited and Sovereign Housing Capital plc	Vehicles to raise finance for the group through listed bonds, private placements or loans
Joint venture LLPs	It is likely that each scheme will have a separate LLP, but it is possible that where several schemes are being undertaken with the same partner there may be a rationale for establishing an overarching LLP to hold the member shares in scheme specific LLPs. LLPs may borrow from the members (SHPL and the JV Partner), direct from Sovereign Housing Association Limited or from third party funders.	Sovereign Housing Design and Build Limited	This does not undertake development in its own right, but acts as a lead contractor to the main RP and to other members of the group to enable development to be undertaken on a VAT efficient basis through the use of an overarching design and build contract for the scheme. N.B this is only necessary for rented housing given the effective VAT recovery mechanisms for shared ownership and for outright sale disposals

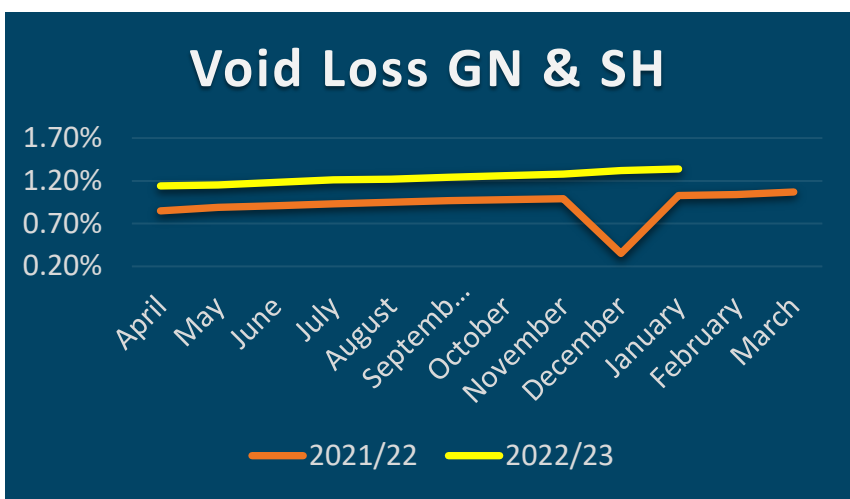
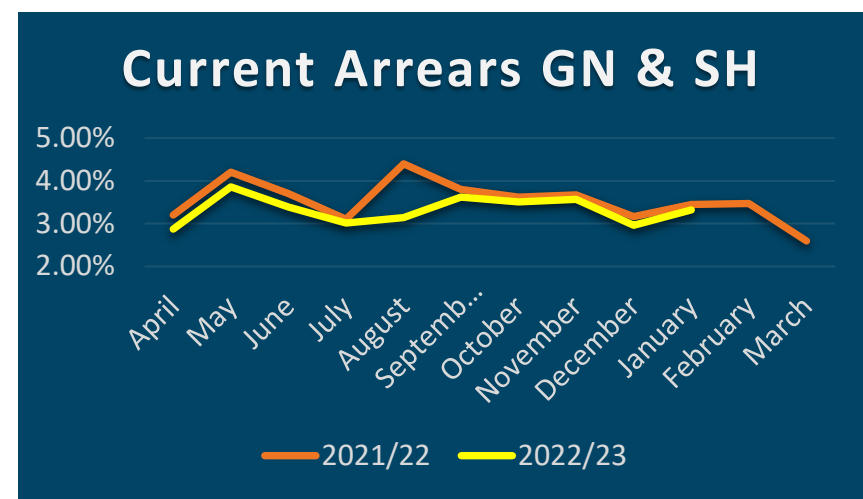
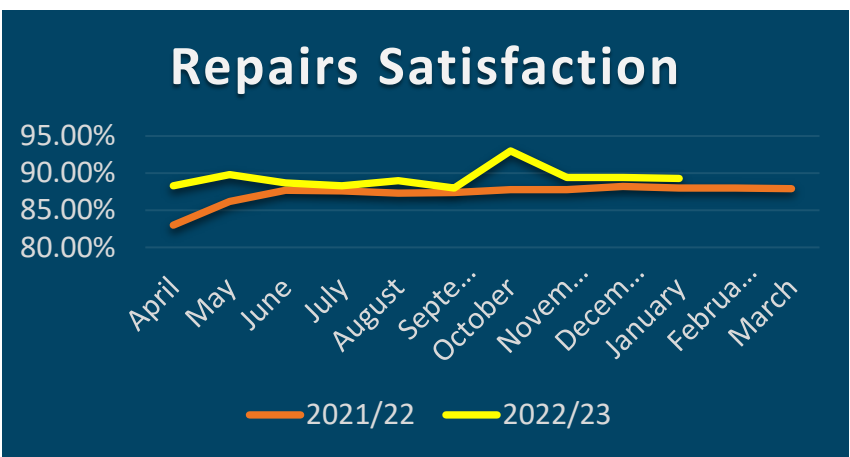
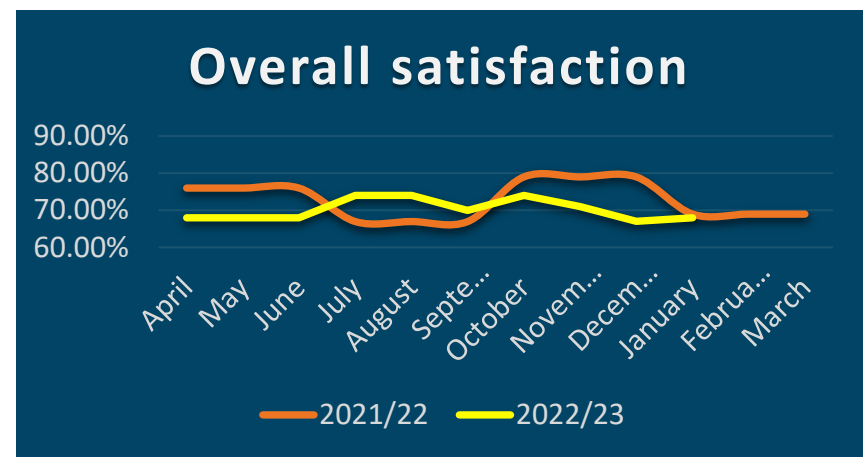


Appendix B | Sovereign - VfM

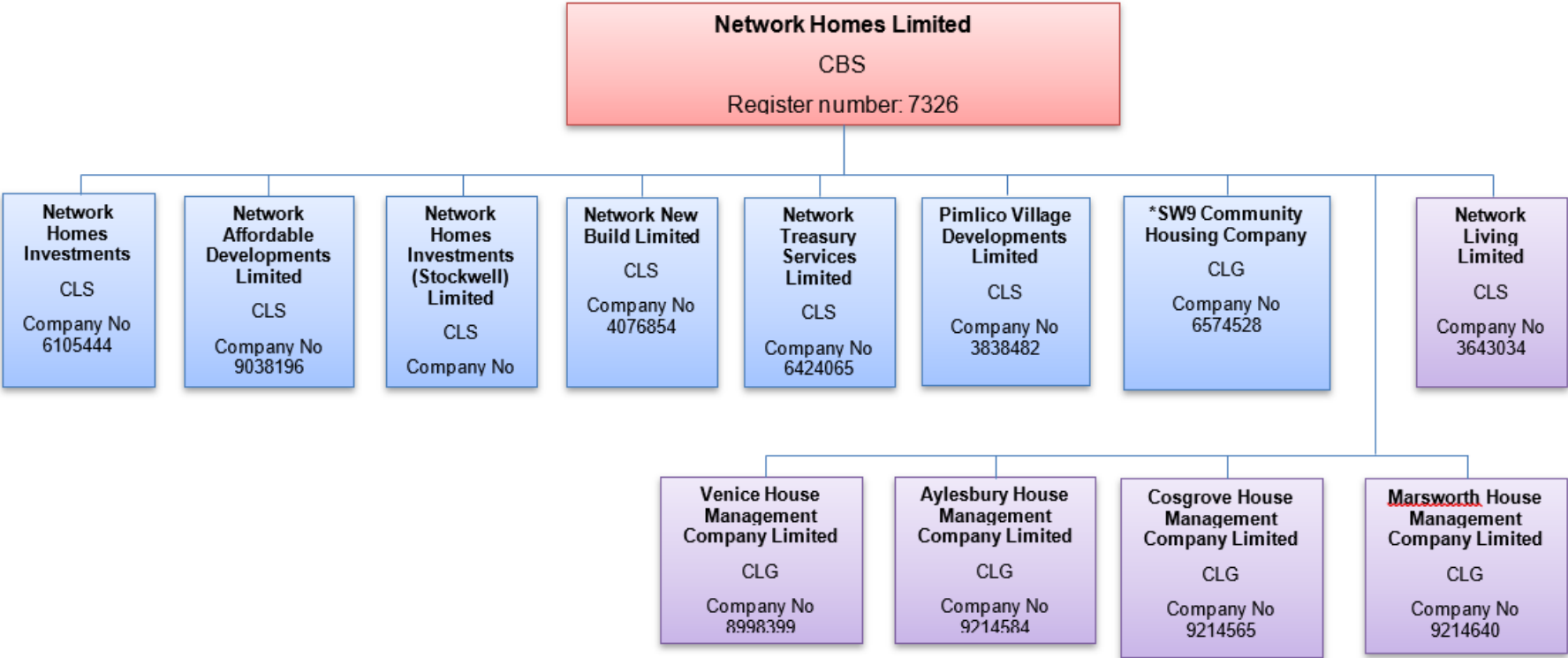
Sovereign Housing Association

	2018/19	2019/20	2020/21	2021/22
Reinvestment	6.50%	7.45%	6.70%	6.70%
New supply % (social)	2.58%	3.02%	1.90%	1.90%
New supply %(non social)	0.00%	0.00%	0.10%	0.14%
Gearing	45.14%	46.49%	44.40%	45.80%
EBITDA MRI Interest Rate Cover	248.31%	209.13%	220.00%	203.00%
Headline social housing cost per unit	£3,098	£3,485	£3,300	£3,900
Operating margin (SHL)	39.45%	34.85%	34.20%	29.30%
Operating margin (overall)	36.06%	31.25%	30.50%	29.90%
ROCE	3.62%	3.22%	3.20%	3.30%

Appendix B | Sovereign – Operational Performance



Appendix C | Network – Legal Structure



Key:

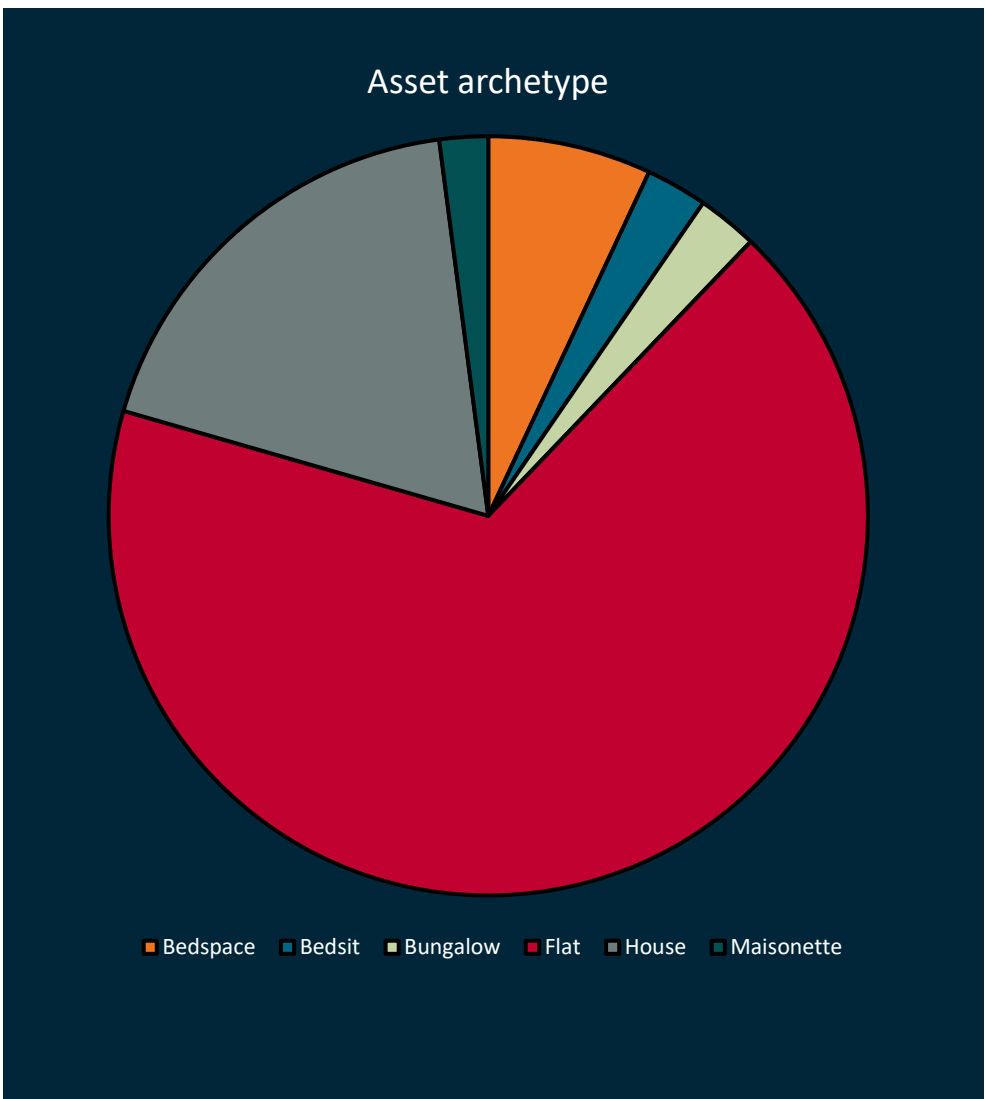
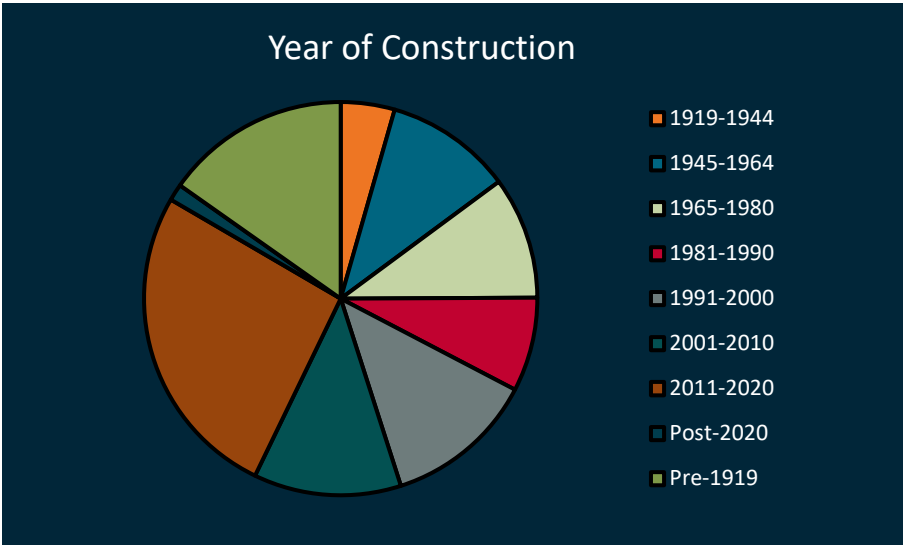
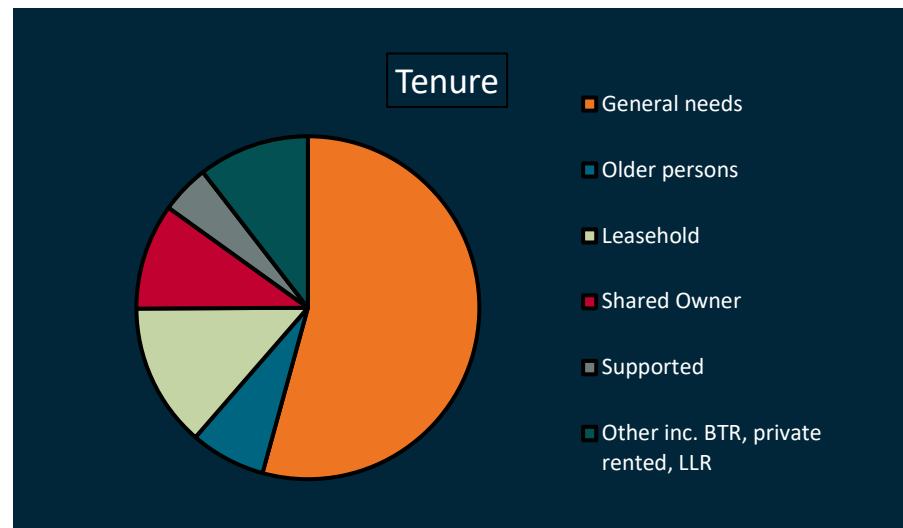
- Registered Provider
- 100% Owned Subsidiaries
- Dormant Companies

*Resident led – district independent

Appendix C | Network – Legal Structure

Network Homes Investment Limited ('NHIL')	NHIL was formerly NSIL (name changed on 5 May 2016) which was formerly known as Stadium Islington Limited. Originally established as the development company for the Islington Short Life Scheme, this is now the main development company within the group, involved in development for outright sale and joint ventures.	Network Homes Affordable Developments Limited ('NADL')	NADL was formerly Network Living Management Services Limited, incorporated on 13 May 2014. It was not required for the purpose it was created so remained dormant until 12 January 2021 when its name was changed to NADL and the Articles updated in line with its repurposing to become a Group commercial development company vehicle to support with the development of Burnt Oak Broadway and Orion Park Developments.
Network Homes Investment (Stockwell) Limited ('NHISL')	This was formerly Community Housing Development Limited (name changed on 5 May 2016). This company acts as the development company for the Stockwell Park regeneration area.	Network Treasury Services Limited ('NTSL')	NTSL was a treasury vehicle for the Network Group. Many of the existing loans for the group are channelled through NTSL with NTSL as the primary borrower, on-lending to the RPs in the group which are guarantors under those arrangements. The primary purpose of the arrangements has been to facilitate the cross-collateralised borrowing structure within the group. Further to a review of the delegations within the group in 2018 & 2019, delegations to the new Finance Committee for overseeing financial and treasury matters were affected, and the NTSL Board now oversees lending in the name of NTSL only. The Finance Committee operates as a Committee with delegated authority from Network Homes Limited but also NTSL and the other SPVs within the group.
Network New Build Limited ('NNB')	Network Newbuild was formerly known as WNB Limited. Network Newbuild operates as the design and build company for the group. In principle, all of the construction contracts and professional appointments for the group are let through this company. It operates outside the main VAT group and facilitates recovery on development costs.	SW9 Community Housing	SW9 are a subsidiary charity of Network Homes that is managed and operates independently. It has its own distinct Board, management and employees are responsible for its own regulatory or legal requirements and obligations in respect of its independent corporate status, such as registration as a Data Controller with the Information Commissioner's Office. The relationship is that SW9 manage properties owned and on behalf of Network Homes. As such, Network Homes retains responsibility for all regulatory obligations in respect of Network Homes' properties which are managed by SW9 Community Housing. It should also be noted that SW9 has been incorporated into the Network Homes Limited VAT Group.
Pimlico Village Developments Limited ('PVDL')	PVD previously owned the freehold of the site. The asset has been transferred to Network Homes and this entity is now in the process of liquidation.		

Appendix C | Network – Stock Profile

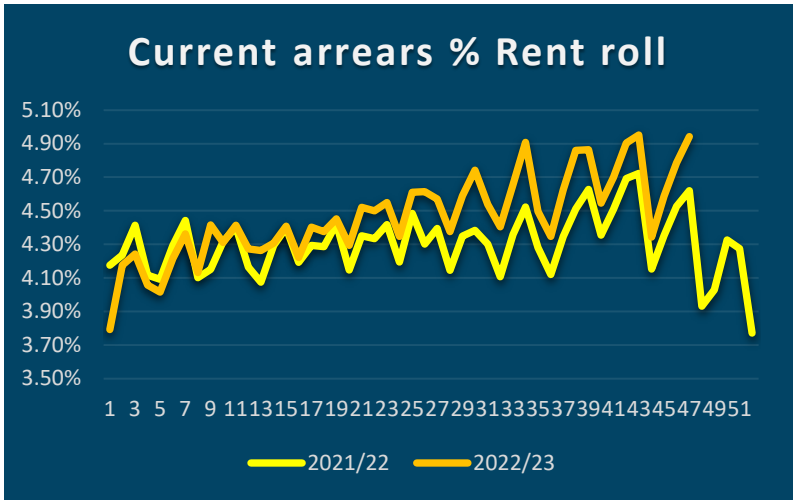
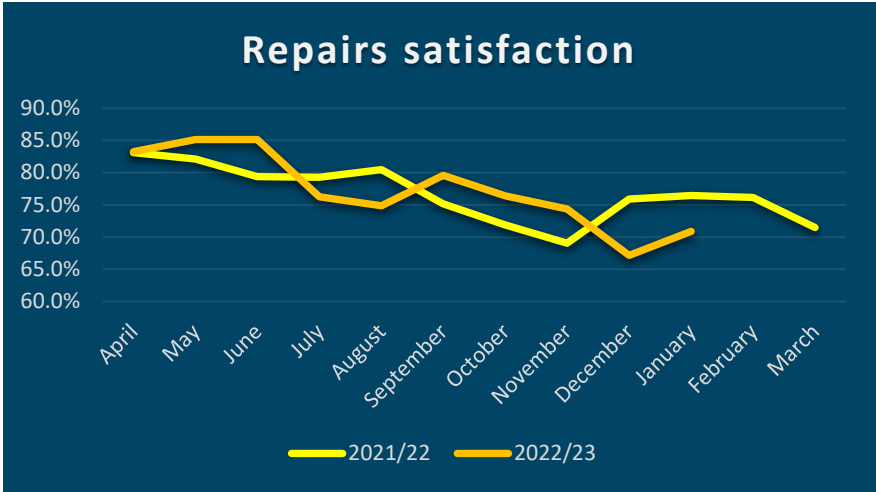
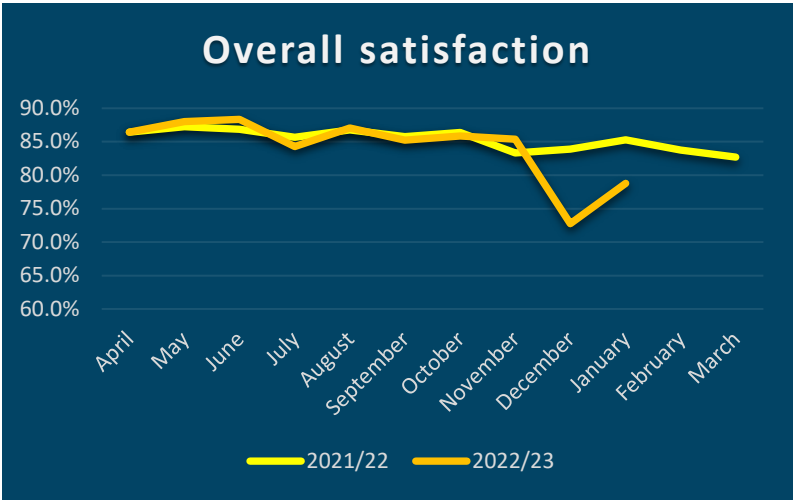


Appendix C | Network - VfM

Network

	2018/19	2019/20	2020/21	2021/22
Reinvestment	11.10%	4.80%	7.90%	7.30%
New supply: absolute (social and non social)	776.00	302.00	620.00	232.00
Gearing	43.80%	46.20%	50.90%	50.70%
EBITDA MRI Interest Rate Cover	285.10%	107.20%	165.20%	94.00%
Headline social housing cost per unit	£5,149	£5,700	£5,444	£5,184
Operating margin (SHL)	28.60%	22.20%	25.70%	26.90%
Operating margin (overall)	34.90%	24.00%	27.60%	14.30%
ROCE	4.80%	2.50%	3.20%	1.80%

Appendix C | Network – Operational Performance



Appendix D - Sovereign Network Group - Combined Treasury Portfolio

Debt Position tables

	Facility Size (£m)	Drawn (£m)	Hedged Notional (£m)	MtM (£m)
Bank 1	365	265	20	-1
Bank 2	329	329	205	-51
Bank 3	235	235	120	-12
Bank 4	200	0	0	0
Bank 5	195	195	93	-4
Bank 6	167	167	83	-5
Bank 7	150	150	0	-33
Bank 8	100	40	0	0
Bank 9	81	81	81	4
Bank 10	75	40	0	0
Bank 11	75	0	0	0
Bank 12	75	25	0	0
Bank 13	62	62	59	2
Bank 14	50	0	0	0
Bank 15	50	0	0	0
Bank 16	40	0	0	0
Bank 17	15	15	0	0
TOTAL	2263	1603	661	-101

Funder	Facility Size (£m)	Drawn (£m)	Hedged Notional (£m)	MtM (£m)
Public Bonds	800	800	0	0
Private Placements	575	575	575	-130.2
Aggregator	379	379	202	-37.8
TOTAL	1754	1754	777	-168

Security Position table

	Facility Size (£m)	Charged Security (£m)
Bank	2,282	3,924
Capital Markets	1,754	2,377
Other	26	71
Unencumbered	N/A	2,181
Total		8,554