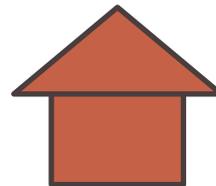


MOR



**MORhomes PLC**

**REPORT AND FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 31 MARCH**  
**2020**



Registered office and headquarters:  
Future Business Centre  
Kings Hedges Road  
Cambridge  
CB4 2HY  
England

Company Registration No. 10974098

MORhomes PLC  
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MORhomes PLC  
OFFICERS AND ADVISORS

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**DIRECTORS**

N J Hadden (Chair)  
M C Cooper  
A J Kitchingman  
A J Santry  
P Shorthouse  
P J Symington  
C B Tilley  
R C Young

**SECRETARY**

A D Morton

**REGISTERED OFFICE**

Future Business Centre  
Kings Hedges Road  
Cambridge  
CB4 2HY  
England

**AUDITOR**

KPMG LLP  
Chartered Accountants  
One Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA

MORhomes PLC  
MISSION AND OBJECTIVE

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## MISSION AND OBJECTIVE

*Our mission is to support the provision of Social and Affordable Housing in the United Kingdom by acting as a central borrowing vehicle designed to facilitate access to the capital markets by not for profit, registered social housing providers.*

The following Objective is enshrined in our Articles of Association:

*To act as a central borrowing vehicle or financial intermediary for Candidate Borrowers in order to facilitate access to the capital markets by Candidate Borrowers in the furtherance of their own objectives, in accordance with the company's business plan from time to time. The company anticipates achieving its Objective by way of issuing listed and unlisted debt securities and the entry into borrowing agreements.*

"Candidate Borrowers" means registered providers of social housing, social landlords and housing associations (or equivalent) anywhere in the United Kingdom which do not distribute profits to members (referred to in this report as 'housing associations'). Subsidiary undertakings of the parent entity within the group of which a Candidate Borrower is a member are also included.

MORhomes PLC  
CHAIR'S STATEMENT

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## CHAIR'S STATEMENT

Having been involved in the development of MORhomes from the very beginning some four years ago, I am pleased to be writing this introduction to its second annual report which covers the first full year of operations since issuing our initial bond.

We started the process of creating the company with the support of around 20 housing associations. In the event over 60 associations provided the initial capital to set up a platform to facilitate access to the capital markets. We have now established a company with a proven platform that offers many unique features and advantages, not only for our housing association borrowers but also for investors.

We started the year with a £260m loan book with 11 loans to 9 housing association groups. By the date of this report this had increased to a £348m loan book with 15 loans to 12 housing association groups. We have proved that we can access capital markets on behalf of our borrowers efficiently and quickly – in just two days in one case. The financial year came to a close just as the UK entered a period of lockdown resulting from Covid-19. The strength and resilience of the MORhomes business model has been demonstrated during the past few months. The business is fully digital, and as such there has been little or no operational impact. When the coronavirus pandemic seriously disrupted markets we were there for our borrowers, amongst the first to issue debt as the markets returned to more normal conditions. We have received prompt financial updates from each of our borrowers and published updated views of the credit strength of our loan portfolio, which has remained strong. For an increasing number of developing housing associations, we are becoming one of their leading options for raising longer-term fixed interest debt, and current market interest rates mean that there has never been a better time to lock in historically low long-term interest rates.

Our targets for increasing our loan balances in the year were ambitious, and in the event there was reduced borrowing by Housing Associations in the first half and with increased competition it has taken us longer than expected to get established. However, we now enjoy a sound financial position and with each new loan we become more firmly established, more attractive to investors and more attractive to borrowers. We have a corporate strategy for future growth based on three key strands:

1. Building the loan book by marketing our borrowing proposition to housing associations
2. Building investor confidence by good communication and making investors aware of the benefits of the MORhomes model
3. Building governance and operational excellence by maintaining strong governance and improving operational efficiency and cost-effectiveness.

MORhomes is committed to very high standards of corporate governance and social responsibility. All our loans are social bonds, complying with the ICMA Social Bond principles 2018. During the year we issued a powerful Social Impact Report showing what has been achieved with the funds we have raised. Examples of our social impact are shown throughout this report.

We have a Board comprising members with long experience of both the financial world and the housing association sector. I am grateful to my Board colleagues for all the work they have done over the past year. I am also grateful to Patrick Symington and his small team who have worked so hard to support the Board and get us to where we are.

We believe that MORhomes is in a great position to continue to grow the business with new loans supported by new bond issuance. Our hope is that housing associations see the benefit to the sector of having access to a financial intermediary with the advantages described in this report and use it to an ever greater extent. The more it is used the greater the benefits it will offer to the sector as it plays its part in meeting the government's targets for new housebuilding and the likely need to rebuild the economy following the coronavirus pandemic.

Neil Hadden, Chair of the Board

MORhomes PLC  
CHAIR'S STATEMENT (continued)

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*“Thanks to MORhomes funding Nadine (pictured) has been able to buy her own place with Melin Homes. She and her son were able to move in just as the Corona Virus lockdown was announced.*

*“They finally have a place they can call home after having to move numerous times before. Nadine said the sense of community in her new estate is 'lovely'.*

*“She added that while most of the neighbours would usually have been in work the lockdown has actually given them all a chance to get to know each other.*

*“The house is great. It's perfect for my son and I.”*

## STRATEGIC REPORT

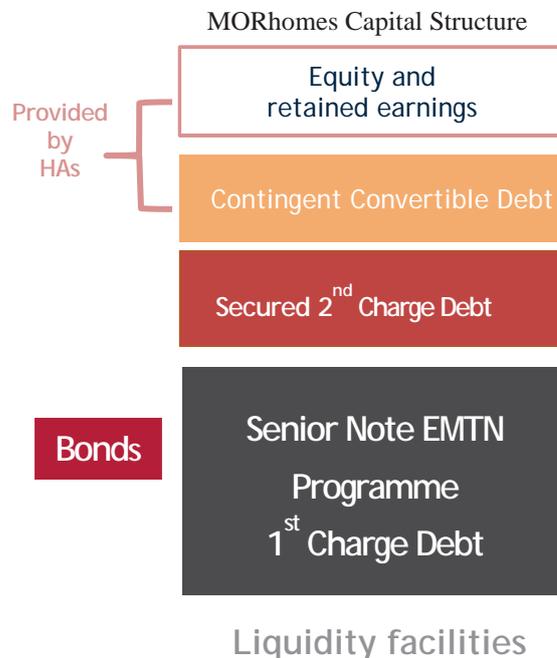
### OUR BUSINESS MODEL AND HOW WE GENERATE VALUE

The principal way that the company furthers its mission and objectives is by establishing borrowing demand from its housing association shareholders and by issuing debt on the capital markets to meet that demand. The company's policy is to match the debt issued to the loans made both in amount and term so that it minimises the risk of being unable to meet its liabilities for interest and capital repayment.

Issuance costs are recovered from the borrower (with a margin to cover administration costs) and a small intermediation fee is added to the interest paid by the borrower.

The company offers a strong proposition to its shareholder borrowers by making the finance available on terms that compare favourably with what might otherwise be available to them. Advantages include the cost, efficiency and speed of access to the market, flexibility in the amounts that can be borrowed, transparency of the credit process and efficiency of security required. The attractiveness of the interest rate offered will depend on the alternatives available to the borrowers and the performance of the company's bonds in the market over time. As a platform set up by housing associations for the purpose of lending to housing associations it is a company that borrowers can rely on to serve their needs. This has been particularly relevant during the recent market disruption caused by the coronavirus pandemic.

The company also offers a strong proposition to its investors. Senior and Second Secured debt holders have a charge on the company's assets, which are primarily loans to regulated housing associations, a strong sector in which there has never been reported any default of capital repayment on loans. The capital structure (illustrated in the diagram below) provides three further layers of risk bearing capital to bond investors / senior noteholders as well as standby liquidity facilities. The company also offers a strong credit management process including surveillance, monitoring and remediation, benchmark sized issuance with responsible regular repeat issuance, and all bonds 'Social Bonds' in accordance with the Social Bond Principles 2018.



Share capital is subscribed in two ways. Firstly, to become eligible to be borrowers, housing associations must subscribe 'membership' share capital. 60 housing associations became shareholders prior to the inaugural issue, and this capital was used to set up the platform and provide initial equity in the capital structure. Two further housing associations have become shareholders during the year. Secondly, borrowers are required to use a fixed percentage of their loan to subscribe to further shares in the company and contingent convertible debt, thus maintaining the level of these risk bearing capital buffers.

## MORhomes PLC

### STRATEGIC REPORT (continued)

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MORhomes' strategic objective is to take a significant share of the market for housing association capital markets debt issuance. Even at low levels of issuance the fees we earn cover our operating costs. By continuing to issue new loans the economies of scale will enable us to make a profit in the long-term, providing a return to shareholders.

The MORhomes platform in itself also provides value to our existing shareholders who are able to use it to access the debt capital markets. There are around 140 more housing associations who may wish to buy into the company and use the platform, generating further value for the existing shareholders.

#### REVIEW OF THE YEAR

MORhomes' first period of trading from 1 March 2018 to 31 March 2019 saw the company set up the platform to act as a central borrowing vehicle and issue its first £250m bond. In this second period of a year to March 2020 we have firmly established the platform, built our loan book up to £312m by the year end (and nearly £350m by the end of April 2020), and developed a unique proposition for borrowers of fast efficient access to the debt capital markets.

The financial year came to a close just as the UK entered a period of lockdown resulting from Covid-19. The strength and resilience of the MORhomes business model has been demonstrated during the past few months. The business is fully digital, and as such there has been little or no operational impact. Indeed, further issuance of debt in the market and on-lending to Housing Associations was completed in April 2020, within a few weeks of the start of lockdown. In addition, we have maintained on-going dialogue with and received regular financial reporting from all our borrowers. This engagement has continued to highlight the counter-cyclical nature of the Housing Association sector, as well as the sector's ability to manage its liquidity through the phasing of development programmes.

Achievements over the course of the year include:

- Demonstrating our ability to provide funds quickly and efficiently (see box)
- Advancing two new loans during the year and a further two shortly after the year end bringing our portfolio to 15 loans to 12 borrowing groups
- Building a pipeline of potential borrowers with over half our shareholders having gone through our credit process
- Developing a new 'standby liquidity agreement' product whereby borrowers get all their documentation ready and on standby to borrow at a few days' notice. 10 borrowers entered into agreements during the year.
- Generating significant income to be recognised over time from documentation fees, issuance fees and security fees
- Responding promptly to the coronavirus crisis by reviewing the loan portfolio and providing an investor update on borrower credit ratings
- Executing the transactions to raise new finance and advance new loans in April, as soon as markets effectively opened following the initial disruption of the coronavirus crisis, demonstrating the value of our remote access operating model despite the national 'lockdown'
- Entering into a new long-term partnership to provide cost effective administration services with the ability to flex resources to meet the needs of the business
- Strengthening the executive team with two new appointments to provide focus on key strategies and improving organisational resilience
- Issuing our first Social Impact Report demonstrating significant impact achieved from the loans we have made
- Continuing to engage positively and imaginatively with the sector's key influencers and decision makers, including Homes England and the Regulator of Social Housing.

*"We were very impressed with how quickly and efficiently the MORhomes team completed this deal. It enabled Wandle to take advantage of low interest rates and we particularly valued the minimal business covenants and restrictions. The credit process was quick and transparent and MORhomes' standard documentation added to the speed and efficiency of the process which lasted just four weeks from Board approval to confirmation of funds."*

Sue Bate - Executive Director of Finance,  
Wandle Housing Association

MORhomes PLC  
STRATEGIC REPORT (continued)

However, the growth of the business was slower than we had hoped. This was partly due to a significant reduction in borrowing by housing associations in the first half of the year. There was also an increase in competition from investors lending directly to housing associations via private placements, although this fluctuates and by the end of the year had decreased. It also took us some time to become established as an option for housing associations, many of whom only borrow infrequently. Our credit rating with S&P Global was affirmed as A- but the outlook was changed from positive to negative, citing lower than expected growth as the main reason. This was a short term disappointment but looking to the future no longer being categorised as a 'start up' will benefit our rating. As we continue to consolidate our position we expect to benefit from a 'virtuous circle' of increased lending leading to a stronger investment proposition leading to increased attractiveness for more lending and so on (see 'future strategy' below).

The financial result for the year was a loss of £116k (2019: £730k loss). This was a good outcome. By raising debt and on-lending at an interest rate that includes an intermediation fee we have established a regular source of income for the life of the 19-year bond, which will increase as we increase our loan book. The result for the year was achieved by starting to build the loan book during the year, generating other income and controlling costs.

We have established a sound financial position. As at March 2020 shareholders' funds were £2.7m (2019: £2.5m). Of this, £1.6m (2019: £1.3m) was equity that borrowers were required to subscribe at the point of borrowing. Our policy is to retain this as cash at the point of borrowing and it is part of the capital structure designed to reduce the risk for investors. A further £0.3m (2019: £0.3m) is the equity value of contingent convertible loans provided by borrowers. The remaining £0.8m (2019: £0.9m) represents the 'membership' equity from the 62 housing association members, less losses to date.

Our credit management systems, which are a key part of our operations, are based on our good understanding of our housing association borrowers and have been operating effectively during the year. Our proprietary credit model uses historic data and forecast financial projections, which are based on data supplied to the Regulator of Social Housing. All borrowers' credit models were updated and reviewed during the year and their financial performance monitored quarterly. This did not result in any downgrades. However, the loan documentation would enable us to call for cash in an interest reserve account if a borrower were to exceed its borrowing limit as a result of weakening of its credit status.

The company has established a performance management system including a corporate scorecard to monitor achievement of key financial and non-financial indicators against target, which is reported to the Board. The key results for the year as reported to the Board are given in the table below:

BUSINESS AREAS AND INDICATORS	Unit	YEAR TO MARCH 2020		
		Target	Actual	Traffic light
<u>Lending progress</u>				
New loans (amount)	£m	326	53	
<u>Bond performance</u>				
Premium v benchmark comparator	Bpts	15	26	
<u>Financial</u>				
Overhead costs	£k	£825	£661	
<u>Loan security in place</u>				
Value of loans secured	%	95%	96%	

The results show we did not achieve the ambitious targets that we set for new lending. The spread of our bond compared to a benchmark comparator improved from 33 to 26 during the year, but this was not as much as we had targeted. Overhead costs were kept well within target and we beat the target for getting loan security in place. (Initial borrowers were required to have security available for charging but had up to 24 months to complete the

MORhomes PLC  
STRATEGIC REPORT (continued)

charging. This charging was completed within 12 months. Subsequent loans were required to be charged within 12 months, and charging has been ahead of target).

The Board's assessment of the position of the company's business at the end of the year is given below.

FUTURE STRATEGY

Our long-term strategy is based on the business model described above with an objective of taking a significant share of the market for housing association debt capital markets (DCM) issuance.

Our success is dependent on borrowing demand from housing associations. We can offer loans to housing association shareholders or potential shareholders in amounts from £10m upwards, either individually or in groups. We have developed a 'Standby Liquidity Agreement' product which takes advantage of the speed and efficiency of access to the market which we can offer. For a fixed fee we will approve credit and prepare all the necessary documentation for a borrower to go to the market, held ready to execute on the borrower's instruction. This gives the borrower access to the market at a few days' notice for a fraction of the cost and resources required to access the market through other routes.

Our medium-term strategy concentrates on

- **Building the loan book** – by marketing our borrowing proposition to shareholders and potential shareholders. Our current shareholder/ sponsors represent around one third of the housing association DCM issuance market (by borrowing requirement and number) which puts us in a strong position to achieve our market share objectives. The remaining two thirds are also potential shareholders and borrowers and we are also marketing to these.
- **Building investor confidence** – by good communication and making investors aware of the benefits of the MORhomes model, attracting more investors and progressively improving their return by reducing the spread to gilts at which our bonds trade
- **Building governance and operational excellence** - maintaining strong governance, including risk management, improving our operational efficiency and providing our services cost-effectively.



*“Hafod was delighted to be part of MORhomes’ inaugural bond issue. This funding improves our ability to manage liquidity risks going forward and puts us in a strong financial position to deliver our strategic plan. The additional funding has supported the £2.14m development of homes in Pentre Meyrick, situated in an affluent area of rural Vale of Glamorgan. The scheme, built in partnership with Ashgrove Partnerships, part of the Edenstone Homes Group, Vale of Glamorgan Council and Welsh Government, has provided 13 two and three-bedroom new homes for local people.*

*“Built on a rural exception site with a local lettings policy in place, the general needs, social-rented properties provide much-needed homes and the opportunity for rural and agricultural workers to live in the area in which they work. In addition, local people who grew up in the area have the chance to remain in the village they were brought up in.”*

MORhomes PLC  
STRATEGIC REPORT (continued)

## RISK MANAGEMENT AND PRINCIPAL RISKS

The Board has established an effective framework of risk management. This starts with the Governance framework and includes robust systems of internal financial control. Key features include:

- A strong Board with skills in our key business areas including credit management, bond issuance, corporate finance, audit, corporate governance and the housing association market (see details of directors below)
- Dedicated specialist committees covering key risk areas (see description of committees below)
- A risk management process and risk register overseen by the Audit and Risk Committee and regularly reviewed by the Board
- A capital structure and treasury management policy that minimises risk and ensures liquidity. Bond liabilities are matched ‘back to back’ with loans, with interest and capital from loans receivable 10 days before bond payments are due. Risk to bondholders is minimised by equity and contingent convertible loans provided by borrowers, second secured debt and standby liquidity facilities
- Strong credit management systems
- A long-term financial business plan stress tested and independently verified
- An operating manual identifying all key operational risks, with control systems to ensure risks are appropriately managed
- A performance reporting system including KPIs and a corporate scorecard reported monthly to the Board.

The Board has responsibility for and carries out a review of the effectiveness of the company’s risk management and internal control systems. Further details are given in the report on the work of the Audit and Risk Committee below. No significant weaknesses were identified.

The Board has agreed the following high-level approach to risk management:

- A risk is defined as anything that threatens our ability to achieve the corporate strategy or objectives
- A corporate risk register is maintained that identifies key corporate risks, controls currently in place and sources of assurance for the Board
- The current status of the risk is monitored with reference to the level of threat to corporate strategy or objectives
- ‘Critical actions’, defined as the most important actions to ensure risks to achieving the corporate strategy or objectives are mitigated, are identified and monitored by the Board
- The risk register is reviewed by Audit and Risk Committee and reported to the Board
- It is recognised that the opposite of a risk is an opportunity, and it is equally important to identify where an opportunity might be missed.

The Board has carried out a robust assessment of the principal risks (financial and non-financial) facing the company, including those that would threaten its business model, future performance, solvency or liquidity. The principal risks, and how they are being managed, are as follows:

Principal risks	Management of risks
Credit risk on individual borrowers and housing association sector, including the impact of Covid-19	Credit policy including exposure limits; credit management and monitoring process, including regular review of the impact of Covid-19; capital structure to withstand losses. See comments under ‘Our Business Model’ above.
Lack of borrowing demand from housing associations including due to changes in their business plans and market conditions and competition from alternative sources of funding	Marketing approach described above; contingency plans to ensure that costs can be met from assured income
Operational risks including control over cash and payments and meeting bond obligations	Operating manual defining all key controls and relevant procedures in place; accounting functions outsourced to reputable firm (Allia Bond Services Ltd).

MORhomes PLC  
STRATEGIC REPORT (continued)

Other risks	Management of risks
Interest rate or pricing risk	Interest payable on bonds is at a fixed rate and matched over the term of the bonds by the interest receivable from loans.
Liquidity and cash flow risk	Interest receivable from loans is due 10 business days before interest payments are due. The company's capital structure (see diagram in strategic report on page 6) has been stress tested under extreme credit loss scenarios and is designed to maintain liquidity with (1) equity including a subscription by borrowers equal to 0.5% of loans made, retained from bond proceeds as cash (2) conditional convertible loans from borrowers equal to 1.15% of loans made which convert to equity under certain circumstances (3) a structure of first and second secured debt and (4) standby liquidity facilities
Global operating environment risk	See notes on both Brexit and Covid-19 in Governance Report, Audit and Risk Committee section

The Board considers the principal risks from Covid-19 to be a component part of other risks, including the credit risk for individual borrowers and for the sector as a whole. The risks are being managed through proactive engagement with a wide range of parties including borrowers, in addition to the review of quarterly financial information from borrowers as part of the credit management process.

The Board confirms that there have been no events subsequent to the balance sheet date up to the date of this report, or likely future developments, that affect its assessment of the principal risks.

#### ASSESSMENT OF BUSINESS POSITION AND FUTURE PROSPECTS

At the end of the year the company has built on the platform it established in the previous year. It has issued two taps of its existing bond and on-lent the proceeds to two new borrowers, with total lending growing by over 20% during the year. The terms of the loans give the company a secure base and future income sufficient to cover its operating costs. In addition, the loan agreements allow the company to recover a wide range of administration costs from borrowers if necessary. The Board has assessed the potential credit losses from its loans and calculated an impairment provision. The Board has also considered the impact of Covid-19 and has engaged proactively with borrowers to gain comfort on their financial position. The Board therefore has a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due for the 19-year life of the bond, even in the event that it does no further new business.

However, the Board believes that it is in a good position to continue to grow the business with new loans supported by new bond issuance, as set out in the strategy above, and believes that its objectives for issuance are achievable over the next 1-5 years. In support of this belief, and notwithstanding the lockdown caused by Covid-19, subsequent to the balance sheet date a further bond has been issued and on-lent to one new borrower and one existing borrower, growing the company's total lending by over 11% since the end of the financial year.

The flexible operating structure in place means that the business can scale up its operations to meet the demand for new loans and increase its profitability as it wins new business. With this in mind the Board has added two new senior executives to the leadership team, with Andrew Morton appointed as Deputy Chief Executive & CFO and Joseph Carr hired as Relationship Director.

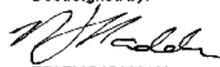
MORhomes PLC  
STRATEGIC REPORT (continued)

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*Funding from MORhomes has supported the development of Pobl's modern, central-Newport apartment block. The site of the former Hornblower pub has been transformed into specialist social housing for over-55s and comprises 38 one and two bedroom homes as well as a foyer area, communal kitchen and rooftop garden. 12 apartments were allocated for intermediate rent. The development is the result of a partnership approach from Pobl, Welsh Government and Newport City Council and was described by the local press as 'more like a high-end luxury apartment complex'.*

Signed on behalf of the Board

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EE3F92D9B968463...

**Neil John Hadden**  
Director  
3 July 2020

MORhomes PLC  
DIRECTORS' REPORT

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## DIRECTORS' REPORT

The directors submit their report and the financial statements for the year ended 31 March 2020.

The financial statements for the comparative period are presented for a period longer than a year as it was the company's first period of trade.

### PRINCIPAL ACTIVITIES

The principal activity is to facilitate access to capital markets by not for profit, registered social housing providers by provision of a central borrowing vehicle.

### RESULTS AND DIVIDENDS

The results for the period are set out on page 34.

A review of the results is included in the Strategic Report.

No dividends are proposed for the period (2019: £Nil).

### DIRECTORS

Details of directors who served in the period and up to the date of this report are set out in the section on directors below.

### CORPORATE SOCIAL RESPONSIBILITY

MORhomes' mission is to support the provision of Social and Affordable Housing in the United Kingdom by acting as a central borrowing vehicle designed to facilitate access to the capital markets by not for profit, registered social housing providers. It therefore has an inherently social purpose.

All MORhomes' bonds are Social Bonds in accordance with the Social Bond Principles 2018<sup>1</sup>. The core components of these principles are: the use of proceeds (for social purposes); the process for project evaluation and selection; management of proceeds; and reporting.

MORhomes has established a Social Bond Framework following these principles, which can be found on our website. We have also obtained an independent second party opinion from Sustainalytics who conclude that they 'are of the opinion that the MORhomes Social Bond Framework is credible and impactful and aligns with the four core components of the Social Bond Principles 2018'. A link to the full report on the Sustainalytics website is also available from our website.

In February 2020 we published our first annual social impact report, concentrating on the initial £260m of loans advanced in February 2019. This comprehensive report showed that the funds were being used to develop 2,233 new homes of a variety of tenures in 36 local authorities. In addition to supporting jobs, these new homes were enabling more people and families to put down roots, helping people to get a foot on the property ladder, supporting people to become more independent and generating profits which will be invested back into neighbourhoods, communities and more social housing. More detail and stories of our social impact can be read in the full report which is available from our website. The company intends to continue to produce an annual social impact report.

In March 2020 MORhomes won the Environmental Finance award for Corporate Social Bond of the year.

The £312.5m of funds raised up to the balance sheet date (2019: £260m) were simultaneously on-lent to housing associations and the funds will all be used for social housing or related projects.

Examples of these projects are shown throughout this report, and in the annual social impact report.




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<sup>1</sup> Social Bond Principles - <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

MORhomes PLC  
DIRECTORS' REPORT (continued)

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For the future, the company is planning to develop its Social Bond Framework into a Sustainable Bond Framework, in accordance with ICMA principles, for future new bonds. This will make the bond more attractive to investors interested in the bond's impact on all three strands of the 'ESG' agenda (environmental, social and governance).

*Wandle borrowed from MORhomes in 2019 to support its development pipeline and continue its successful track record of delivering a range of new housing throughout South London. The MORhomes funds support Wandle's development capacity delivering new homes for rent and sale. Its latest schemes include;*



*Albany House: 41 new homes. 4 London Living Rent, 1 London Affordable Rent and 36 Shared Ownership in Merton with an estimated completion date of September 2020.*

*Russell Hill: 22 units comprised of 16 flats and 6 houses all for*



*Shared Ownership in Croydon with an estimated practical completion date of November 2020.*

MORhomes' wider corporate social responsibility is underpinned by its regard for the UK CGC. This includes governance structures and commitment to the principles of contributing to wider society and to meeting its responsibilities to shareholders and stakeholders.

We operate our business in a way that minimises our impact on the environment. We are an entirely digital business which minimises the use of paper and other resources. Our staff are home-based and we communicate wherever possible electronically, by telephone or by video conference. These arrangements minimise our travel and usage of energy and other resources used by offices as well as contributing to overall efficiency.

The company's culture reflects our social purpose and the ethos of our not for profit shareholders. The review of Board effectiveness (see Governance report) concluded that the Board has established an effective culture. The Board is satisfied that policy, practices and behaviour throughout the business are aligned with the company's purpose, values and strategy.

The Board has approved an Anti-Bribery Policy outlining its position on preventing and prohibiting corruption in all its forms.



*Funding from MORhomes has contributed to A2 Dominion's £500m wider development programme fund. An example scheme from is its new building in Rymers Lane, providing support, specialised services and shelter for homeless people in Oxford. Matilda House is offering accommodation for 37 residents and is designed to give homeless people access to the support they need to go on to lead fulfilling lives.*

MORhomes PLC  
DIRECTORS' REPORT (continued)

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## STAKEHOLDER ENGAGEMENT

All the shareholders in the company are registered providers of social housing (or equivalent, see Mission Statement, above). Under the Company's Articles of Association, borrowers must be shareholders. This gives the company a unique strength in the alignment of the interests of its borrowers with the interests of the company.

The company has good engagement with shareholders that reflects this relationship and the nature of the business. The company circulates a weekly market update to shareholders and provides regular shareholder newsletters. The company held its Annual General Meeting (AGM) in September 2019 which included a presentation to shareholders and an opportunity for shareholders to ask questions of the Board. We also held meetings for all shareholders in April 2019 and November 2019 where we set out our current business position and proposed approach for the future, with an opportunity for shareholders to discuss the plans and raise questions. The meetings were well attended and shareholders were very supportive of the proposed approach. Similar events are planned going forwards. Shareholders can also contact the Chair or Senior Independent Director directly at any time.

The Board has also set up a 'Borrowers Advisory Group' to act as a sounding board and provide input to the Board of MORhomes on matters that are important to shareholder borrowers and potential borrowers. The Group met twice during the year and provided important input on a range of issues.

The Board also takes its responsibilities to investors very seriously and is committed to holding an annual investor meeting, providing quarterly business reviews and yearly and half yearly accounts and other information required by the bond documentation. During the year the company carried out two non-deal 'roadshows' for investors, the second of which included the annual investor meeting. The Board has charged the Senior Independent Director with being available as a direct point of contact for investors in the company and to act in response to any concerns raised maintaining an independence from the Chair and the Executive if required. The contact point and other investor information can be found on the investor relations section of the company's website.

The company has a small workforce who are closely engaged in the company's work. A whistleblowing policy is in place and the Board has designated the Senior Independent Director as the director responsible for engagement with the workforce. Remuneration is set with reference to benchmarks for market rates for comparable roles.

## FINANCIAL INSTRUMENTS

The company's borrowing is at fixed interest and matched by loans for the same term at fixed interest.

The company's approach to financial risk management and its exposure to risk are discussed in the Strategic Report above.

## GOING CONCERN

After making enquiries, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing this Annual Report and Accounts.

See also note 1 to the Financial Statements (Accounting Policies) and the assessment of business position and future prospects in the Strategic Report.

## INDEPENDENT AUDITORS

KPMG LLP were appointed as auditor of the company for the period at the Annual General Meeting on 4 September 2019.

In accordance with Section 485 of the Companies Act 2006, a resolution for the re-appointment of KPMG LLP as auditor of the company is to be proposed by the Board at the forthcoming Annual General Meeting.

**MORhomes PLC**  
**DIRECTORS' REPORT** (continued)

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**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

The directors in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each director has confirmed that they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**SHARE CAPITAL**

The company issued share capital with nominal value totalling £29,850 during the year (2019: £465,000). The funds raised from the share capital issues was £302,500 (2019: £2,945,000) (see note 16 for further details).

**POST BALANCE SHEET EVENTS**

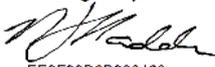
Since the end of the financial year the company has lent an additional amount of £35m on 15 April 2020. The company also issued share capital on the same date with nominal value totalling £17,500. The funds raised from the share capital issue was £175,000.

**STRATEGIC REPORT**

Information on the principal risk and uncertainties and financial risk management objectives and policies as required by Schedule 7 of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulation 2008 has been included in the Strategic Report.

No political donations were made in the period.

On behalf of the Board

DocuSigned by:  
  
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**Neil John Hadden**  
Director  
3 July 2020

MORhomes PLC  
GOVERNANCE REPORT

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## GOVERNANCE REPORT

### CODE OF GOVERNANCE

Corporate governance comprises the body of human behaviours and corporate practices and procedures which determine the manner in which a company should operate, supplementing the legal framework of what is permissible and the manner in which activities are to be carried out.

MORhomes is aware of the position it occupies as a non-traded public company, with listed debt instruments and a business model which specifically supports the social and affordable housing sectors. The Board has a clear vision of the manner in which the company should operate and the reasons for such conclusions. In addition to its shareholders, the Board is aware of the vital role of the company's key stakeholders, which importantly comprise its employees, its investors, its borrowers and those public organisations which also provide financial support to its borrowers.

Whilst MORhomes is under no legal or regulatory obligation to apply any code of corporate governance or practice, the Board has determined that a high level of corporate transparency, corporate responsibility and the highest standards of business ethics and probity are vital to the company's success. Accordingly, the Board determined that it would seek to have regard to applying the principles of the UK Corporate Governance Code issued by the Financial Reporting Council on 16 July 2018 (the UKCGC) to itself in an effective and proportionate manner from 1 August 2018.

### ROLES OF BOARD, COMMITTEES AND EXECUTIVES

The company is governed by a Board which is responsible for achieving the company's objectives and all of its activities. Neil Hadden, as the Chair, leads the board and is responsible for its overall effectiveness in directing the company.

The company's articles of association require that: at least two directors are independent of the company and independent from the social and affordable housing providers sector; one or more independent directors have relevant experience in accounting, risk and capital markets matters; and at least two shall have relevant housing experience. During the period the Board consisted of 7 non-executive directors and the Chief Executive. The Board considers that all the non-executive directors are independent of the company and that all the above requirements have been met throughout the period.

The company has appointed Malcolm Cooper as Senior Independent Director (SID) who is responsible for carrying out the appraisal of the Chair and is a direct point of contact for investors and other stakeholders in the company and to act in response to any concerns raised maintaining an independence from the Chair and the Executive if required.

The Board is responsible for the overall strategy and direction, monitoring of the company's performance and is responsible for key policies and decisions.

The Board has established 5 committees which are responsible for key areas of business and are described further below. It has appointed a Chair of each committee to lead the Committee and ensure that it functions independently of the executive.

The Board has delegated responsibility to the Chief Executive to implement the corporate strategy and to manage all functions and operations.

Further details of the roles and responsibilities of the Directors, the Chair, the SID and the Chief Executive are available on request from [admin@morhomes.co.uk](mailto:admin@morhomes.co.uk).

MORhomes PLC  
GOVERNANCE REPORT (continued)

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BOARD EFFECTIVENESS

Details of the skills and experience of individual directors and committee members are given below. They include a good balance covering the company's key business activities of bond issuance, credit, corporate governance, corporate finance, audit and accounting, social housing and corporate social responsibility.

Directors and committee members receive an appropriate induction and training is available where required. They receive regular information from the executive and professional advisers, including market reports, legal advice and performance information. Information for Board and committee meetings is issued in advance of meetings, normally one week. Individual members have direct access to professional advice including company secretarial advisers.

Non-executive members of the Board were all appointed during the early start-up phase of the company before it had converted to a PLC and before it had regard to the principles of the UK Corporate Governance Code. This did not involve open advertising or the use of external search consultants. Future vacancies under its arrangements for replacement and renewal of Board members (see below) will be advertised openly.

The Board has carried out a review of the effectiveness of the Board and committees and appraisals of individual directors and committee members, overseen by the Nomination and Remuneration Committee (see below).

The main conclusion of these reviews was that MORhomes has an effective Board with the required skills. Implementation of minor recommendations from the reviews in the previous year had further strengthened the Board. The review identified some actions to further improve Board effectiveness, the principal one of which was to address Board diversity as current members retire, which the Board plans to address.

The Nomination and Remuneration Committee has set a policy that directors may only serve for a maximum of 9 years and the Chair for a maximum of 6 years. It has established a process for replacement and renewal of Board members with the objective of a phased replacement of all directors within the first 9 years. At the time of the previous Annual Report we intended that this should start no later than the 2020 Annual General Meeting around September 2020. However, the start-up phase of the company has continued longer than previously expected and given the current coronavirus crisis the Nomination and Remuneration Committee has decided to defer this until around December 2020. All directors are subject to re-election annually at the Annual General Meeting.

Directors and committee members are subject to contracts for their services which amongst other things set out responsibilities, minimum time commitment and general skills required. Continued membership is subject to satisfactory performance. The notice period for contracts is 1 month.

Some of the directors have other appointments which have been declared and individually approved by the Board. Details are given below in the section on individual directors. The Board considers that these appointments enhance rather than impair directors' ability to carry out their duties as directors of MORhomes. Any conflicts arising from these and other interests of directors are declared and managed where necessary.

The Board meets at least once a year without any Executive officers present.

The performance of the Chair is appraised by the Senior Independent Director and the Board meets at least once a year without the Chair present and at this meeting reviews the performance of the Chair.

COMMITTEES OF THE BOARD

The Board has established Committees, each with specific terms of reference approved by the Board and summarised below. Committee chairs report to the Board on the proceedings of their committees and the minutes of all committee meetings are included in papers distributed to Board members. The board and committees meet at regular intervals to cover all on-going business and ad hoc meetings are convened as necessary.

Detailed terms of reference of committees are available on request from the company by emailing [admin@morhomes.co.uk](mailto:admin@morhomes.co.uk).

Committee members are appointed by the Board. The committees that each director and committee member currently serve on are given in the section on Directors and Committee members below.

## MORhomes PLC GOVERNANCE REPORT (continued)

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The following sections contain a summary of the membership, responsibilities and work carried out during the year by each committee.

### NEW ISSUES COMMITTEE

The Committee comprises at least three members all of whom must be non-executive directors. At least half of the members of the committee are independent of the company and the social and affordable housing providers sector and between them have experience of both debt markets and borrowing vehicles.

At the date of this report the Chair of the Committee was Malcolm Cooper and its members Andrew Kitchingman and Peter Shorthouse.

The main responsibilities of the Committee are to oversee new debt issues and act as a point of contact for investors.

During the period the committee oversaw the issuance of bonds and second secured debt which was on lent as new loans.

### CREDIT COMMITTEE

The committee comprises at least three members, one of whom must have credit experience and one relevant housing experience with one of each category of member necessary for a quorum.

At the date of this report the Chair of the Committee was Peter Shorthouse and its members Malcolm Cooper, Ann Santry, David Carton and Andrew Newberry.

The main responsibilities of the Committee are to

- review documentation relating to loans
- oversee the company's borrowing application process
- review the overall policy and process for granting credit approval to borrowers
- receive reports from independent credit service providers and approve individual credit applications in accordance with the company's policy
- oversee the process of granting loans to borrowers
- oversee the process of on-going monitoring of borrower creditworthiness and approve periodic credit rating updates of individual borrowers
- approve changes to a borrower for which permission is required under the terms of loan agreements in accordance with the company's policy
- review reports on any material breaches of risk limits and the adequacy of proposed action.

During the period the committee monitored performance of existing loans, including quarterly monitoring and annual credit renewals for all current borrowers, as well approving new credit applications and overseeing the granting of new loans. The committee kept credit policy under review including reviewing the proprietary credit model that underlies our credit rating system. At the onset of the lockdown arising from the coronavirus crisis the committee received a prompt report, based on a management interview with each borrower, updating the credit standing of each borrower. This enabled the committee to approve a statement to investors that it was making no changes to borrower 'lending levels' (credit ratings).

### NOMINATION AND REMUNERATION COMMITTEE

The committee comprises at least three members, all of whom are independent non-executive Directors and who do not include the Chair of the Board.

At the date of this report the Chair of the Committee was Charles Tilley and its members Ann Santry and Robert Young.

The main responsibilities of the Committee are:

- to review the structure, size and composition (including the skills, knowledge, experience and diversity) of the board

## MORhomes PLC

### GOVERNANCE REPORT (continued)

- 
- succession planning for directors and other senior executives
  - to keep under review the leadership needs of the organisation
  - to identify and nominate candidates to fill board vacancies
  - to oversee the performance evaluation of the Board, committees and Board Chair
  - to agree directors' contracts
  - to set the remuneration policy for executive directors and the Board Chair, including any compensation payments
  - to recommend and monitor the level and structure of remuneration for senior management
  - to oversee the company's implementation of and compliance with its code of governance.

During the course of the year the committee oversaw an evaluation of the effectiveness of the Board and its committees. The review involved the completion of a questionnaire by all Board and Committee members and an interview with each Board member carried out by the Chair of the Board. Board effectiveness evaluations will be carried out annually, with independent external evaluation at least once every two years with the first such independently evaluated review to take place before February 2021.

The committee also oversaw a process of appraisal of the performance of each individual director by the Chair and a process is in place to map members' skills against a matrix of requirements and to meet any skills gaps or training requirements.

The outcome of these reviews is reported in the Board Effectiveness section above.

The committee also oversaw the process of recruitment of two new members of the executive team.

The committee has formulated a Diversity and Inclusion policy which has been approved by the Board. This recognises the importance of diversity to support the company's mission to support social housing via not for profit, registered social housing providers and includes actively encouraging equality and diversity on the Board and in the workplace. The committee will apply these principles in recruitment of Board and Committee members and has applied them in recruitment of senior executives.

The experience of the directors and senior executives is set out below.

At the end of the year 0% (2019: 50%) of senior executives and 13% (2019: 14%) of Board members were female. The Company is committed to equality and diversity, and specific focus will be given to encouraging as wide and diverse a pool of applicants as possible through the cycle of Board rotation, and when appointing senior executives (although this is constrained by the small number of such executives, only 2 at the end of the year).

The Committee has set a policy for the remuneration of senior executives which includes benchmarking against appropriate market comparators. Executive pay and objectives are aligned with the long-term shareholder interest. During the year all senior executives were paid salaries at a fixed annual rate based on market rates for the services provided, approved by the Committee and which the Committee considers appropriate for the current stage of the company's development. No bonus or incentive schemes were in place. Details of executive remuneration can be found in Note 7 to the Accounts.

The Committee has also set a policy for the remuneration of non-executive director posts which includes benchmarking against appropriate market comparators. In accordance with this policy, the Committee has agreed the remuneration of the Chair of the Board. On the advice of the Committee and in accordance with the policy, the Board has set the remuneration of other non-executive director posts.

#### AUDIT AND RISK COMMITTEE

The committee comprises at least three members, all of whom are non-executive Directors and of whom at least one has recent and relevant financial experience with competence in accounting and/or auditing and one experience of the industry in which the company operates.

During the year and at the date of this report the Chair of the Committee was Andrew Kitchingman and its members were Charles Tilley and Robert Young. The Committee met 3 times during the year.

MORhomes PLC  
GOVERNANCE REPORT (continued)

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The main responsibilities of the Committee are:

- to monitor the integrity of the financial statements of the company, including all formal statements relating to its financial performance and financial reporting judgements in the statements
- to review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable
- to keep under review the company's risk management and internal financial control systems
- to review and approve the statements to be included in the annual report concerning internal control and risk management
- to oversee and advise the board on the current risk exposures of the company and future risk strategy
- compliance, whistleblowing, prevention of fraud and bribery
- internal audit
- to consider and make recommendations to the board on the appointment, re-appointment and removal of the company's external auditor
- to assess annually the external auditor's independence and the effectiveness of the audit process and review the policy on the provision of non-audit services by the auditor
- to meet with the external auditor without management being present at least once a year
- to review the findings of the audit with the external auditor.

The external auditor was recommended for reappointment during the period having originally been appointed in 2018 following a tendering process overseen by the committee.

The committee is satisfied as to the independence of the auditor. The company's policy is that the auditor should only provide services related to the audit (including advice on accounting policies) and provision of 'comfort letters' relating to debt issuance. The Committee assessed the work of the auditor following the period end audit and was satisfied with their effectiveness.

During the course of the year the Committee has overseen a process of risk management and has advised the board on the current risk exposures of the company (as reported above).

Following the period end the committee carried out a formal review of the effectiveness of the systems of risk management and internal control and reported on the review to the Board, which approved the review. The conclusion of the review was that no fundamental weaknesses were identified from this review. However, the review identified a number of action points to further improve internal control, and these are being implemented.

The committee reviewed the financial statements for the period. The significant issues considered were:

- Impairment, where the Committee discussed and agreed the calculation of the impairment provision.
- Effective interest rate accounting where the Committee considered the technical accounting treatment in applying effective interest rate accounting to the Company's financial instruments to approve the amounts recognised in the financial statements.
- The United Kingdom's plans to leave the European Union ('Brexit'), where the Committee noted that its business had no direct exposure to the effects of Brexit. Its housing association borrowers are to some extent exposed to a fall in the property market and potentially affected by rising costs, particularly of maintenance costs. These exposures are monitored via the metrics in our credit model and taken into account in our credit assessments. However, the demand for the core business of housing associations, rental of affordable housing, is counter-cyclical, tending to increase in times of economic uncertainty.
- The impact of Covid-19 on the company, where the Committee noted that the business is fully digitally-enabled and from an operational perspective is relatively unimpacted by Covid-19, as highlighted by its execution of back-to-back bond issuance and on-lending in the early part of April 2020 at the height of the lockdown. Its housing association borrowers are to some extent exposed to a fall in the property market as well as potentially affected by rent arrears. Typically these exposures can be mitigated by changing the pace of development activities. They are also monitored via the metrics in our credit model and taken into account in our credit assessments. We receive and review borrower management accounts quarterly and a full update of their business plans and financial projections at least once a year. However, the demand for the core business of housing associations, rental of affordable housing, is counter-cyclical, tending to increase in times of economic uncertainty.
- During the year the company changed its outsourced accounting services provider. The handover was monitored closely and concluded successfully.

MORhomes PLC  
GOVERNANCE REPORT (continued)

- During the year a new Deputy Chief Executive & CFO was appointed in order to strengthen the management team and to mitigate the “key person” dependency on the Chief Executive.

Given the scale of the company’s operations and strength of the existing control system the Board does not consider that an internal audit function is required at present. The committee will consider whether to establish an internal audit function, and in what form, once the company’s systems have been established and operating for some time.

The company has a Whistleblowing Policy in place which enables staff to raise concerns in confidence directly with appropriate Directors about possible improprieties in matters of financial reporting or other matters.

#### SOCIALLY RESPONSIBLE INVESTMENT (SRI) COMMITTEE

The committee currently comprises four members who are directors.

At the date of this report the Chair of the Committee was Charles Tilley and its members Ann Santry, Malcolm Cooper and Neil Hadden.

The main responsibilities of the Committee are:

- to oversee the company’s SRI strategy and policy
- to oversee the establishment of a Framework to demonstrate the company’s alignment with the Social Bond Principles 2018 (see reference above), making its entire bond programme Social Bonds under these principles and to oversee the arrangements to ensure the bonds remain in alignment with the Principles, including ensuring bond proceeds are utilised in accordance with the uses specified in the Framework
- to oversee the introduction and operation of arrangements to generate the information required to produce periodic Social Bond Reports, in accordance with the Framework and the Social Bond Principles

During the course of the year the committee met to monitor the company’s continuing alignment with the Framework and the Social Bond Principles, including utilisation of the bond proceeds. The Committee has confirmed that this is the case, and further details are included above in the Strategic Report. The Committee oversaw the production and publication of the company’s social impact report which was issued in February 2020.

#### ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

The following tables show the number of meetings of the Board and each committee for which each director and committee member was eligible to attend during the period and the number attended by each director and committee member.

Member	Board 3 Apr 2019 – 4 Mar 2020							
	Scheduled meetings	Attended	Additional meetings	Attended	Strategy days	Attended	Total meetings	Total attended
<b>Directors</b>								
R C Young	11	11	4	2	2	2	17	15
C B Tilley	11	11	4	3	2	2	17	16
P Shorthouse	11	7	4	3	2	2	17	12
A J Santry	11	9	4	1	2	2	17	12
A J Kitchingman	11	10	4	2	2	2	17	14
N J Hadden	11	9	4	4	2	2	17	15
M C Cooper	11	9	4	3	2	2	17	14
P J Symington	11	11	4	4	2	2	17	17

MORhomes PLC  
GOVERNANCE REPORT (continued)

Member	New Issues Committee		Credit Committee		Nomination and Remuneration Committee		Audit and Risk Committee		Socially Responsible Investment Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
<b>Directors</b>										
R C Young	-	-	-	-	3	3	1	1	-	-
C B Tilley	-	-	-	-	3	3	1	1	1	1
P Shorthouse	7	6	13	12	-	-	-	-	-	-
A J Santry	-	-	13	7	3	3	-	-	1	1
A J Kitchingman	7	4	-	-	-	-	1	1	-	-
N J Hadden	-	-	-	-	-	-	-	-	1	0
M C Cooper	7	7	13	11	-	-	-	-	1	1
M Bailes	-	-	-	-	-	-	1	1	-	-
<b>Committee members</b>										
D Carton	-	-	13	12	-	-	-	-	-	-
A Newberry	-	-	9	8	-	-	-	-	-	-

The set-up and establishment period of the company has continued to be one of comparatively intensive activity. The Board has now moved to a schedule of around 6 regular and 2 strategic meetings per year with the circulation of performance management information monthly and further meetings if required. There is an expectation of a high level of Board attendance.

#### THIRD PARTY INDEMNITY PROVISION FOR DIRECTORS

The company maintains liability insurance for its directors and officers. This insurance was in place throughout the financial period and at the date of the financial statements.

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible

**MORhomes PLC**  
GOVERNANCE REPORT (continued)

for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## DIRECTORS

Directors who have held office during the year and up to the date of this report, with details of their roles and experience



**Neil Hadden | Chair of Board**

**Member of Socially Responsible Investment Committee**

Neil entered the housing sector in 1978 and spent 27 years at the Housing Corporation, which was the industry regulator and funder prior to Homes England and the Social Housing Regulator, where he held a number of positions, including serving as Deputy Chief Executive. He moved to Aldwyck Housing Association in 2005 and led the group through significant growth in his role as Chief Executive. He became Genesis' Chief Executive in October 2009. Neil left Genesis in April 2018 upon the merger with Notting Hill. Neil is also Chair of Golden Lane Housing Association and Neil Hadden Associates Ltd.



**Malcolm Cooper | Chair of New Issues Committee and Senior Independent Director**

**Member of Credit Committee and Socially Responsible Investment Committee**

Malcolm is a finance professional with wide experience in infrastructure, property and construction. He spent over fifteen years as Group Treasurer for National Grid plc, running the very extensive funding programme which had debt of around £25bn and annual funding needs of £2bn-£3bn pa. Having retired from National Grid in 2017, he is a non-executive director at: Morgan Sindall plc where he Chairs the Audit Committee and the HSE Committee and is a member of the Remuneration and Nomination Committee, and Southern Water Services Ltd where he Chairs the Audit Committee. He is also a member of the Audit Committee of Local Pensions Partnership Ltd.

**Peter Shorthouse | Chair of Credit Committee and Director**

**Member of New Issues Committee**



Peter joined Paragon Banking Group in September 2010 as Director of Treasury and Structured Finance and has over 30 years of experience within financial services. After completing his MBA at London Business School, he joined SG Warburg in 1986, marketing capital market products to the UK franchise. He subsequently became a Managing Director at UBS where he led its London securitisation group for 16 years. His specialism at Paragon is all aspects of funding and cash management, together with serving on the company's Executive and ALCO committees.

MORhomes PLC  
GOVERNANCE REPORT (continued)

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**Charles Tilley | Chair of Nomination and Remuneration Committee and Socially Responsible Investment Committee and Director**

**Member of Audit and Risk Committee**

Charles' career has spanned partnership at KPMG and as the CFO of two investment banks, Hambros plc and Granville plc. As CEO of CIMA from 2001 to 2016, he led the merger with the AICPA, and continues to have a number of roles related to the accounting profession. Charles became CEO of the International Integrated Reporting Council in 2019, having been a member of their Council since its formation in 2010.



**Andrew Kitchingman | Chair of Audit and Risk Committee and Director**

**Member of New Issues Committee**

Andrew Kitchingman is Chairman of Mpac Group Board as of April 2018. He is also a member of the Audit Committee and a member of the Remuneration and Nomination Committees. He is a non-executive director of Lonpro Holding PLC and Incommunities Group Limited as well as Chair of their Audit Committee. Andrew is also Chairman of The Leeds Festival Chorus, Founding Director of Ripon Cathedral Musical Trust, and Treasurer and member of Chapter at Ripon Cathedral. He is a Fellow of the Institute of Chartered Accountants in England and Wales and formerly worked in corporate finance for a number of firms, including KPMG, Hill Samuel, Albert E Sharp and Brewin Dolphin. Andrew is non-executive director at Andrews Sykes Group PLC, Chairman of The British Board of Agreement Ltd and Director at Burton Leonard Opposition Group Ltd.



**Ann Santry | Member of Credit Committee, Nomination and Remuneration Committee and Socially Responsible Investment Committee and Director**

Ann was the CEO of Sovereign Housing until June 2018 and led the growth of the business from 11k to 56k homes through both merger and development. Prior to Sovereign she was CEO of the Swaythling Housing Society (now part of the Radian Group) and Development Director at the Guinness Trust. She was awarded the CBE in 2012 for services to social housing. Ann is a NED on the Board of the States of Jersey Development Company as well as Chair of the Remuneration Committee and member of the Audit Committee. She is also Chair of the Barnwood Trust, was appointed as a Director of a new for-profit RP being set up by Centrus, and is a NED of Hill Holdings Ltd. Previously Ann was Vice Chair of the National Housing Federation.



**Rob Young | Member of Audit and Risk Committee and Nomination and Remuneration Committee and Director**

Rob is a fellow of the CIH with substantial experience of the housing sector working in local authorities, housing associations and a new town. He has been a chief executive for nearly 17 years with Helena Partnerships and latterly Torus, before retiring in December 2018. Rob has a range of NED experience both within and outside the sector and is Trustee and Chair of Port Sunlight Village Trust and NED at the Prima Housing Group.

MORhomes PLC  
GOVERNANCE REPORT (continued)

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**Patrick Symington | Chief Executive**

**Chief Executive throughout the period and to date  
Appointed to the Board 3 July 2019**

Patrick is a finance professional, originally from the private sector, with long experience in the housing sector as an executive director, NED and consultant. Patrick was most recently Executive Director at First Wessex responsible for Finance, IT, Governance and Business Transformation. Until recently he was also a Board Member and Chair of Risk at Stonewater HA.

COMMITTEE MEMBERS



**David Carton | Member of Credit Committee**

David Carton joined Legal & General Investment Management in 1981 and spent 35 years as an equity and credit analyst covering a wide range of companies and sectors including the Social Housing sector. He was a member of Legal & General Investment Management's credit rating committee for several years up to his retirement in 2016. David is a Board member at Mount Green Housing Association.



**Andrew Newberry | Member of Credit Committee**

Andrew is a fellow of the Institute of Chartered Accountants in England and Wales. He has over 20 years of experience in housing as a Director of Finance, during which time he helped his group (Radian Housing) grow from 3.5k to over 23k homes. This was achieved through organic growth funded through bank debt and bond issues and through merger. Prior to this he worked in Industries including Financial Services, Construction and Property Development, after working for an international firm of chartered accountants in the UK and Africa. He is Trustee Director at TPT Retirement Solutions, a Pension Master Trust with over 2,600 employers 300,000 members and £10bn of assets under management.

OTHER SENIOR EXECUTIVES

**Andrew Morton | Deputy Chief Executive & Chief Financial Officer**

**Appointed 12 March 2020**

Andrew is a qualified chartered accountant with over 25 years' experience in financial services, firstly in practice with one of the Big Firms followed by a range of different strategic, financial and commercial / business leadership roles with Barclays. More recently he has been running his own advisory business alongside a portfolio of Chair and Non-Executive Director roles.

MORhomes PLC  
GOVERNANCE REPORT (continued)

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**Joseph Carr | Relationship Director**

**Appointed 20 April 2020**

Joseph was Policy Leader with the National Housing Federation and more recently a Director with Altair Consultancy Services. He is a chartered accountant and has a wealth of experience of the Housing Association sector and its financial landscape. He is also a Director of Longhurst and Chair of its Finance and Treasury Committee.

COMPANY SECRETARIAL

The Company Secretary is Andrew Morton who was appointed on 1 April 2020.

During the year, Elizabeth Froude served as Company Secretary until 28 June 2019 when she was replaced by Patrick Symington who served until he was in turn replaced by Andrew Morton on 1 April 2020.

PRINCIPAL ADVISORS

Financial advisers:

Chatham Financial, 12 St James's Square, St. James's, London SW1Y 4LB

Legal advisers (documentation):

Devonshires, 30 Finsbury Circus, Finsbury, London EC2M 7DT

Legal advisers to bondholders:

Allen & Overy LLP, One Bishops Square, London E1 6AD

Legal advisers (governance):

Wedlake Bell, 71 Queen Victoria St, London EC4V 4AY

Company administration and accounting service providers

Allia Bond Services Ltd, Future Business Centre, Kings Hedges Road, Cambridge CB4 2HY

MORhomes PLC  
GOVERNANCE REPORT (continued)

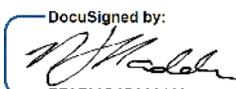
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SHAREHOLDERS

The following is a list of shareholders (housing association groups) as at the 31 March 2020

1 A2Dominion	22 Hightown Housing	43 Platform
2 Aster	23 Housing Solutions	44 Plymouth Community Homes
3 Broadland	24 Hyde	45 Pobl
4 Clanmil	25 Incommunities	46 Red Kite Housing
5 ClywdAlyn Housing Limited	26 Jigsaw Homes	47 Selwood
6 Coastal Housing Group	27 Karbon	48 Settle Group
7 Cottsway Housing Association Ltd	28 LiveWest	49 South Yorkshire
8 Colne	29 Local Space	50 Sovereign
9 emh Group	30 Melin	51 Staffordshire Housing
10 Flagship	31 Midland Heart	52 Stonewater
11 ForViva	32 Network Homes	53 Swan Housing
12 Futures Housing Group	33 Newlon	54 Thrive Homes
13 Gentoo	34 Newydd Housing Association	55 Together Housing
14 Golding	35 North Devon Homes	56 Torus
15 Greatwell Homes	36 North Star	57 Town & Country
16 Grŵp Cynffin	37 Notting Hill Genesis	58 Vivid
17 Haford	38 Octavia	59 Wales & West
18 Halton Housing	39 One Housing	60 Walsall Housing Group
19 Hastoe	40 Ongo	61 Wandle
20 Heart of Medway (MHS)	41 Origin	62 Wythenshawe
21 Hexagon	42 Paradigm Housing	

Signed on behalf of the Board

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Neil John Hadden

Chair of the Board of Directors

3 July 2020

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORHOMES PLC

**1 Our opinion is unmodified**

We have audited the financial statements of MORhomes plc ("the Company") for the year ended 31 March 2020 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

**2 Key audit matters: including our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters were as follows

<b>Key Audit Matter</b>	<b>The risk</b>	<b>Our response</b>
<p><b>Going concern</b></p> <p><i>Refer to page 15 (Directors' report) and page 38 (accounting policy)</i></p>	<p><b>Disclosure quality</b></p> <p>The financial statements explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Company.</p> <p>That judgement is based on an evaluation of the inherent risks to the Company's business model and how those risks might affect the Company's financial resources or ability to continue operations over a period of at least a year from the date of approval of the financial statements.</p> <p>The risks most likely to adversely affect the Company's available financial resources over this period were:</p>	<p>Our procedures included:</p> <p><b>Key dependency assessment:</b> We evaluated whether the assumptions made in the Company's forecast are realistic and achievable and consistent with the internal and external environment, as well as other matters identified in the audit.</p> <p><b>Funding assessment:</b> We assessed the ability of the Company to utilise its Standby Liquidity Facilities that would enable it to meet its liabilities as they fall due for at least 12 months from the date of these statements, by inspecting the source documentation between the facility providers and the Company.</p> <p><b>Assessing transparency:</b> We assessed the completeness and accuracy of the matters</p>

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORHOMES PLC (continued)

	<ul style="list-style-type: none"> <li>• Missed payments from the Company's borrowers; and</li> <li>• The impact of a significant business continuity issue affecting the Company or its corporate servicer.</li> </ul> <p>There are also less predictable but realistic second order impacts, such as changes to legislation affecting the Company's borrowers, as well as the impact of Brexit.</p> <p>The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.</p>	covered in the going concern disclosures of the financial statement disclosures with reference to the evidence obtained.
<p><b>Expected credit losses on loan assets</b></p> <p>(£33,000, 2019: £54,000,)</p> <p><i>Refer to page 21 (Audit Committee report), page 40 (accounting policy) and note 15 (financial disclosures)</i></p>	<p><b>Subjective estimate</b></p> <p>The estimation of expected credit losses ("ECL") on financial instruments involves significant judgement and estimates.</p> <p>The ECL provision may be materially misstated if judgements or estimates made by the Company are inappropriate.</p> <p>In particular, judgement is required in respect of the Probability of Default ("PD") and Loss Given Default ("LGD") assumptions applied by management.</p> <p>IFRS 9 requires the Company to measure ECLs on an unbiased forward-looking basis reflecting a range of future economic condition. Management judgement is required to determine macroeconomic impact</p>	<p>Our procedures included:</p> <p><b>Accounting analysis:</b> We evaluated the appropriateness of the accounting policies based on the requirements of IFRS 9, our business understanding and industry practice.</p> <p><b>Our sector experience:</b> We used our sector experience to evaluate the reasonableness of management's key assumptions in respect of PD and LGD.</p> <p><b>Benchmarking assumptions:</b> We performed benchmarking to consider the reasonableness of PD, LGD and macroeconomic assumptions against industry practice for similar exposures.</p> <p><b>Sensitivity analysis:</b> We stress tested the key assumptions, being PD and LGD, to assess sensitivity of the resulting ECL to these.</p>

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORHOMES PLC (continued)

	<p>especially when considering the current uncertain economic environment arising from COVID-19.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that ECL on loan assets has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 3) disclose the sensitivity estimated by the Company.</p>	<p><b>Assessing transparency:</b> We assessed the adequacy of the Company's disclosures about the degree of estimation involved in arriving at the ECL.</p>
<p><b>Effective interest rate accounting</b> (£30,000, 2019: £21,000)</p> <p><i>Refer to page 21 (Audit Committee report) and page 38 (accounting policy disclosures)</i></p>	<p><b>Accounting application</b></p> <p>Transaction costs are required to be spread over the effective interest rate ('EIR') period for all financial instruments. Given that transaction costs are often one-off costs, usually occurring either at the start or at the end of the contract, it is not uncommon for these to be overlooked when constructing EIR models.</p> <p>The EIR model is open to the possibility that the modelling principles are not in accordance with accounting requirements.</p> <p>The EIR model is open to the possibility of arithmetical errors.</p>	<p>Our procedures included:</p> <p><b>Methodology implementation:</b> We compared the application of the EIR methodology and the cash flows included in the adjustment with the relevant accounting standard, checking that the model includes the appropriate level of any transaction costs.</p> <p><b>Testing application:</b> We critically assessed the fees and costs included in the EIR adjustment to consider the appropriateness of their inclusion or exclusion from EIR accounting.</p> <p><b>Tests of details:</b> We agreed a sample of fees and costs to source documentation to assess the accuracy of amounts recorded and included in the EIR calculation.</p> <p><b>Independent reperformance:</b> We assessed whether the EIR adjustment is applied accurately by performing recalculations.</p> <p><b>Assessing transparency:</b> We assessed the adequacy of the Company's disclosures about the degree of estimation involved in EIR accounting.</p>

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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORHOMES PLC (continued)**

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**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the financial statements as a whole was set at £90,000, determined with reference to a benchmark of interest income of £10,410,000 of which it represents 0.9%.

In the prior year materiality for the financial statements as a whole was set at £90,000, which was determined with reference to a benchmark of net assets of £2,065,000, of which it represented 4.3%.

We have changed the selected benchmark for calculating materiality to interest income from net assets as this reflects the fact that the Company has now traded for the whole financial year and interest income better reflects the scale of the business since the Company does not seek to maximise profits as its primary objective.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £4,500 (2019: £4,500), in addition to other identified misstatements that warranted reporting on qualitative grounds.

**4 We have nothing to report on going concern**

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects.

**5 We have nothing to report on the other information in the Annual Report**

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on that work we have not identified material misstatements in the other information.

***Strategic report and directors' report***

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**6 We have nothing to report on the other matters on which we are required to report by exception**

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MORHOMES PLC (continued)

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

## 7 Respective responsibilities

### *Directors' responsibilities*

As explained more fully in their statement set out on page 23, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

## 8 The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Karl Pountney (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*  
One Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA  
3 July 2020

MORhomes PLC  
 STATEMENT OF COMPREHENSIVE INCOME  
 Period ended 31 March 2020

	Note	Year ended 31 March 2020 £'000	Period ended 31 March 2019 £'000
Interest income	4	10,410	1,055
Interest expense	4	(10,052)	(1,058)
Net interest income / (expense)		<u>358</u>	<u>(3)</u>
Other income	4	432	117
TOTAL INCOME		<u>790</u>	<u>114</u>
Impairment credit / (charge)		21	(54)
Operating expenses		(974)	(940)
LOSS BEFORE TAXATION		<u>(163)</u>	<u>(880)</u>
Income tax	8	47	150
LOSS FOR THE PERIOD		<u><u>(116)</u></u>	<u><u>(730)</u></u>

All results are from continuing operations. There were no other gains and losses during the current or prior period.

The accompanying notes form an integral part of the financial statements

MORhomes PLC  
STATEMENT OF CHANGES IN EQUITY  
Period ended 31 March 2020

	Note	Share capital £'000	Share Premium £'000	Contingent convertible notes £'000	Retained Earnings £'000	Total equity £'000
BALANCE AT 28 FEBRUARY 2018 AND 1 MARCH 2018		-	-	-	-	-
Issue of share capital	16	1,059	1,886	-	-	2,945
Share capital reduction	16	(594)	-	-	594	-
Issue of contingent convertible notes	14	-	-	286	-	286
COMPREHENSIVE LOSS						
Loss for the period		-	-	-	(730)	(730)
TOTAL COMPREHENSIVE LOSS		-	-	-	(730)	(730)
BALANCE AT 31 MARCH 2019 AND 1 APRIL 2019		465	1,886	286	(136)	2,501
Issue of share capital	16	30	273			303
Issue of contingent convertible notes	14			58		58
COMPREHENSIVE LOSS					(116)	(116)
Loss for the period					(116)	(116)
TOTAL COMPREHENSIVE LOSS					(116)	(116)
BALANCE AT 31 MARCH 2020		495	2,159	344	(252)	2,746

The accompanying notes form an integral part of the financial statements

MORhomes PLC  
STATEMENT OF FINANCIAL POSITION  
As at 31 March 2020

Company registration number: 10974098

	Note	31 March 2020 £'000	31 March 2019 £'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	3	3
Loan assets	10	314,301	258,102
		<u>314,304</u>	<u>258,105</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	11	600	281
Cash and cash equivalents	11	1,903	2,347
Loan Assets	10	1,335	1,055
		<u>3,838</u>	<u>3,683</u>
<b>TOTAL ASSETS</b>		<u>318,142</u>	<u>261,788</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	(600)	(596)
Bond Liabilities	14	(1,231)	(1,029)
		<u>(1,831)</u>	<u>(1,625)</u>
<b>NON-CURRENT LIABILITIES</b>			
Bond liabilities	14	(313,565)	(257,662)
		<u>(313,565)</u>	<u>(257,662)</u>
<b>TOTAL LIABILITIES</b>		<u>(315,396)</u>	<u>(259,287)</u>
<b>NET ASSETS</b>		<u>2,746</u>	<u>2,501</u>
<b>EQUITY</b>			
Share capital	16	495	465
Share premium	17	2,159	1,886
Contingent convertible notes	17	344	286
Retained earnings	17	(252)	(136)
<b>TOTAL EQUITY</b>		<u>2,746</u>	<u>2,501</u>

The financial statements on pages 34 to 63 were approved by the Board of directors and authorised for issue and are signed on its behalf by:

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Neil John Hadden  
DIRECTOR  
3 July 2020

The accompanying notes form an integral part of the financial statements

MORhomes PLC  
 STATEMENT OF CASH FLOWS  
 Period ended 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
<b>OPERATING ACTIVITIES</b>			
Net cash flow used in operating activities	18	9,415	(2,908)
Interest Paid		(10,036)	-
Net cash used in operating activities		<u>(621)</u>	<u>(2,908)</u>
<b>INVESTING ACTIVITIES</b>			
Payments to acquire property, plant and equipment		(2)	(4)
Loans advanced		(56,660)	(258,051)
Net cash used in investing activities		<u>(56,662)</u>	<u>(258,055)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		303	2,945
Receipt of bonds proceeds		56,536	260,365
Net cash generated from financing activities		<u>56,839</u>	<u>263,310</u>
<b>MOVEMENT IN CASH AND CASH EQUIVALENTS</b>			
		(444)	2,347
Cash and cash equivalents at beginning of period		2,347	-
Cash and cash equivalents at end of period		<u>1,903</u>	<u>2,347</u>

The accompanying notes form an integral part of the financial statements

## 1 ACCOUNTING POLICIES

The financial statements for the period ended 31 March 2020 were authorised by the Board on 3 July 2020. MORhomes PLC is a public limited company, is incorporated in England and Wales, and domiciled in the United Kingdom. The registered address is Future Business Centre, Kings Hedges Road, Cambridge, England, CB4 2HY, England.

The principal accounting policies adopted by the company are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### BASIS OF PREPARATION AND ACCOUNTING

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The company's financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds except where otherwise indicated. The principal accounting policies adopted are set out below.

### GOING CONCERN

The company has made a loss before taxation for the period of £163k (2019: £880k), this includes interest income of £10,410k (2019: £1,055k) and interest expense of £10,052k (2019: £1,058k). The company has a deficit on the profit and loss reserve of £272k (2019: £136k). Cash and cash equivalents amount to £1,903k (2019: £2,347k). The company also had undrawn funding facilities from four banks totalling £20,000k (2019: £20,000k) that can be utilised to address any fluctuations in liquidity.

The company was initially financed by the issue of share capital which enabled it to set up its operations and issue secured sterling bonds which are listed on the London Stock Exchange. At the same time the company issued second secured notes. The bonds and notes mature in February 2038. No repayments of capital fall due before the maturity date. The funds raised were on-lent to housing associations who provided further equity and contingent convertible loans at the same time.

The directors have carried out a review of the company's ability to continue in operation for the foreseeable future, including assessing the risks arising from Covid-19. There is regular and proactive monitoring of borrowers' financial position including levels of liquidity. In addition, the Board believes that it is in a good position to continue to grow the business with further new loans supported by new bond issuance and increase its profitability as it wins new business, as set out in the Strategic Report. The company has in place sufficient capital and liquidity facilities. The directors are therefore satisfied that the company has a reasonable expectation of continuing in operation and receiving adequate funding for the foreseeable future to enable liabilities to be met as they fall due. The financial statements have therefore been prepared on a going concern basis.

### ACCOUNTING PERIOD

The prior year comparatives are for a 13-month period due to it being the Company's first period of trade. The current year results are for the full year.

### REVENUE

#### *Issuance recharges*

Issuance recharges are deducted from the loan assets and amortised to the Statement of Comprehensive Income over the life of the loan asset using the effective interest method.

#### *Programme recharges*

Programme recharges are deducted from the loan assets and amortised to the Statement of Comprehensive Income over the life of the loan asset using the effective interest method.

## 1 ACCOUNTING POLICIES (Continued)

### REVENUE (continued)

#### *Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *Other Revenue*

##### *Standby Liquidity Agreement revenue*

Income and related costs from Standby Liquidity Agreements are recognised up-front in the statement of Financial Position, and the respective contract liabilities and assets are released to the statement of Comprehensive Income over the life of the agreement. In the event that a potential borrower decides to borrow within the term of the agreement, the balance remaining of contract liabilities and assets will be released to the Statement of Comprehensive Income at that time.

##### *Other revenue*

Other revenue includes security charges levied on Housing Associations and is recognised over the period to which they relate. Credit check fees are also included.

### INCOME TAX AND DEFERRED TAX

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities.

### FINANCIAL INSTRUMENTS

The company is applying the requirements of IFRS 9 to all financial instruments.

Financial assets and financial liabilities are recognised when the company becomes party to the contractual provisions of the instrument.

### CURRENT AND NON-CURRENT CLASSIFICATION

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

## 1 ACCOUNTING POLICIES (Continued)

### CURRENT AND NON-CURRENT CLASSIFICATION (Continued)

Deferred tax assets and liabilities are always classified as non-current.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and in hand and other short term deposits held by the company with maturities of less than three months.

### TRADE AND OTHER RECEIVABLES

Trade receivables are initially measured at their transaction price.

Receivables are held to collect the contractual cash flows which are solely payments of principal and interest. Therefore, these receivables are subsequently measured at amortised cost using the effective interest rate method.

### LOAN ASSETS

Loan assets are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Programme recharges are deducted to loan assets and amortised to the Statement of Comprehensive Income over the life of the asset.

### CLASSIFICATION OF FINANCIAL ASSETS

In determining the measurement of financial assets, management are required to assess whether the loans are held to collect contractual cash flows.

The company assesses the objective of a business model in which an asset is held at an individual level because this best reflects the way the business is managed, and information is provided to management.

Financial assets are classified and measured based on the business model and nature of the contractual cash flows. Financial assets are classified and measured at amortised cost when the business model is to collect the contractual cashflows which are solely payment of principal and interest. For cash flows to be solely payment of principal and interest the cash flows must be on specified dates and the cash flows take into account, time value of money, credit risk and other basic lending risks and costs.

### IMPAIRMENT OF FINANCIAL ASSETS

An impairment loss is recognised for the expected credit losses on financial assets.

The probability of default and expected amounts recoverable are assessed using reasonable and supportable past and forward-looking information that is available without undue cost or effort. The expected credit loss is a probability weighted amount determined from a range of outcomes and takes into account the time value of money.

The measurement of impairment losses depends on whether the financial asset is 'performing', 'underperforming' or 'non-performing' based on the company's assessment of increases in the credit risk of the financial asset since its initial recognition and any events that have occurred before the year-end which have a detrimental impact on cash flows.

The financial asset moves from 'performing' to 'underperforming' when the increase in credit risk since initial recognition becomes significant. The financial asset moves to 'non-performing' when the asset is in default.

When assessing whether credit risk has increased significantly, the company compares the risk of default at the year-end with the risk of a default when the investment was originally recognised using reasonable and supportable past and forward-looking information that is available without undue cost or effort.

The risk of a default occurring takes into consideration default events that are possible within 12 months of the year-end ("the 12 month expected credit losses") for 'performing' financial assets, and all possible default events over the expected life of those receivables ("the lifetime expected credit losses") for 'underperforming' financial assets.

## 1 ACCOUNTING POLICIES (Continued)

### IMPAIRMENT OF FINANCIAL ASSETS (Continued)

Impairment losses and any subsequent reversals of impairment losses are adjusted against the carrying amount of the receivable and are recognised in profit or loss

Full detail of the credit risk assessment is included at note 15.

### FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

### INITIAL AND SUBSEQUENT MEASUREMENT OF FINANCIAL LIABILITIES

#### TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at fair value, net of direct transaction costs and subsequently measured at amortised cost.

#### EQUITY INSTRUMENTS

Equity instruments issued by the company are recorded at fair value on initial recognition net of transaction costs.

### DERECOGNITION OF FINANCIAL ASSETS (INCLUDING WRITE-OFFS) AND FINANCIAL LIABILITIES

A financial asset (or part thereof) is derecognised when the contractual rights to cash flows expire or are settled, or when the contractual rights to receive the cash flows of the financial asset and substantially all the risks and rewards of ownership are transferred to another party.

When there is no reasonable expectation of recovering a financial asset it is derecognised ('written off') in line with the company's impairment policy as disclosed at note 15.

The gain or loss on derecognition of financial assets measured at amortised cost is recognised in profit or loss.

A financial liability (or part thereof) is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Any difference between the carrying amount of a financial liability (or part thereof) that is derecognised and the consideration paid is recognised in profit or loss.

### BORROWINGS

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

### CONVERTIBLE BOND

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders' equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

### ISSUED CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 1 ACCOUNTING POLICIES (Continued)

### PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is charged to the Statement of Comprehensive Income so as to write off the cost of assets less residual value over their useful economic lives, using the straight line method, on the following bases.

Office Equipment	20% - 33% Straight – line basis
------------------	---------------------------------

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement

### IMPAIRMENT OF TANGIBLE ASSETS

At the reporting date, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent of other assets, the company estimates the recoverable amount of the generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

If the recoverable amount of an asset is estimated to be higher than its impaired carrying amount, impairment is reversed to align with the recoverable amount, unless this is deemed to be lower than the depreciated historical cost. An impairment reversal is recognised as a gain in the Income Statement.

### EMPLOYEE BENEFITS

#### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *Defined contribution expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

### FAIR VALUE MEASUREMENT

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

## 1 ACCOUNTING POLICIES (Continued)

### FAIR VALUE MEASUREMENT (Continued)

Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

## 2 ADOPTION OF NEW AND REVISED STANDARDS

IFRS 16 and IFRIC 23 have been applied from 1 April 2019. IFRS 16 has been issued and is effective 1 April 2019. The Company has reviewed the provisions of both IFRS 16 Leases and IFRIC 23 Uncertainty over Tax treatments and has not identified any impact from the new standards.

## 3 USE OF ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision only affects that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Material estimates and assumptions are made as described below:

### *Credit risk*

Receivables are considered to be in default when the principal or any interest is past due unless otherwise agreed with the lender (see note 15). Significant increase in credit risk occurs when there is a significantly increased risk of default occurring over the expected life of the asset.

### *Impairment*

Impairment provisions are based on a number of estimates and judgements.

Estimates are required about the expected cash flows, probability of default and period over which the company is exposed to credit risk.

In determining whether other receivables are impaired, the company makes judgements about whether changes in the credit risk of financial assets since initial recognition are significant.

An impairment charge has been made against loan assets based on probabilities of default ranging between 0.03% and 0.06% (2019: 0.03% and 0.05%) and loss given default of ranging between 20% and 45%.(2019:45%). We have used a loss given default of 20% for all secured borrowers and 45% for those that are unsecured.

A sensitivity analysis has been performed below:

## USE OF ESTIMATES AND ASSUMPTIONS (Continued)

**2020**

Probability default:	ECL Provision £'000	+0.1% PD £'000	-0.1% PD £'000	+10% LGD £'000	-10% LGD £'000
0.03%	3	13	-	5	2
0.05%	19	29	-	28	9
0.06%	11	57	-	15	6
Probability default:	33	99	-	48	17

**2019**

Probability default:	ECL Provision £'000	+0.1% PD £'000	-0.1% PD £'000	+10% LGD £'000	-10% LGD £'000
0.03%	7	29	-	7	6
0.04%	6	19	-	6	5
0.05%	41	121	-	44	36
Charge	54	169	-	57	47

*Effective interest rates*

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts contractual future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments, the company uses contractual future cash flows considering all contractual terms of the financial instrument, but not Expected Credit Loss.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that management judge to be directly attributable to the acquisition or issue of a financial asset or financial liability.

*Deferred tax*

The company has recognised net deferred tax assets of £47k (2019:£150k). The recognition of deferred tax assets is based upon whether it is probable that sufficient taxable profits will be available in the future against which the reversal of temporary differences can be used. Where the temporary differences relate to losses, the availability of the losses to offset against forecast taxable profits is considered (see note 8).

*Contingent convertible notes*

During both the current year and the previous period the company entered into a compound instrument. In order to value the liability element of the instrument the equivalent rate of a comparable instrument without a conversion option is required and that rate is dependent on management estimates. Management have considered a rate of 5.85% (2019: 5.85%) to be a suitable estimate.

A sensitivity analysis has been performed below, in aggregate terms, in relation to the amounts issued in each period:

3	USE OF ESTIMATES AND ASSUMPTIONS (Continued)	Equity element	+10 BPS	-10 BPS
		of convertible note £'000	£'000	£'000
	<b>2020</b>			
	Equivalent rate for comparable instrument: 5.85%	58	64	52
	Equity	<u>58</u>	<u>64</u>	<u>52</u>
		Equity element of convertible note £'000	+10 BPS £'000	-10 BPS £'000
	<b>2019</b>			
	Equivalent rate for comparable instrument: 5.85%	286	317	254
	Equity	<u>286</u>	<u>317</u>	<u>254</u>

#### 4 REVENUE

The following table provides an analysis by geographical market:

	31 March 2020 £'000	31 March 2019 £'000
<b>Continuing operations</b>		
United Kingdom	790	114
	<u>790</u>	<u>114</u>

The following table provides an analysis by service:

	31 March 2020 £'000	31 March 2019 £'000
<b>Continuing operations:</b>		
Interest income	10,410	1,055
Interest expense	<u>(10,052)</u>	<u>(1,058)</u>
Net interest income	358	(3)
Other income	432	117
	<u>790</u>	<u>114</u>

The company has a single segment.

The major customers are made up of 11 Housing Associations to which loan assets are issued. As well as interest on loans, revenue is also generated through Standby Liquidity Agreements and security fees.

## 5 LOSS FOR THE PERIOD

	31 March 2020 £'000	31 March 2019 £'000
Loss for the period has been arrived at after charging:		
Depreciation of property, plant and equipment	2	1
Staff costs (see note 7)	<u>360</u>	<u>459</u>

## 6 AUDITOR'S REMUNERATION

	31 March 2020 £'000	31 March 2019 £'000
The analysis of auditors' remuneration is as follows:		
Fees payable to the company's auditors for:		
- Audit of the company's annual financial statements	61	50
Total audit fees	<u>61</u>	<u>50</u>
Other services:		
All other non-audit services	30	35
Total fees	<u>91</u>	<u>85</u>

## 7a PEOPLE COSTS AND DIRECTORS' EMOLUMENTS

	31 March 2020 Number	31 March 2019 Number
The average monthly number of employees (including directors) was:		
Directors	10	7
Management and support staff (including key management personnel see note 7c)	3	4
	<u>13</u>	<u>11</u>
People costs including directors' emoluments (see 7b)	31 March 2020 £'000	31 March 2019 £'000
Wages and salaries	323	408
Social security costs	29	43
Other pension costs	8	8
	<u>360</u>	<u>459</u>

## 7b DIRECTORS REMUNERATION

	31 March 2020 £'000	31 March 2019 £'000
Aggregate emoluments	145	45
	<u>145</u>	<u>45</u>

The Board has agreed the following levels of remuneration for non-executive Board members

Position	Pay
Chair of Board	£22,500
Chair of New Issues Committee and Senior Independent Director	£17,500
Other Committee Chairs	£15,000
Board member	£12,000
Additional per committee (above 2 committees)	£1,500
Committee member only	£4,000

The Board agreed to waive all non-executive Director pay up to June 2018. The Board also agreed to defer 50% of non-executive Director pay unless and until certain business targets have been achieved. Consequently, since June 2018 only 50% of the above rates have been paid, and the balance will be paid out of future income if and when the business targets have been achieved. In aggregate the amount of £105,000 (2019: £45,000) has been deferred. An accrual has been made for £105,000 (2019: £0).

The amount paid during the period by individual director was as follows:

	2020	2019
Director	Salary	Salary
Rob Young	£6,000	£6,000
Charles Tilley	£8,250	£6,375
Peter Shorthouse	£7,500	£5,625
Ann Santry	£6,750	£5,250
Andrew Kitchingman	£7,500	£5,625
Neil Hadden	£11,250	£8,438
Malcolm Cooper	£10,063	£6,562
Patrick Symington	£87,190	Nil

The highest paid director received £87,190 (2019: £8,438). No pensions were provided.

## 7c KEY MANAGEMENT PERSONNEL

	31 March 2020 £'000	31 March 2019 £'000
Short term employee benefits	178	250
	<u>178</u>	<u>250</u>

Key management includes those who are responsible for planning, directing and controlling activities of the entity. This includes the chief executive who was also a director with effect from 03 July 2020.

## 8 INCOME TAX

	31 March 2020 £'000	31 March 2019 £'000
<b>Current tax</b>		
UK corporation tax on profits for the year	-	-
Total current tax	<u>-</u>	<u>-</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(47)	(150)
Total deferred tax	<u>(47)</u>	<u>(150)</u>
Total tax charge	<u>(47)</u>	<u>(150)</u>

A reconciliation between tax expense and the product of accounting profit multiplied by the UK rate of Corporation Tax for the periods ended 31 March 2020 and 31 March 2019 is as follows:

	31 March 2020 £'000	31 March 2019 £'000
Loss before taxation:		
Continuing operations	(163)	(880)
At UK standard rate of corporation tax of 19% (2019: 19%)	(31)	(167)
Deferred tax – difference in closing tax rates	(18)	17
Expenses not deductible for tax purposes	1	-
Deferred tax not recognised	1	-
Tax charge in the Income Statement	<u>(47)</u>	<u>(150)</u>
Effective income tax rate	29%	17%

## 8 INCOME TAX (Continued)

The company has recognised deferred tax assets of £47,000 (2019: £150,000) relating to tax losses that are available to offset against future taxable profits.

## 9 PROPERTY, PLANT AND EQUIPMENT

	Office Equipment £'000
Cost:	
At 1 March 2019	4
Additions	2
Disposals	(1)
At 31 March 2020	<u>5</u>
Accumulated depreciation and impairment:	
At 1 March 2020	(1)
Charged in the period	(2)
At 31 March 2019	<u>(2)</u>
Net book amount:	
At 31 March 2020	3
At 31 March 2019	<u>3</u>

Depreciation rates are disclosed within note 1 on accounting policies. Depreciation charged is included in administrative expenses.

## 10 LOAN ASSETS

	31 March 2020 £'000	31 March 2019 £'000
Loans to housing associations	<u>315,636</u>	<u>259,157</u>

The £312,500,000 (2019: £260,000,000) loan balance comprises 13 loans to 11 groups (11 loans to 9 groups) of not for profit Registered Providers of social housing. The loans are due for repayment in February 2038. As at year end £300,000,000 (2019: Nil) of the loans were secured. All loans are on average 119% over-secured (above minimum asset cover). For the remaining £12,500,000 (2019: £260,000,000), the loan was secured with a fixed charge on a single property of de minimis value. The borrower has certified that it has available uncharged property to provide sufficient security to meet an asset cover test.

The fair value of the loans at year end was £341,882,435 (2019: £259,157,000). This calculation has been done using a commercial rate of interest at the reporting date. The carrying value includes a provision of £32,857 (2019: £54,000) following a calculation of impairment using IFRS 9 methodology, calculating exposure at default (assuming interest is rolled up as a result of missed payments), probability of default (determined using external default tables) and loss given default.

Refer to note 15 for a review of impairment.

## 10 LOAN ASSETS (continued)

The weighted average of interest receivable by the Company in respect of these loans is 3.49% per annum (£10,919k). The loan is made up as follows:

	£'000
Gross amount	316,660
Issue cost recharges	(2,326)
Impairment	(33)
Loan interest accrued	1,335
Carrying value	<u>315,636</u>

## 11 OTHER FINANCIAL ASSETS

Trade and other receivables:

	Note	31 March 2020 £'000	31 March 2019 £'000
Trade receivables		53	3
Other debtors		-	4
Prepayments and accrued income		350	124
Deferred tax asset	12	197	150
		<u>600</u>	<u>281</u>

In considering the recoverability of a trade receivable the company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date.

Cash and cash equivalents:

	31 March 2020 £'000	31 March 2019 £'000
Bank balances and cash	1,903	2,347
Cash and cash equivalents	<u>1,903</u>	<u>2,347</u>

Cash and cash equivalents comprise cash and short term deposits with an original maturity of three months or less.

Bank balances earn interest at floating rates depending on daily bank deposit rates. Short term deposits are made for varying periods of between one week and three months depending on the immediate cash requirements of the company and earn interest at the respective short term deposit rates.

## 12 DEFERRED TAX ASSETS

Deferred tax assets and liabilities are attributable to the following:

	Assets 31 March 2020 £'000		Assets 31 March 2019 £'000
Tax losses and other deductions	197		150
Tax assets / (liabilities)	<u>197</u>		<u>150</u>
	1 April 2019 £'000	Recognised in income £'000	31 March 2020 £'000
Tax losses and other deductions	150	47	197
	<u>150</u>	<u>47</u>	<u>197</u>

## 13 OTHER FINANCIAL LIABILITIES

Trade and other payables:

	31 March 2020 £'000		31 March 2019 £'000
Trade payables	66		36
Accruals	420		559
Other creditors	114		1
	<u>600</u>		<u>596</u>

Trade payables comprise amounts outstanding for trade purchases.

All financial liabilities are included in other financial liabilities at amortised cost.

## 14 NON-CURRENT LIABILITIES

	31 March 2020 £'000		31 March 2019 £'000
EMTN	300,584		258,691
SSD	10,943		
CoCo	3,269		
	<u>314,796</u>		<u>258,691</u>

## 14 NON-CURRENT LIABILITIES (continued)

## European Medium Term Notes:

On 31 October 2019 the company issued £38,600,000 due 2038 secured by a first floating charge on the Issuer's undertaking, property and assets. The proceeds received were £42,227,804, including premium. Interest on the 3.4% bond is payable twice a year, on 19 August and 19 February in arrears. Interest totalling £132,078 has been accrued.

On 19 November 2019 the company issued £11,900,000 due 2038 secured by a first floating charge on the Issuer's undertaking, property and assets. The proceeds received were £12,606,296, including premium. Interest on the 3.4% bond is payable twice a year, on 19 August and 19 February in arrears. Interest totalling £42,467 has been accrued. On the £250,000,000 issued in the prior period, interest of £724,527 has accrued.

## Second Secured Notes:

On 31 October 2019 the company issued £500,000 5.076% Second Secured Notes due 5 March 2038 secured by a second floating charge on the Issuer's undertaking, property and assets. The proceeds received were £536,333 including premium. Interest on the notes is payable twice a year, on 19 August and 19 February in arrears. Interest totalling £2,064 has been accrued.

On 19 November 2019 the company issued £437,500 5.076% Second Secured Notes due 5 March 2038 secured by a second floating charge on the Issuer's undertaking, property and assets. The proceeds received were £461,675 including premium. Interest on the notes is payable twice a year, on 19 August and 19 February in arrears. Interest totalling £1,831 has been accrued. On the £10,000,000 issued in the prior period, interest of £42,542 has accrued.

## Contingent Convertible Debt:

The proceeds of the European Medium Term Notes and Second Secured Notes (net of fees and expenses) were lent to housing associations ('Housing Association Loan' - see Note 10) at the point of issue. At the same time each housing association lent 1.15% of its Housing Association Loan to the company under a contingent convertible loan (CoCo) agreement. Interest of 5% on the CoCo loans is normally payable by the company on 19 August and 19 February in arrears. There are provisions in the CoCo loan agreement to suspend interest payments or convert the loan to equity under certain circumstances. Interest totalling £19,171 has been accrued. Of the total amount issued of £3,593,750 (2019: £2,990,000), £343,801 (2019: £286,000) has been reflected within equity.

Bonds are shown net of debt issue costs of £2,772,000 (2019: £2,417,000).

The carrying amount of the EMTN is lower than the fair value of the bonds, the fair value being £325,500,000 at the period end date (2019: £250,000,000). The carrying value of the Second Secured Notes is lower than the fair value being £13,181,000 at the period end date (2019: £10,000,000). The fair value has been calculated using the market value at the reporting date. The fair value of Contingent Convertible Debt remains unchanged.

	31 March 2020 %	31 March 2019 %
The weighted average interest rates paid were:		
European Medium Terms Notes	3.359	3.476
Second Secured Notes	5.032	5.076
Contingent Convertible Debt	<u>5.000</u>	<u>5.000</u>

## 15 FINANCIAL INSTRUMENTS

The carrying amounts of the company's financial instruments at the end of the period were:

	31 March 2020 £'000	31 March 2019 £'000
Financial assets measured at amortised cost		
Loan assets	315,636	259,157
Trade receivables	53	3
Other debtors	0	4
Cash and cash equivalents	1,903	2,347
	<u>317,592</u>	<u>261,511</u>
Financial liabilities measured at amortised cost		
Trade payables	66	36
Accruals	420	559
Other creditors	114	1
Borrowings	314,796	258,691
	<u>315,396</u>	<u>259,287</u>

*Financial risk management objectives*

The company manages its capital to ensure the company will be able to continue as a going concern. The capital structure of the company consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital and accumulated losses. The main purpose of these financial instruments is to manage the liquidity needs of the business operations. The company has various other financial instruments such as trade debtors and trade creditors, which arise directly from operations.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the company and appropriate procedures, controls and risk limits. Finance identifies, evaluates and manages financial risks within the entity's operating units.

*Interest rate risk*

Interest rate risk is the risk that future cashflows of a financial instrument will fluctuate because of changes in market interest rates. The company's principal financial liability comprises secured Sterling bonds. Since the interest rate on the secured bonds and on the loan assets is fixed, the company is not exposed to any significant interest rate risk.

*Liquidity risk management*

Ultimate responsibility for liquidity risk management rests with the Board of directors, which regularly reviews the status of going concern at each meeting, acting appropriately. Vigilant liquidity risk management requires the entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

## 15 FINANCIAL INSTRUMENTS (Continued)

Financial assets analysed by remaining contractual maturity are as follows:

	Cash and cash equivalents	Loan assets	Trade and other receivables	Total
	£'000	£'000	£'000	£'000
<b>2020</b>				
Less than 1 year	1,903	1,335	53	3,291
1 – 3 years	-	-	-	0
3 – 5 years	-	-	-	0
Over 5 years	-	314,301	-	314,301
Balance at 31 March 2020	<u>1,903</u>	<u>315,636</u>	<u>53</u>	<u>317,592</u>
	Cash and cash equivalents	Loan assets	Trade and other receivables	Total
	£'000	£'000	£'000	£'000
Less than 1 year	2,347	1,047	7	3,401
1 – 3 years	-	-	-	-
3 – 5 years	-	-	-	-
Over 5 years	-	258,110	-	258,110
Balance at 31 March 2019	<u>2,347</u>	<u>259,157</u>	<u>7</u>	<u>261,511</u>

Financial liabilities analysed by remaining contractual maturity are as follows:

	Borrowings	Trade and other payables	Total
	£'000	£'000	£'000
Less than 1 year	1,229	600	1,829
1 – 3 years	-	-	-
3 – 5 years	-	-	-
Over 5 years	313,568	-	313,568
Balance at 31 March 2020	<u>314,797</u>	<u>600</u>	<u>315,292</u>
	Borrowings	Trade and other payables	Total
	£'000	£'000	£'000
Less than 1 year	1,029	596	1,625
1 – 3 years	-	-	-
3 – 5 years	-	-	-
Over 5 years	257,662	-	257,662
Balance at 31 March 2019	<u>258,691</u>	<u>596</u>	<u>259,287</u>

## 15 FINANCIAL INSTRUMENTS (Continued)

Gross undiscounted cash flows analysed by maturity are as follows:

	Borrowings £'000	Trade and other payables £'000	Total £'000
Less than 1 year	10,934	600	11,534
1 – 3 years	21,868	-	21,868
3 – 5 years	21,868	-	21,868
Over 5 years	453,580	-	453,580
Balance at 31 March 2020	508,250	600	508,850

	Borrowings £'000	Trade and other payables £'000	Total £'000
Less than 1 year	9,157	596	9,753
1 – 3 years	18,314	-	18,314
3 – 5 years	18,314	-	18,314
Over 5 years	390,937	-	390,937
Balance at 31 March 2019	436,722	596	437,318

*Credit risk*

The company has a robust approval and monitoring process in place for credit allocation to ensure a fair and equitable platform for housing associations. The level of credit granted is based on the customer's risk profile. Given the company's customer base, credit risk is generally low.

The maximum exposure to credit risk will be the gross amounts net of any impairment losses.

The risk that counterparties will fail to settle amounts due to the company predominantly arises from loan assets, trade receivables, other receivables and cash and cash equivalents.

The primary credit risk relates to Housing Associations which have amounts due outside of their credit terms. The risk is mitigated by security against the Housing Association's assets. Housing Associations are given up to 12 months (2019: 24 months) from the date of borrowing to put security in place.

Company policy is to assess the credit quality of each Housing Association internally before accepting any terms of trade. Internal procedures take into account the Housing Association's financial position as well as their reputation within the industry.

The Board via its Credit Committee monitors the default risk on its loans. Individual borrowers are credit assessed before they borrow using our own specially developed credit model which uses historic data and forecast financial projections, which are based on data supplied to the Regulator of Social Housing. Our model attributes a 'Lending Level' to each borrower based on 8 metrics averaged over a 10 year forward and backward time horizon.

At the end of the period the split of the loans by borrowing lending level was as follows

	Carrying value 2020	Carrying value 2019	Concentration 2020	Concentration 2019
Level 1	£Nil	£Nil	0%	0%
Level 2	£207.5m	£137.5m	66%	53%
Level 3	£105m	£122.5m	34%	47%
Level 4	£Nil	£Nil	0%	0%
Level 5 (Fail)	£Nil	£Nil	0%	0%

## 15 FINANCIAL INSTRUMENTS (Continued)

Based on a sample of our credit cleared borrowers and potential borrowers who are also publicly rated: Level 1 is broadly equivalent to Moody's rating A1; Level 2 is broadly equivalent to Standard and Poors rating A+ and to Moody's A2. Level 3 is broadly equivalent to Standard and Poors rating A and Moody's A3.

The Credit Committee also monitors the spread of risk across geographical area and size of organisation. Under the terms of the loan agreement borrowers are required to provide information which is monitored by the Credit Committee, including the following:

- Quarterly management accounts
- Annual published accounts
- Business plan and updated credit model annually and any time if a material change has occurred which might give rise to a change in their Lending Level.

The loan documentation enables the company to call for cash in an interest reserve account if borrowers exceed their borrowing limit as a result of weakening of their credit status.

*Determination of credit-impaired financial assets*

When an event has occurred, which has a detrimental impact on the estimated future cash flows, the financial asset becomes 'credit-impaired' and the expected credit losses are measured as the difference between the carrying amount (before any loss allowance) and the present value of estimated future cash flows discounted at the original effective interest rate. In addition, the 'effective interest rate' is applied to the carrying amount of the financial asset net of any loss allowance, rather than the carrying amount before any loss allowance. There are not currently any assets classed as credit-impaired (2019: Nil).

*Maximum exposure to credit risk on financial assets*

The company considers the maximum exposure to credit risk (ignoring collateral or other credit enhancements) on the financial assets as set out below.

Maximum exposure:	31 March 2020 £'000	31 March 2019 £'000
Financial assets measured at amortised cost:		
Loan assets	315,636	259,157
Trade receivables	53	3
Other debtors	-	4
Cash and cash equivalents	1,903	2,347
	<u>317,592</u>	<u>261,511</u>

## 15 FINANCIAL INSTRUMENTS (Continued)

*Impairment of financial assets*

The company's credit risk management practices and how they relate to the recognition and measurement of expected credit losses is set out below.

*Impairment of trade receivables*

The company calculates lifetime expected credit losses for trade receivables using an individual receivable approach. The probability of default is determined at the year-end based on the aging of the receivables and historical data about default rates. The data is adjusted if the company determines that historical data is not reflective of expected future conditions due to changes in the nature of its customers and how they are affected by external factors such as economic and market conditions.

The company considers that the loss rate on all trade receivables is negligible

*Write-off policy*

Receivables are written off by the company when there is no reasonable expectation of recovery, such as when the counterparty is known to be going bankrupt or into liquidation or administration. Receivables will also be written off when the amount is more than 300 days past due and is not covered by security over the assets of the counterparty or a guarantee.

*Definition of default*

The loss allowance on all financial assets is measured by considering the probability of default.

Receivables are considered to be in default when the principal or any interest is past due unless otherwise agreed with the lender, based on an assessment of the likelihood of such overdue amounts being recovered.

The company considers financial assets to be 'credit-impaired' when the following events, or combinations of several events, have occurred before the year-end:

- Significant financial difficulty of the counterpart arising from significant downturns in operating results and/or significant unavoidable cash requirements when the counterparty has insufficient finance from internal working capital resources, external funding and/or group support;
- A breach of contract, including receipts being past due without prior agreement;
- It becoming probable that the counterpart will enter bankruptcy or liquidation

*Assessing significant increases in credit risk*

The company undertake the following procedures to determine whether there has been a significant increase in the credit risk of its other receivables, since their initial recognition. Where these procedures identify a significant increase in credit risk, the loss allowance is measured based on the risk of a default occurring over the expected life of the instrument rather than considering only the default events expected within 12 months of the year-end.

The company determines that credit risk has increased significantly when:

- A significant downgrade in the credit rating of the borrower has occurred or is expected;
- Significant declines in the borrower revenue or increases in its borrowings, or significant working capital deficiencies have occurred or are expected
- Market conditions have, or are expected to, significantly affect the borrower's access to external financing;
- New commercial developments or market conditions have, or are expected to have, a significant detrimental effect on occupancy levels of properties held by the borrower or;
- An actual expectation of significant changes in the quality of guarantees or security provided to the company or reductions in financial support from the owners of the borrower.

## 15 FINANCIAL INSTRUMENTS (Continued)

A significant increase in credit risk is presumed when returns of principal or interest on an investment are more than 30 days overdue, unless payments are late as a result of an administrative oversight. Based on the nature of payments and loan structure the rebuttable backstop in IFRS 9 of 30 days past due for SICR has been rebutted. No assets are considered to have experienced a significant increase in credit risk as at the period end.

*Impairment (losses)/ gains on financial instruments*

Impairment (losses)/gains comprises:

	31 March 2020 £'000	31 March 2019 £'000
Impairment losses on financial assets measured at amortised cost:		
Loan assets	<u>(21)</u>	<u>54</u>

## 15 FINANCIAL INSTRUMENTS (Continued)

*Loss allowances on financial assets*

The gross carrying amounts of the company's financial assets at 31 March by credit risk rating grade (based on the risk of a default occurring) is set out below.

## Loss allowance based on '12 month expected credit losses'

	Loan assets	Trade receivables	Other debtors	Prepayments and accrued income
	£'000	£'000	£'000	£'000
Performance:				
Performing	315,636	53	-	350
Under-performing	-	-	-	-
Non-performing	-	-	-	-
Total gross carrying amount at 31 March 2020	<u>315,636</u>	<u>53</u>	<u>-</u>	<u>350</u>

	Loan assets	Trade receivables	Other debtors	Prepayments and accrued income
	£'000	£'000	£'000	£'000
Performance:				
Performing	259,211	3	4	124
Under-performing	-	-	-	-
Non-performing	-	-	-	-
Total gross carrying amount at 31 March 2019	<u>259,211</u>	<u>3</u>	<u>4</u>	<u>124</u>

15	FINANCIAL INSTRUMENTS (Continued)			
	Probability of default (before provision):			
	0.03%	49,896	-	-
	0.05%	190,318	-	-
	0.06%	75,422	53	-
	Total gross carrying amount at 31 March 2020	315,636	53	-
				350
	Probability of default (before provision):			
	0.03%	49,848	-	-
	0.04%	29,909	-	-
	0.05%	179,454	3	4
	Total gross carrying amount at 31 March 2019	259,211	3	4
				124

A reconciliation of changes in the loss allowances on the company's financial assets at 31 March is set out below.

	Loss allowance based on '12 month expected credit losses'			
	Loan assets	Trade receivables	Other debtors	Prepayments and accrued income
Loss allowance:	£'000	£'000	£'000	£'000
Opening balance	(54)	-	-	-
Loss allowances recognised in the period	21	-	-	-
Closing balance 2020	(33)	-	-	-

There is a reduction in loss allowance during the year following security being put in place on 96% of loan assets (2019: 0%).

All financial instruments are currently recognised as stage one instruments.

16	SHARE CAPITAL	
	31 March 2020	31 March 2019
	£'000	£'000
Authorised:		
4,948,850 ordinary shares of £0.10 each (2019: 4,650,000 of £0.10)	495	465
Allotted, issued and fully paid:		
4,948,850 ordinary shares of £0.10 each (2019: 4,650,000 of £0.10)	495	465

## 16 SHARE CAPITAL (Continued)

Movements in ordinary share capital:

	Date	Number of shares	Nominal Value	£'000
Balance brought forward	1 March 2018	1	£1.00	-
Issue of shares	31 March 2018	260,000	£1.00	260
Issue of shares	19 April 2018	400,000	£1.00	400
Reduction of share capital	26 April 2018			(594)
Issue of shares	14 May 2018	160,000	£0.10	16
Issue of shares	31 July 2018	160,000	£0.10	16
Issue of shares	31 August 2018	60,000	£0.10	6
Issue of shares	30 September 2018	60,000	£0.10	6
Issue of shares	31 October 2018	80,000	£0.10	8
Issue of shares	2 November 2018	20,000	£0.10	2
Issue of shares	11 February 2019	850,000	£0.10	85
Issue of shares	19 February 2019	2,600,000	£0.10	260
Issue of shares	25 October 2019	16,000	£0.10	2
Issue of shares	06 November 2019	200,000	£0.10	20
Issue of shares	19 November 2019	62,500	£0.10	6
Issue of shares	10 February 2020	20,000	£0.10	2
				495

The shares have full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

*Capital risk management*

The company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

## 17 RESERVES

*Share premium*

Consideration received for shares issued above their nominal value net of transaction costs.

*Contingent convertible notes*

The contingent convertible note reserve represents the equity element of compound financial instruments.

*Retained earnings*

Cumulative profit and loss net of distributions to owners.

## 18 NOTES TO THE STATEMENT OF CASH FLOWS

	31 March 2020 £'000	31 March 2019 £'000
<b>Continuing operations</b>		
Loss before tax	(163)	(730)
Adjustments for:		
Depreciation	1	1
Interest payable	10,052	1,058
Interest receivable	(10,410)	(1,055)
Gain / Loss on disposal of tangible assets	1	
Tax credit	(47)	(150)
Impairment expense	(21)	54
Loan asset recharges	508	(105)
Bond issuance and programme costs	(360)	(2,446)
Loan interest received	10,129	
Increase in receivables	(271)	(131)
Increase in payables	(4)	596
Net cash used in operating activities	<u>9,415</u>	<u>(2,908)</u>

Cash and cash equivalents (which are presented as a single class of assets on the face of the Statement of Financial Position) comprise cash at bank and other short term highly liquid investments with a maturity of 3 months or less.

## 19 RELATED PARTY TRANSACTIONS

	Interest income 2020 £'000	Other income 2020 £'000	Interest income 2019 £'000	Other Income 2019 £'000
<b>Transactions with related parties:</b>				
Housing Associations with joint control	<u>10,410</u>	<u>432</u>	<u>1,055</u>	<u>117</u>

**Amount due from related parties:**

	Loans £'000	Interest accrued £'000	Total £'000
<b>2020</b>			
Housing Associations with joint control	<u>314,300</u>	<u>1,247</u>	<u>315,547</u>

**Amount due to related parties:**

	Loans £'000	Interest accrued £'000	Total £'000
Housing Associations with joint control	<u>3,250</u>	<u>19</u>	<u>3,269</u>

## 19 RELATED PARTY TRANSACTIONS (Continued)

<b>Amount due from related parties:</b>	Loans	Interest	Total
<b>2019</b>	£'000	accrued £'000	£'000
Housing Associations with joint control	<u>258,102</u>	<u>1,055</u>	<u>259,157</u>
<b>Amount due to related parties:</b>	Loans	Interest	Total
	£'000	accrued £'000	£'000
Housing Associations with joint control	<u>2,704</u>	<u>17</u>	<u>2,721</u>

## 20 POST BALANCE SHEET EVENTS

On 15th April 2020 the Company lent £35m made up of £25m for Thrive Homes and £10m for Melin Homes with an interest rate of 3.594%.

**European Medium Term Notes**

The majority of the funds were raised by a tap to the existing EMTN maturing 2038 being £3,340,000 to bring to the total issued to £334,000,000. The bond was issued at a price of 105.309% an all-in yield of 3.01%.

**Second Secured Debt**

A further £1,225,000 was raised through the second secured notes due 5 March 2038.

**CoCo**

In line with the existing issues, both Thrive and Melin lent 1.15% of its Housing Association Loan to the company under a contingent convertible loan (CoCo) agreement. Interest of 5% is due on the CoCo loans. The total amount of the CoCo was £403,000