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MORhomes PLC

HALF YEARLY FINANCIAL REPORT (UNAUDITED)

FOR THE 6 MONTHS ENDED 30 SEPTEMBER 2023

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
A D Morton (appointed 1 May 2023)
J E Pilcher
P J Symington (resigned 30 April 2023)
A Thomas
C B Tilley

SECRETARY

Allia Bond Services Ltd (appointed 22 May 2023)
A D Morton (resigned 22 May 2023)

REGISTERED OFFICE

Future Business Centre
Kings Hedges Road
Cambridge
CB4 2HY

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants
7 More London Riverside
London
SE1 2RT

INTERIM BOARD REPORT

REVIEW OF THE PERIOD

We started the financial year with the war in Ukraine showing no signs of abating, and with its impact on inflation and consequently interest rates continuing to be felt. While inflation has started to fall back, it is still at elevated levels compared to the Bank of England's 2% target rate. As a consequence the Base Rate is at levels not seen for 15 years, though is not out of line with longer-term history. Inflation and interest rates 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. While inflation was 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. The government issued a consultation in 2022 on applying a rent cap, with options of 3%, 5% and 7% being consulted on. In November 2022 the government announced the outcome of its rent cap consultation with a cap set at 7%, the highest level consulted on, for one year being the current financial year. This gave Housing Associations most flexibility to determine the appropriate level of rent rise for their tenants. Their funding tends to be skewed towards longer-term fixed-rate funding, so the increase in interest rates is affecting their thinking on future development and stock investment plans as much as the immediate financial effect on their current business.

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 over the past 18 months with many having locked in low long-term funding rates in the preceding 12-24 months. Increases in gilt yields impact significantly on the interest rate MORhomes is able to offer to new borrowers, with a consequent slowdown in MORhomes lending, in common with peers and other lenders. In turn, this has led to a downward revision to the outlook on our rating with S&P in December 2023, though the rating itself was affirmed as A-. The impact on MORhomes' existing loan portfolio is minimal as borrowing and on-lending is done back-to-back, entirely fixed-rate, with MORhomes taking a small margin.

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 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 average credit score we apply to borrowers remaining in line with pre-Covid scores, and with all payments continuing to be made by borrowers in advance of our own interest payment date.

The last 18 months has seen market volumes running at very reduced levels – around a third of the levels seen in 2021 – as the sector re-phases its development plans and utilises funding drawn prior to the increase in rates. In common with peers in the market, we have therefore seen £nil of lending in H1 (2022: £20m). We also saw one borrower choose to use their excess funding to repay their MORhomes loan. Nevertheless, we are continuing to maintain price competitiveness, while offering many advantages over the competition such as speed to market. We believe this leaves us better-placed to secure an increasing share of sector lending going forwards once Housing Associations start to explore long-term capital markets funding afresh. At the date of approval of these interim financial statements we have outstanding £512.4m of nominal loans (2022: £542.4m) through 22 loans (2022: 23) to 21 different borrowing entities (2022: 22) at 20 different groups (2022: 21). We are also continuing to build our new business pipeline of opportunities, engaging with a wide range of potential borrowers.

The post-tax financial result for the half year was a profit of £1.043m (2022: £37k loss). This principally reflects a one-off post-tax profit of £891k on the loan repayment by one borrower and a one-off post-tax gain of £201k from buying back and cancelling £1.7m of bonds, combined with tight cost control. Net interest income increased by 11% over prior year from £339k to £374k driven by an increase in interest earned on cash balances. 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 15 years remaining, and this will increase as we increase our loan book.

MORhomes' financial structure means that we have established a strong financial position. As at September 2023 shareholders' funds had increased by 26% from £3.9m at the same point in 2022 to £4.9m. The Company also benefits from £5.5m (2021: £5.8m) 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 liquidity position remains strong with £3.3m across cash and gilts at the end of the period (2022: £3.0m). Bond and other interest liabilities are matched by corresponding interest due from borrowers. Standby liquidity facilities of £10m (2022: £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, with the aim of growing lending volume.

RISK MANAGEMENT AND PRINCIPAL RISKS

The Board has established an effective framework of risk management, details of which were set out in the March 2023 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 climate change, interest rates, rent cap and inflation, as well as emerging issues such as damp and mould and RAAC; regular engagement with the Regulator of Social Housing; 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).

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
Operating environment risk	Board monitors the operating environment proactively and there is regular engagement with borrowers. Principal risks typically relate to borrower credit risk, which is monitored via our credit assessments, with an overall stable picture experienced.

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.

Signed on behalf of the Board

Neil John Hadden
Chair

8th December 2023

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

8th December 2023

	Note	6 months ended 30 September 2023 (unaudited) £'000	6 months ended 30 September 2022 (unaudited) £'000	Year ended 31 March 2023 (audited) £'000
Interest income		9,173	9,059	18,391
Interest expense		(8,799)	(8,720)	(17,669)
Net interest income		374	339	722
Other income		68	142	248
TOTAL INCOME		442	481	970
Impairment reversal/(expense)		-	34	44
Operating expenses		(484)	(564)	(1,143)
NET PROFIT/(LOSS)		(42)	(49)	(129)
Gain on disposal		1,433	-	-
NET PROFIT/(LOSS) BEFORE TAX		1,391	(49)	(129)
Income tax		(348)	12	32
PROFIT/(LOSS) FOR THE PERIOD		1,043	(37)	(97)

	Note	Share capital £'000	Share Premium £'000	Contingent convertible notes £'000	Retained earnings £'000	Total equity £'000
BALANCE AT 1 APRIL 2023 (audited)		618	3,285	542	(633)	3,812
Shares issued in year		-	-	-	-	-
Issue of contingent convertible notes		-	-	-	-	-
Profit for the period		-	-	-	1,043	1,043
BALANCE AS AT 30 SEPTEMBER 2023 (unaudited)		618	3,285	542	410	4,855
BALANCE AS 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 2022 (audited)		606	3,177	538	(536)	3,785
Shares issued in year		12	108	-	-	120
Issue of contingent convertible notes		-	-	4	-	4
Loss for the period		-	-	-	(97)	(97)
BALANCE AS AT 31 MARCH 2023 (audited)		618	3,285	542	(633)	3,812

	Note	Six months ended 30 September 2023	Six months ended 30 September 2022 (restated)	Year ended 31 March 2023
		(unaudited)	(unaudited)	(audited)
		£'000	£'000	£'000
OPERATING ACTIVITES				
Net cash flow generated from operating activities	5	8,001	9,015	18,135
Interest paid		(8,747)	(8,918)	(18,511)
Bond repayments		(1,410)	-	-
Second Secured Debt proceeds		1,389	-	-
Loans advanced		-	(18,630)	(18,402)
Net cash in operating activities		(767)	(18,533)	(18,778)
INVESTING ACTIVITES				
Payments to acquire property, plant and equipment		-	-	(1)
Net cash (outflow) from investing activities		-	-	(1)
FINANCING ACTIVITIES				
Proceeds from issue of shares		-	100	120
Proceeds from issue of bonds		-	18,564	18,629
Proceeds from loan repayments		1,212	-	-
Gilt investment		(1,210)	-	-
Net cash inflow from financing activities		2	18,664	18,749
NET MOVEMENT IN CASH AND CASH EQUIVALENTS		(765)	131	(30)
Cash and cash equivalents at beginning of period		2,845	2,875	2,875
Cash and cash equivalents at end of period		2,080	3,006	2,845

	Note	30 September 2023 (unaudited) £'000	30 September 2022 (unaudited) £'000	31 March 2023 (audited) £'000
NON-CURRENT ASSETS				
Property, plant and equipment		2	3	3
Loan assets		525,846	555,505	556,127
		525,848	555,508	556,130
CURRENT ASSETS				
Loan assets		501	1,520	518
Trade and other receivables		395	473	682
Current asset investment		1,187	-	-
Cash and cash equivalents		2,080	3,006	2,845
		4,163	4,999	4,045
TOTAL ASSETS	3	530,011	560,507	560,175
CURRENT LIABILITIES				
Trade and other payables		(297)	(920)	(952)
Bond Liabilities		(633)	(1,439)	(581)
		(930)	(2,359)	(1,533)
NON-CURRENT LIABILITIES				
Bond liabilities		(524,226)	(554,296)	(554,830)
		(524,226)	(554,296)	(554,830)
TOTAL LIABILITIES	3	(525,156)	(556,655)	(556,363)
NET ASSETS		4,855	3,852	3,812
EQUITY				
Share capital		618	616	618
Share premium		3,285	3,267	3,285
Contingent convertible notes		542	542	542
Retained earnings		410	(573)	(633)
TOTAL EQUITY		4,855	3,852	3,812

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Neil John Hadden
Chair

8th December 2023

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Andrew David Morton
Chief Executive Officer

8th December 2023

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 2023 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 2024. 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 2023.

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 2023 and 30 September 2022 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 profit before taxation for the period of £1,391k (2022: loss of £49k), this includes interest income of £9,173k (2022: £9,059k) and interest expense of £8,799k (2022: £8,720k). The company has a surplus on the profit and loss reserve of £410k (2022: deficit of £573k). Cash and cash equivalents amount to £2,080k (2022: £3,006k). The company also had undrawn funding facilities totalling £10,000k (2022: £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. 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 2023 (unaudited)	30 September 2022 (unaudited)	31 March 2023 (audited)
ASSETS	£'000	£'000	£'000
Property, plant and equipment	2	3	3
Loan assets	526,347	557,024	556,645
Trade receivables	-	30	10
Other debtors	-	-	-
Prepayments and accrued income	336	57	265
Deferred tax asset	59	387	407
Current asset investment	1,187	-	-
Cash and cash equivalents	2,080	3,006	2,845
	530,011	560,507	560,175
LIABILITIES			
Trade payables	20	126	57
Accruals	199	655	780
Other creditors	78	139	115
Bond Liabilities	524,859	555,735	555,411
	525,156	556,655	556,363

The company has a contingent requirement for an early repayment of nominal value £1,153,846 Second Secured Debt, with cash amount equivalent to the value of the current asset investment held on the balance sheet. This would become payable if the company is unable to use the Second Secured Debt by extending further loans before 20 January 2024.

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 (2022: 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 7 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 2023 (Unaudited)**	Carrying Value Sept 2022 (Unaudited)	Carrying Value March 2023 (audited)	Concentration **Sept 2023 (Unaudited)**	Concentration Sept 2022 (Unaudited)	Concentration March 2023 (audited)
Level 1	**£19.3m**	£19.3m	£19.3m	**4%**	4%	4%
Level 2	**£315.3m**	£323.6m	£323.6m	**61%**	59%	60%
Level 3	**£147.8m**	£139.5m	£139.5m	**29%**	26%	26%
Level 4	**£30m**	£60m	£60m	**6%**	11%	10%
Level 5	**£Nil**	£Nil	£Nil	**0%**	0%	0%

4. RELATED PARTY TRANSACTIONS

Transactions with related parties:	30 September 2023 (unaudited) £'000	30 September 2022 (unaudited) £'000	31 March 2023 (audited) £'000
Interest income	9,173	9,042	18,391
Other income	68	142	248
Loan additions (net of issue cost recharges)	-	18,402	18,402
Loan repayments	(30,280)	-	-
Issue of share capital (including share premium)	-	100	120
(Repayment)/issue of contingent convertible notes	(345)	230	230
Interest expense	163	161	327

Amount due from related parties:

September 2023 (Unaudited)	Loans £'000	Interest accrued £'000	Total £'000
Housing Associations with joint control	525,846	501	526,347

Amount due to related parties:

September 2023 (Unaudited)	Loans £'000	Interest accrued £'000	Total £'000
Housing Associations with joint control	5,893	26	5,919

Amount due from related parties:

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

Amount due to related parties:

September 2022 (Unaudited)	Loans £'000	Interest accrued £'000	Total £'000
Housing Associations with joint control	6,238	27	6,265

4. RELATED PARTY TRANSACTIONS (Continued)

Amount due from related parties:	Loans	Interest accrued	Total
March 2023	£'000	£'000	£'000
(Audited)			
Housing Associations with joint control	556,127	518	556,645

Amount due to related parties:	Loans	Interest accrued	Total
March 2023	£'000	£'000	£'000
(Audited)			
Housing Associations with joint control	6,238	28	6,266

5. RECONCILIATION OF PROFIT TO NET CASH GENERATED FROM OPERATIONS

	Six months ended 30 September 2023 (unaudited) £'000	Six months ended 30 September 2022 (unaudited) £'000	Year ended 31 March 2023 (audited) £'000
Continuing operations			
Profit / (loss) before tax	1,391	(49)	(129)
Adjustments for:			
Depreciation	1	1	2
Interest expense	8,799	8,720	17,669
Interest income	(9,173)	(9,041)	(18,391)
Impairment (reversal)/expense	-	(34)	(44)
Gain on disposal	(1,434)	-	-
Interest received	9,133	9,304	19,059
(Increase)/decrease in receivables	(61)	(24)	(201)
Increase/(decrease) in payables	(655)	138	170
Net cash generated from operating activities	8,001	9,015	18,135