MOR

MORhomes PLC

HALF YEARLY
FINANCIAL REPORT
(UNAUDITED)

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2020

Registered office and headquarters:
Future Business Centre, Kings Hedges Rd,
Cambridge CB4 2HY

Company Registration No. 10974098

Contents

Officers	**2**
Interim Management Report	**3**
Statement of responsibilities	**7**
Primary Unaudited Statements	
Interim Condensed Statement of Comprehensive Income	**8**
Interim Condensed Statement of Changes in Equity	**9**
Interim Condensed Statement of Cash Flow	**10**
Interim Condensed Statement of Financial Position	**11**
Notes to the Interim Financial Statements	**12**

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

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Cambridge CB4 2HY

AUDITOR

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INTERIM MANAGEMENT REPORT

REVIEW OF THE PERIOD

We started the financial year with the UK in a period of lockdown resulting from Covid-19. Notwithstanding the lockdown, further issuance of debt in the market and on-lending of £35m to two Housing Associations was completed in the first half of April 2020. This demonstrates very clearly the strength and resilience of the MORhomes business model. The business is fully digital, and as such there has been little or no operational impact. We have neither sought nor required any Covid-related support from government, and there has been no use of furlough.

In addition, we have maintained on-going dialogue with and received regular financial reporting from all our borrowers, including receiving business plan updates three months before the regulator's own deadline. 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, with borrower liquidity increasing materially since lockdown. In addition, it has reinforced our view of the relative strength of our own borrowers specifically, with the credit scores we give to borrowers remaining broadly stable, and with all payments continuing to be made by borrowers well in advance of our own interest payment date. When compared to English Housing Association peers[1], our borrowers are showing:

- Stronger than average liquidity, and getting stronger;
- Significantly greater interest cover than average, and increasing more than average; and
- Far less impact from sales activity than average.

Despite the pandemic, we have started to see the benefit of the investments we have made in strengthening the executive team with two new appointments around the start of the year. Although lockdown led to a short-term hiatus in borrowing by Housing Associations, we have seen a significant turnaround in recent months. Between July and September we:

- Credit-rated a further 4 potential borrowers;
- Put in place another 5 Standby Liquidity Agreements[2]; and
- Priced another £30m loan for a new borrower, Origin Housing.

This increased level of new business has continued since the end of the half-year (see Post Balance Sheet Events below).

The financial result for the half year was a loss of £126k (2019: £78k loss). This reflects the investment we are making to grow the business, and is in line with budget. Net interest income increased by 68% over prior year driven principally by growth in lending, offset by the cost of the two new appointments referenced above. By raising debt and on-lending at an interest rate that includes an intermediation fee we are establishing a regular source of income for the life of the bond which has almost 18 years remaining, and this will only increase as we increase our loan book. There has also been a small additional impairment provision made which is broadly in line with growth in the loan book, along with the application of probability-weighted macroeconomic scenarios.

MORhomes' financial structure means that we have established a strong financial position, and are strengthening that further with every new loan we extend. Notwithstanding incurring a loss for the half year, as at September 2020 shareholders' funds had actually increased to £2.8m (March 2020: £2.7m). The Company also benefits from £3.6m (March 2020: £3.3m) of contingent convertible loans provided by borrowers which are classified as liabilities but which convert to equity under certain circumstances. In combination, this provides stronger equity as a percentage of loans than our sector peers.

[1] Source: Quarterly returns to the Regulator of Social Housing by regulated English Housing Associations
[2] A Standby Liquidity Agreement' is an arrangement whereby a potential borrower gets all its documentation ready so it can borrow at very short notice. MORhomes charges a fee for this service so it is both a significant source of income and strong indicator of potential future loans.

The cash position has also strengthened with £2.1m in cash at the end of the period (March 2020: £1.9m). Bond and other interest liabilities are matched by corresponding interest due from borrowers. Standby liquidity facilities of £20m (March 2020: £20m) are in place and undrawn which represents around 1.5 years' interest payment liabilities. In combination this provides stronger liquidity than our sector peers.

Looking forwards, the priority for H2 is to continue to grow lending volume as that leads to a virtuous circle, reinforcing our credit rating, making us more attractive to investors, which in turn narrows spreads and makes us more attractive to borrowers.

RISK MANAGEMENT AND PRINCIPAL RISKS

The Board has established an effective framework of risk management, details of which were set out in the March 2020 Report and Financial Statements.

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

Principal risks	Management of risks
Inability to meet loan book targets due to lack of borrowing demand from housing associations including due to changes in their business plans, market/ political conditions, competition from alternative sources of funding, or price competitiveness	Marketing; contingency plans to ensure that costs can be met from assured income
Credit risk on individual borrowers and housing association sector	Credit policy including exposure limits; credit management and monitoring process, including regular review of the impact of Covid-19; capital structure to withstand losses.
Operational risks including control over cash and payments and meeting bond obligations	Operating manual which defines all key controls and relevant procedures in place; accounting functions outsourced to reputable firm (Allia Bond Services Ltd).

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 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	• 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, as well as subsequent issuance twice in October 2020. 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. • The Company has 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 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.

RELATED PARTY TRANSACTIONS

The related parties transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period are shown in note 5 to the financial statements;

There are no changes in the related parties transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

POST BALANCE SHEET EVENTS

Since the end of the half-year, in October we:

- Credit-rated a further potential borrower, bringing the total we have credit-rated to 39;
- Put in place 2 more Standby Liquidity Agreements, bringing the total taken out to date to 18;
- Enabled drawdown of the £30m loan priced in September; and
- Priced and enabled drawdown of another £30m loan to another new borrower, Eastlight Community Homes.

At the date of approval of these interim financial statements we have £407.5m of loan balances through 17 loans made to 16 different borrowing entities at 14 different groups.

Further details of the two new loans drawn down in October are provided in note 6.

In December our credit rating was also reaffirmed by S&P in its regular annual review.

Signed on behalf of the Board

Neil John Hadden
Chair

2nd December 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE INTERIM MANAGEMENT REPORT AND THE FINANCIAL STATEMENTS

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.

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IFRS as adopted by the EU

- the interim management report includes a fair review of the information required by:

a. DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

b. DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the Board

Neil John Hadden
Chair

2nd December 2020

	Note	6 months ended 30 September 2020 (unaudited) £'000	6 months ended 30 September 2019 (unaudited) £'000	Year ended 31 March 2020 (audited) £'000
Interest income recognised using the EIR method		6,246	4,865	10,410
Interest expense		(6,029)	(4,736)	(10,052)
Net interest income		217	129	358
Other income		131	165	432
TOTAL INCOME		348	294	790
Impairment (expense)/gain		(6)	-	21
Operating expenses		(498)	(388)	(974)
LOSS BEFORE TAXATION		(156)	(94)	(163)
Income tax		29	16	47
LOSS FOR THE PERIOD		(127)	(78)	(116)

	Note	Share capital £'000	Share Premium £'000	Contingent convertible notes £'000	Retained Earnings £'000	Total equity £'000
BALANCE AT 1 APRIL 2020 (audited)		495	2,159	344	(252)	2,746
Shares issued in year		17	157			174
Issue of contingent convertible notes				37		37
Loss for the period					(127)	(127)
BALANCE AS AT 30 SEPTEMBER 2020 (unaudited)		512	2,316	381	(379)	2,830
BALANCE AS AT 1 APRIL 2019 (audited)		465	1,886	286	(136)	2,501
Shares issued in year						
Issue of contingent convertible notes						
Loss for the period					(79)	(79)
BALANCE AS AT 30 SEPTEMBER 2019 (unaudited)		465	1,886	286	(215)	2,422
BALANCE AS AT 1 APRIL 2019 (audited)		465	1,886	286	(136)	2,501
Shares issued in year		30	273			303
Issue of contingent convertible notes				58		58
Loss for the period					(116)	(116)
BALANCE AS AT 31 MARCH 2020 (audited)		495	2,159	344	(252)	2,746

	Note	Six months ended 30 September 2020 (unaudited)	Six months ended 30 September 2019 (unaudited)	Year ended 31 March 2020 (audited)
		£'000	£'000	£'000
NET CASH FLOW FROM OPERATING ACTIVITES				
Cash generated from operating activities	5	5,851	4,404	9,415
Interest Paid		(6,072)	(4,576)	(10,036)
Net cash in operating activities		(221)	(172)	(621)
INVESTING ACTIVITES				
Payments to acquire property, plant and equipment		(3)	0	(2)
Loans advanced		(36,600)	0	(56,660)
Net cash used in investing activities		(36,603)	0	(56,662)
FINANCING ACTIVITIES				
Proceeds from issue of shares		174	0	303
Receipt of bonds proceeds		36,875	0	56,536
Net cash generated from financing activities		37,049	0	56,839
MOVEMENT IN CASH AND CASH EQUIVALENTS		225	(172)	(444)
Cash and cash equivalents at beginning of period		1,903	2,347	2,347
Cash and cash equivalents at end of period		2,128	2,175	1,903

	Note	30 September 2020 (unaudited) £'000	30 September 2019 (unaudited) £'000	30 March 2020 (audited) £'000
NON-CURRENT ASSETS				
Property, plant and equipment		5	3	3
Loan assets		350,649	258,131	314,301
		350,654	258,134	314,304
CURRENT ASSETS				
Trade and other receivables		619	317	600
Cash and cash equivalents		2,128	2,175	1,903
Loan assets		1,650	1,101	1,335
		4,397	3,593	3,838
TOTAL ASSETS	3	355,051	261,727	318,142
CURRENT LIABILITIES				
Trade and other payables		(643)	(505)	(600)
Bond Liabilities		(1,591)	(1,088)	(1,231)
		(2,234)	(1,593)	(1,831)
NON-CURRENT LIABILITIES				
Bond liabilities		(349,987)	(257,713)	(313,565)
		(349,987)	(257,713)	(313,565)
TOTAL LIABILITIES	3	(352,221)	(259,306)	(315,396)
NET ASSETS		2,830	2,422	2,746
EQUITY				
Share capital		512	465	495
Share premium		2,316	1,886	2,159
Contingent convertible notes		381	286	344
Retained earnings		(379)	(215)	(252)
TOTAL EQUITY		2,830	2,422	2,746

Neil John Hadden
Chair

2nd December 2020

1. The financial statements and the half-yearly financial report have not been audited

2. BASIS OF PREPERATION & STATUTORY ACCOUNTS

Basis of preparation
The interim condensed financial statements for the six months ended 30 September 2020 have been prepared using accounting policies consistent with IFRS as adopted by the European Union. The financial information has been prepared on the basis of IFRS that the Directors expect to be adopted by the European Union and applicable as at 31 March 2021. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the company's annual financial statements for the year ended 31 March 2020.

The financial statements have been prepared under the historical cost convention.

The condensed set of interim financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting.

Statutory accounts
The financial information for the six months ended 30 September 2020 and 30 September 2019 is unaudited and has not been subject to review in accordance with International Standards on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

Going Concern
The company has made a loss before taxation for the period of £156k (2019: £94k), this includes interest income of £6,246k (2019: £4,865k) and interest expense of £6,029k (2019: £4,736k). The company has a deficit on the profit and loss reserve of £379k (2019: £252k). Cash and cash equivalents amount to £2,128k (2019: £2,175k). 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. 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.

3. ASSETS AND LIABILITIES

The carrying amounts of the company's assets and liabilities at the end of the period were:

	30 September 2020	30 September 2019	31 March 2020
	£'000	£'000	£'000
ASSETS	(unaudited)	(unaudited)	(audited)
Property, plant and equipment	5	3	3
Loan assets	352,299	259,232	315,636
Trade receivables	42	5	53
Other debtors	-	-	-
Prepayments and accrued income	352	146	350
Deferred tax asset	225	166	197
Cash and cash equivalents	2,128	2,175	1,903
	355,051	261,727	318,142
LIABILITIES			
Trade payables	64	43	66
Accruals	415	461	420
Other creditors	164	1	114
Bond Liabilities	351,578	258,801	314,796
	352,221	259,306	315,396

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 **Sept 2020 (Unaudited)**	Carrying Value Sept 2019 (Unaudited)	Carrying Value March 2020 (audited)	Concentration **Sept 2020 (Unaudited)**	Concentration Sept 2019 (Unaudited)	Concentration March 2020 (audited)
Level 1	£Nil	£Nil	£Nil	0%	0%	0%
Level 2	£207.5m	£167.5m	£207.5m	60%	64%	66%
Level 3	£110m	£92.5m	£105m	31%	36%	34%
Level 4	£30m	£Nil	£Nil	9%	0%	0%
Level 5	£Nil	£Nil	£Nil	0%	0%	0%

Lending

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 £33,400,000 to bring the total issued to £333,900,000. The bond was issued at a price of 105.309%, an all-in yield of 3.01%.

Second Secured Debt

£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.

4. RELATED PARTY TRANSACTIONS

	Interest income	Other income	Interest income	Other income	Interest income	Other income
	(Unaudited)		(Unaudited)			(Audited)
	Sep 2020	Sep 2020	Sep 2019	Sep 2019	Mar 2020	Mar 2020
Transactions with related parties:	£'000	£'000	£'000	£'000	£'000	£'000
Housing associations with joint control	6,246	131	4,865	165	10,410	432

Amount due from related parties:	Loans	Interest accrued	Total
September 2020	£'000	£'000	£'000
(Unaudited)			
Housing Associations with joint control	350,649	1,650	352,299

Amount due to related parties:	Loans	Interest accrued	Total
September 2020	£'000	£'000	£'000
(Unaudited)			
Housing Associations with joint control	3,613	26	3,639

Amount due from related parties:	Loans	Interest accrued	Total
September 2019	£'000	£'000	£'000
(Unaudited)			
Housing Associations with joint control	258,101	1,131	259,232

Amount due to related parties:	Loans	Interest accrued	Total
September 2019	£'000	£'000	£'000
(Unaudited)			
Housing Associations with joint control	2,647	75	2,722

Amount due from related parties:	Loans	Interest accrued	Total
March 2020	£'000	£'000	£'000
(Audited)			
Housing Associations with joint control	314,300	1,247	315,547

Amount due to related parties:	Loans	Interest accrued	Total
March 2020	£'000	£'000	£'000
(Audited)			
Housing Associations with joint control	3,250	19	3,269

Material related party transactions
During the period, the Company lent £35m made up of £25m for Thrive Homes and £10m for Melin Homes with an interest rate of 3.594%.

5. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATIONS

	Six months ended 30 September 2020 £'000 (unaudited)	Six months ended 30 September 2019 £'000 (unaudited	Year ended 31 March 2020 £'000 (audited)
Continuing operations			
Loss before tax	(156)	(78)	(163)
Adjustments for:			
Depreciation	1	-	1
Interest payable	6,029	4,736	10,052
Interest receivable	(6,246)	(4,865)	(10,410)
Gain/Loss on disposal of tangible assets	-	-	1
Tax credit	(30)	(16)	(47)
Impairment expense	6	-	(21)
Loan asset recharges	315	-	508
Bond issuance and programme costs	(260)	-	(360)
Loan interest received	6,168	4,754	10,129
Increase in receivables	(19)	(36)	(271)
Increase in payables	43	(91)	(4)
Net cash used in operating activities	5,851	4,404	9,415

6. POST BALANCE SHEET EVENTS

Lending

On 2nd October 2020 the Company lent £30m to Origin Housing with an interest rate of 3.619%.

On 26th October 2020 the Company lent £30m to Eastlight Community Homes with an interest rate of 3.594%.

European Medium Term Notes

The majority of the funds were raised by taps to the existing EMTN maturing 2038 being £28,600,000 on the 2nd October and £28,600,000 on the 26th October to bring the total issued to £391,100,000.

The first tap was issued at a price of 114.709%, an all-in yield of 2.389%.

The second tap was issued at a price of 111.124%, an all-in yield of 2.629%.

Second Secured Debt

£1,050,000 was raised on the 2nd October through the second secured notes due 5 March 2038.

A further £1,050,000 was raised on the 26th October through the second secured notes due 5 March 2038.

CoCo

Both Origin Housing and Eastlight Community Housing also lent 1.15% of their Housing Association Loans 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 £345,000 for Origin, and £345,000 for Eastlight.

Directors' Remuneration

There was a liability of £105k in relation to Directors' remuneration that had not yet become payable as at 30 September 2020. In November 2020 revised terms were agreed with the Directors and £26k was paid with the remainder of £79k no longer payable. This amount will be released to the Income Statement in H2. Directors' fees will be paid at their full contractual rates from 1 April 2021.