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MORhomes PLC

HALF YEARLY FINANCIAL REPORT (UNAUDITED)

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2022

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

Company Registration No. 10974098

Contents

DIRECTORS

N J Hadden (Chair)
M C Cooper
G L Howley
J E Pilcher
P Shorthouse (resigned 31 August 2022)
P J Symington
A Thomas
C B Tilley
R C Young (resigned 31 August 2022)

SECRETARY

A D Morton

REGISTERED OFFICE

Future Business Centre
Kings Hedges Road
Cambridge
CB4 2HY

AUDITOR

KPMG LLP
Chartered Accountants
One Sovereign Square
Sovereign Street
Leeds
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United Kingdom

INTERIM MANAGEMENT REPORT

REVIEW OF THE PERIOD

We started the financial year with Covid-19 taking a back seat to the war in Ukraine and its impact on inflation and consequently interest rates – gilt yields in the period more than doubled from around 1.8% to around 4.2%, and have increased further since then. MORhomes' borrowing and on-lending is entirely fixed-rate, so the existing loan portfolio is insulated from the vagaries of market rates. Nevertheless, in common with other lenders, the increases in gilt yields impacts significantly on the interest rate MORhomes is able to offer to new borrowers. As a result of the increase in rates there has been a very significant slowdown in borrowing by the Housing Association sector as a whole since the start of the financial year with many having locked in low long-term funding rates in the preceding 12-24 months.

Inflation and interest rates also have an effect on borrowers. When inflation was low, English Housing Associations were able to increase rents by CPI+1%, in line with a funding formula agreed with government. This gave protection against variability of costs. With inflation nudging double digits, there was a recognition in the sector that it would not be the right thing to do to be increasing social rents for the most vulnerable in society in line with the previously-agreed formula this year. The government issued a consultation on applying a rent cap, with options of 3%, 5% and 7% being consulted on. In November the government announced the outcome of its rent cap consultation with a cap set at 7%, the highest level consulted on, for one year. This gives Housing Associations most flexibility to determine the appropriate level of rent rise for their tenants. Housing Association funding tends to be skewed towards longer-term fixed-rate funding, so the increase in interest rates will affect thinking on future development and stock investment plans more than the immediate financial effect on their current business.

We have maintained on-going dialogue with and received regular financial reporting from all our borrowers, including stress tests for different levels of rent rises. 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 and financial performance through the phasing of development programmes and stock investment plans. In addition, it has reinforced our view of the relative strength of our own borrowers, with the credit scores we apply to borrowers remaining broadly stable, and with all payments continuing to be made by borrowers in advance of our own interest payment date.

The last 6 months has seen market volumes running at very reduced levels – around 25% of the levels seen in 2021. Despite the turbulence in the markets and the increasing interest rate environment, we have continued to see growth in our loan book with a further £20m of lending in H1 (2021: £nil). Following the upward revision of the outlook on our credit rating by S&P in December 2021, our price competitiveness compared to peers has shown significant improvement. We believe this improvement in relative price competitiveness leaves us better-placed to secure an increasing share of sector lending going forwards. This was demonstrated when we successfully completed issuance in very challenging market conditions in August, achieving exceptionally strong pricing including a low single digit new issue premium. At the date of approval of these interim financial statements we have made £542.4m of nominal loans (2021: £457.0m) through 23 loans (2021: 18) to 22 different borrowing entities (2021: 17) at 21 different groups (2021: 16). In H1 we also:

- Welcomed 1 new borrower (2021: nil) – Selwood Housing Society
- Credit-rated 3 new potential borrowers (2021: 7) and renewed the credit rating of 6 other potential borrowers (2021: 7); and
- Put in place 3 new Standby Liquidity Agreements[1] (2021: 2).

This new business pipeline has continued to progress since the end of the half-year.

[1] 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 source of income and an indicator of potential future loans.

The financial result for the half year was a loss of £37k (2021: £7k loss), with a 55% reduction in pre-tax loss from £109k to £49k. This principally reflects an improvement in underlying performance from growth in the business, combined with an impairment gain. Net interest income increased by 14% over prior year from £282k to £322k driven by growth in lending. 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 bonds which have a minimum of almost 16 years remaining, and this will only increase as we increase our loan book.

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 small loss for the half year, as at September 2022 shareholders' funds had actually increased slightly due to new shareholder subscriptions. The Company also benefits from £5.8m (2021: £4.8m) 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.

The cash position has strengthened from prior half-year with £3.0m in cash at the end of the period (2021: £2.7m). Bond and other interest liabilities are matched by corresponding interest due from borrowers. Standby liquidity facilities of £10m (2021: £10m) are in place and undrawn which represents substantially more than our policy of having enough liquidity to cover a year's interest on our top 3 loans. In combination this provides stronger liquidity than our sector peers.

Looking forwards, the priority for H2 is to continue to market the business proactively as borrowers are reviewing their business plans in light of the rent cap, with the aim of growing lending volume. 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 2022 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 around achievement of its strategy 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 to achievement of strategy	Management of risks
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, Brexit, climate change, interest rates and inflation; capital structure to withstand losses.
Lack of borrowing demand from housing associations including due to changes in their business plans, market conditions, and pricing / competition from alternative sources of funding	Marketing; 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); internal audit.

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 a range of 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 first 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. • 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. • In relation to inflation (including as a result of the war in Ukraine), the Company has direct control over the majority of its cost base (wages and salaries), and the fixed rate back-to-back nature of the company's lending protects it against interest rate movements. Its housing association borrowers are partially protected by the inflation-linked rent formula, though this may be subject to a cap, and by a skew towards long-term fixed rate borrowing. All the above exposures are monitored via the metrics in our credit model and taken into account in our credit assessments, with an overall stable picture experienced. 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 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 4 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 company's financial position or performance in the first six months of the current financial year.

POST BALANCE SHEET EVENTS

In December our credit rating and the outlook on it were both affirmed by S&P in its regular annual review. This is very encouraging news in light of the rating and / or outlook downgrades for peers and for around 50 individual Housing Associations in October, and is a reflection both of the growing strength and maturity of the business and of the strength of our underlying borrower portfolio. In part it also reflects the diversification of borrowers that has now been achieved which makes the company far less dependent on any single borrower, and with a risk that is a portfolio risk, distinct from the risk facing an individual Housing Association.

Signed on behalf of the Board

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Neil John Hadden
Chair

16th December 2022

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 UK-adopted international accounting standards and applicable law.

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with UK-adopted international accounting standards

- 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

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Neil John Hadden
Chair

16th December 2022

	Note	6 months ended 30 September 2022 (unaudited) £'000	6 months ended 30 September 2021 (unaudited) £'000	Year ended 31 March 2022 (audited) £'000
Interest income recognised using the EIR method		9,059	7,994	16,504
Interest expense		(8,720)	(7,712)	(15,914)
Net interest income		339	282	590
Other income		142	132	320
TOTAL INCOME		481	414	910
Impairment gain/(expense)		34	2	(41)
Operating expenses		(564)	(525)	(1,120)
LOSS BEFORE TAXATION		(49)	(109)	(251)
Income tax		12	102	138
LOSS FOR THE PERIOD		(37)	(7)	(113)

MORhomes PLC
INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
Period ended 30 September 2022

	Note	Share capital £'000	Share Premium £'000	Contingent convertible notes £'000	Retained Earnings £'000	Total equity £'000
BALANCE AT 1 APRIL 2022 (audited)		606	3,177	538	(536)	3,785
Shares issued in year		10	90	-	-	100
Issue of contingent convertible notes		-	-	4	-	4
Loss for the period		-	-	-	(37)	(37)
BALANCE AS AT 30 SEPTEMBER 2022 (unaudited)		616	3,267	542	(573)	3,852
BALANCE AS AT 1 APRIL 2021 (audited)		569	2,828	497	(423)	3,471
Shares issued in year		3	36	-	-	39
Issue of contingent convertible notes		-	-	-	-	-
Loss for the period		-	-	-	(7)	(7)
BALANCE AS AT 30 SEPTEMBER 2021 (unaudited)		572	2,864	497	(430)	3,503
BALANCE AS AT 1 APRIL 2021 (audited)		569	2,828	497	(423)	3,471
Shares issued in year		37	349	-	-	386
Issue of contingent convertible notes		-	-	41	-	41
Loss for the period		-	-	-	(113)	(113)
BALANCE AS AT 31 MARCH 2022 (audited)		606	3,177	538	(536)	3,785

	Note	Six months ended 30 September 2022 (unaudited)	Six months ended 30 September 2021 (unaudited)	Year ended 31 March 2022 (audited)
		£'000	£'000	£'000
NET CASH FLOW FROM OPERATING ACTIVITES				
Cash generated from operating activities	5	9,015	7,489	16,099
Interest Paid		(8,918)	(7,891)	(16,496)
Net cash in operating activities		97	(402)	(397)
INVESTING ACTIVITES				
Payments to acquire property, plant and equipment		-	(1)	(1)
Loans advanced		(18,630)	-	(65,959)
Net cash used in investing activities		(18,630)	(1)	(65,960)
FINANCING ACTIVITIES				
Proceeds from issue of shares		100	39	387
Receipt of bonds proceeds		18,564	-	65,812
Net cash generated from financing activities		18,664	39	66,199
MOVEMENT IN CASH AND CASH EQUIVALENTS		131	(364)	(158)
Cash and cash equivalents at beginning of period		2,875	3,033	3,033
Cash and cash equivalents at end of period		3,006	2,669	2,875

	Note	30 September 2022 (unaudited) £'000	30 September 2021 (unaudited) £'000	31 March 2022 (audited) £'000
NON-CURRENT ASSETS				
Property, plant and equipment		3	5	4
Loan assets		555,505	472,597	537,681
		555,508	472,602	537,685
CURRENT ASSETS				
Loan assets		1,520	1,300	1,186
Trade and other receivables		473	802	449
Cash and cash equivalents		3,006	2,669	2,875
		4,999	4,771	4,510
TOTAL ASSETS	3	560,507	477,373	542,195
CURRENT LIABILITIES				
Trade and other payables		(920)	(652)	(782)
Bond Liabilities		(1,439)	(1,232)	(1,423)
		(2,359)	(1,884)	(2,205)
NON-CURRENT LIABILITIES				
Bond liabilities		(554,296)	(471,986)	(536,205)
		(554,296)	(471,986)	(536,205)
TOTAL LIABILITIES	3	(556,655)	(473,870)	(538,410)
NET ASSETS		3,852	3,503	3,785
EQUITY				
Share capital		616	572	606
Share premium		3,267	2,864	3,177
Contingent convertible notes		542	497	538
Retained earnings		(573)	(430)	(536)
TOTAL EQUITY		3,852	3,503	3,785

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Neil John Hadden
Chair

16th December 2022

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 2022 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 2023. 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 2022.

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 2022 and 30 September 2021 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 £49k (2021: £109k), this includes interest income of £9,042k (2021: £7,994k) and interest expense of £8,720k (2021: £7,712k). The company has a deficit on the profit and loss reserve of £573k (2021: £430k). Cash and cash equivalents amount to £3,006k (2021: £2,669k). The company also had undrawn funding facilities totalling £10,000k (2021: £10,000k) 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 2022	30 September 2021	31 March 2022
	£'000	£'000	£'000
ASSETS	(unaudited)	(unaudited)	(audited)
Property, plant and equipment	3	5	4
Loan assets	557,024	473,897	538,867
Trade receivables	30	61	5
Other debtors	-	-	-
Prepayments and accrued income	57	403	69
Deferred tax asset	387	338	375
Cash and cash equivalents	3,006	2,669	2,875
	560,507	477,373	542,195
LIABILITIES			
Trade payables	126	57	65
Accruals	655	472	585
Other creditors	139	123	132
Bond Liabilities	555,735	473,218	537,628
	556,655	473,870	538,410

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 (2021: 12 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.

3. ASSETS AND LIABILITIES (continued)

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

	Carrying Value **Sept 2022 (Unaudited)**	Carrying Value Sept 2021 (Unaudited)	Carrying Value March 2022 (audited)	Concentration **Sept 2022 (Unaudited)**	Concentration Sept 2021 (Unaudited)	Concentration March 2022 (audited)
Level 1	**£19.3m**	£Nil	£19.3m	**4%**	0%	4%
Level 2	**£323.6m**	£272.5m	£303.6m	**59%**	60%	58%
Level 3	**£139.5m**	£124.5m	£139.5m	**26%**	27%	27%
Level 4	**£60m**	£60m	£60m	**11%**	13%	11%
Level 5	**£Nil**	£Nil	£Nil	**0%**	0%	0%

4. RELATED PARTY TRANSACTIONS

	Interest income (Unaudited) Sep 2022	Other income (Unaudited) Sep 2022	Interest income (Unaudited) Sep 2021	Other income (Unaudited) Sep 2021	Interest income (Audited) Mar 2022	Other income (Audited) Mar 2022
Transactions with related parties:	£'000	£'000	£'000	£'000	£'000	£'000
Housing associations with joint control	9,042	142	7,994	132	16,504	320

Amount due from related parties:	Loans	Interest accrued	Total
September 2022	£'000	£'000	£'000
(Unaudited)			
Housing Associations with joint control	555,505	1,519	557,024

Amount due to related parties:	Loans	Interest accrued	Total
September 2022	£'000	£'000	£'000
(Unaudited)			
Housing Associations with joint control	6,238	27	6,265

Amount due from related parties:	Loans	Interest accrued	Total
September 2021	£'000	£'000	£'000
(Unaudited)			
Housing Associations with joint control	472,597	1,300	473,897

Amount due to related parties:	Loans	Interest accrued	Total
September 2021	£'000	£'000	£'000
(Unaudited)			
Housing Associations with joint control	5,255	23	5,278

4. RELATED PARTY TRANSACTIONS (Continued)

Amount due from related parties:	Loans	Interest accrued	Total
March 2022	£'000	£'000	£'000
(Audited)			
Housing Associations with joint control	537,681	1,186	538,867

Amount due to related parties:	Loans	Interest accrued	Total
March 2022	£'000	£'000	£'000
(Audited)			
Housing Associations with joint control	6,008	27	6,035

5. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATIONS

	Six months ended 30 September 2022 £'000 (unaudited)	Six months ended 30 September 2021 £'000 (unaudited)	Year ended 31 March 2022 £'000 (audited)
Continuing operations			
Loss before tax	(49)	(111)	(251)
Adjustments for:			
Depreciation	1	1	1
Interest payable	8,720	7,712	15,914
Interest receivable	(9,042)	(7,994)	(16,504)
Tax credit	(12)	(102)	(138)
Impairment expense/(gain)	(34)	(2)	41
Loan asset recharges	229	-	742
Bond issuance and programme costs	(216)	(105)	(825)
Loan interest received	9,304	8,265	16,966
(Increase)/decrease in receivables	(24)	(184)	188
Increase/(decrease) in payables	138	9	(35)
Net cash used in operating activities	9,015	7,489	16,099