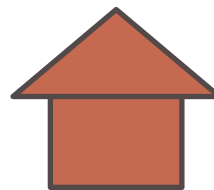


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MORhomes PLC

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2023



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

OFFICERS AND ADVISORS

DIRECTORS

N J Hadden (Chair)
M C Cooper
G L Howley
A D Morton (appointed 1 May 2023)
J E Pilcher
P Shorthouse (resigned 31 August 2022)
P J Symington (resigned 30 April 2023)
C B Tilley
A Thomas (appointed 1 April 2022)
R C Young (resigned 31 August 2022)

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
England

INDEPENDENT AUDITORS

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

MORhomes PLC
MISSION AND OBJECTIVE

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.

CHAIR'S STATEMENT

Having been involved in the development of MORhomes PLC from the very beginning some seven years ago, I am pleased to be writing this introduction to its fifth annual report which covers the fourth 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, with over half a billion pounds of lending.

The financial year has been a turbulent one for the UK as a whole with both rapidly increasing interest rates and the consequences of the war in Ukraine. The impact of the war has been felt first on fuel and energy prices and then extending to food prices and inflation more broadly. This has caused interest rates to rise even more rapidly than they otherwise would in order to counter inflation. The effect of this has been that public bond issuance has dropped very significantly. In general Housing Association borrowers have significant liquidity available to them, and are therefore either able to wait for interest rates to start falling again or to secure short-term facilities while rates are high, with consequent impact on providers of long-term funding including but not limited to MORhomes.

While few housing associations would have contemplated implementing a double-digit increase in social rents, as the existing CPI+1% formula would have allowed, the government also undertook a consultation on the introduction of a rent cap in England for the 2023/24 financial year. Although the cap was ultimately set at 7% - the highest level consulted on - the consultation process created significant uncertainty for the sector. Inevitably the cap on income, combined with 10%+ inflation and higher interest rates, adversely affects the returns from future investment in social housing, whether that be through the development of new homes or through increasing the quality and energy-efficiency of the existing stock. This has resulted in a virtual standstill in the number of capital markets fundraises undertaken by the sector, as housing associations have reassessed their plans and rephased their investment plans in order to maintain their financial strength.

The strength and resilience of the MORhomes PLC business model has continued to be demonstrated throughout the year, with continued lending volume during the financial year growing the overall loan book notwithstanding market turbulence. When the coronavirus pandemic seriously disrupted markets in 2020 we were there for our borrowers, amongst the first to issue debt in April 2020 as the markets returned to more normal conditions. This year, when market conditions became more challenging as the war in Ukraine continued, we enabled a new borrower to act quickly in August 2022 to raise funds in a few weeks, shortly before gilt yields increased by over a percentage point.

We have continued to receive prompt and regular financial updates from each of our borrowers and published updated views of the credit strength of our loan portfolio throughout the year, which has remained strong. This includes an assessment undertaken following confirmation of the rent cap. This has been recognised by S&P, who affirmed our credit rating and its Stable outlook in December 2022 at a time when some peers and many housing associations are faced with rating downgrades and / or downward revisions to outlooks. For an increasing number of developing housing associations, we continue to be an important option for raising longer-term fixed interest debt.

We enjoy a sound financial position and with each new loan we become more firmly established, more attractive to investors and more attractive to borrowers as our pricing becomes more competitive to add to the range of other advantages we offer. 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 and their advisors
2. Building investor confidence by good communication and making investors aware of the benefits of the MORhomes PLC model
3. Maintaining strong governance and improving operational efficiency and cost-effectiveness, in particular while market volumes are subdued.

MORhomes PLC 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. Taking this one step further, in

MORhomes PLC CHAIR'S STATEMENT

February 2021 we became the only UK aggregator at that point to issue a Sustainable Bond Framework, and in November 2021 we launched our first Sustainable Bond – others have followed. We intend that all future maturities will be Sustainable Bonds. In parallel with this Annual Report, we are also issuing a powerful Sustainability Impact Report showing what has been achieved with the funds we have raised. Examples of our sustainability 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, with particular mention to Peter Shorthouse and Rob Young, both of whom left us at the end of August 2022 as part of our planned Board rotation. 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. Following the end of the financial year, Patrick began a well-earned retirement at the end of April 2023 having been instrumental in the initial formation of MORhomes PLC and in building us up to become an established lender to the sector. I want to place on record my thanks to Patrick, without whom none of this would have been possible. I also welcome Andrew Morton to the Board as Patrick's successor in a planned and seamless transition, with Andrew having previously occupied the role as Patrick's deputy.

We believe that MORhomes PLC is in a good position to maintain its credit strength and consequently continue to provide an alternative source of new loans to our shareholders. Our anticipation 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 quality housebuilding, achieving 'net zero' and responding to economic challenges.

Neil Hadden, Chair of the Board



MORhomes funding is contributing to Broadacres' innovative 'deep retrofitting' project to develop its existing homes to be zero carbon ready.

This is a key part of the organisation's Sustainability Strategy and its ambition to become an entirely net zero carbon organisation by 2050.

The first of the homes, in The Crescent, Northallerton, was handed over to a local resident in December, and the others will be ready by spring 2023.

Work has included installing renewable energy air source heat pumps, solar panels, triple glazed windows and doors and adding high levels of air tightness to the buildings.

Broadacres' Chief Executive Gail Teasdale said: "It's still early stages and this exciting pilot project will inform much of our future planning, but we are committed to achieving net zero carbon status by 2050, ensuring people living in our homes benefit from energy efficient, environmentally friendly properties which are future-proofed."

STRATEGIC REPORT

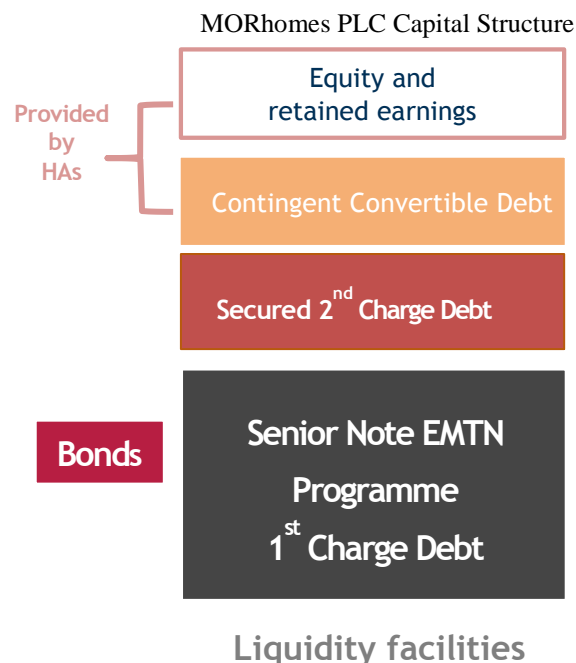
OUR BUSINESS MODEL AND HOW WE GENERATE VALUE

The principal way that the company furthers its mission and objective is by establishing borrowing demand from its housing association shareholders and potential new 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 a range of 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 particular borrower in question 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.

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 robust credit management process including surveillance, monitoring and remediation, benchmark sized issuance with responsible regular repeat issuance, with all bonds either 'Social Bonds' in accordance with the Social Bond Principles 2018, or 'Sustainable Bonds' in accordance with the Sustainability Bond Guidelines 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. Further housing associations have become shareholders since launch and we had 67 shareholders at year-end (2022: 66). Secondly, borrowers are required to use a fixed percentage of their loan to subscribe to further shares in the company and

MORhomes PLC

STRATEGIC REPORT (continued)

contingent convertible debt, thus maintaining the proportional level of these risk bearing capital buffers as lending grows.

MORhomes PLC strategic ambition is to take a significant share of the market for housing association capital markets debt issuance subject to maintaining its credit strength. Even at low levels of issuance the fees we earn would be sufficient to cover the minimum required operating costs, though we continue to invest to grow the business further. By continuing to issue new loans while carefully managing the credit risk, the economies of scale will help us to make a profit in the long-term, providing a return to shareholders.

The MORhomes PLC platform in itself also provides value to our existing shareholders who are able to use it to access the debt capital markets. There are up to around 180 more housing associations who may wish to buy into the company and use the platform, generating further value for the existing shareholders.

PROMOTION OF COMPANY SUCCESS

The directors have a duty to promote the success of the company for the benefit of its members as a whole. In so doing the directors have regard to:

- The likely consequences of any decisions in the long term, with long-term planning undertaken to reflect the impact of decisions;
- The interests of the company's employees, with employees having regular opportunity for engagement both with senior executives and with the Senior Independent Director without the Chief Executive Officer present;
- The need to foster the company's business relationships with suppliers, customers and others, with a Borrowers Advisory Group meeting regularly and with regular dialogue with key suppliers and other stakeholders;
- The impact of the company's operations on the community and the environment, with attention paid including to the company's ESG rating of AA with MSCI;
- The reputation for a high standard of business conduct, with the company voluntarily adopting the UK Corporate Governance Code; and
- The need to act fairly as between members of the company, with regular dialogue with shareholders throughout the year.

REVIEW OF THE YEAR

The financial year has seen growing inflationary pressures, exacerbated by the impact of the continuing war in Ukraine, with interest rates increased significantly in an attempt to limit inflation. As a result of double-digit inflation, the government also introduced a rent cap for housing associations.

Nevertheless the strength and resilience of the MORhomes PLC business model has continued to be demonstrated throughout the year, with further bond issuance on the International Securities Market and on-lending undertaken in August 2022 notwithstanding turbulent market conditions. We have now more than doubled the size of our business since launch, with lending having grown from £260m at launch to £542.4m as at 31 March 2023 following the addition of a further loan of £20m made during the year.

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:

MORhomes PLC
STRATEGIC REPORT (continued)

- Demonstrating our ability to provide funds quickly and efficiently (see box)
- Advancing another new loan during the year bringing our portfolio to 23 loans to 22 borrowing entities
- Executing bond issuance during the year to raise new finance and advance the new loan
- Building a pipeline of potential borrowers with 54 housing associations having gone through our credit process
- Building on our 'standby liquidity agreement' product whereby borrowers get all their documentation ready and on standby to borrow at a few days' notice. 30 such agreements have been entered into to date, with 13 utilised.
- Generating significant income to be recognised over time from documentation fees, issuance fees and security fees. This includes £248k in Other Income recognised during the year.
- Continuing to review the loan portfolio, including for the impact of the rent cap, providing regular on-going investor updates
- Affirmation of our A- (Stable) credit rating by S&P, at a time when some peers and many housing associations are facing downgrades and / or downward revisions to outlooks
- Issuing our latest Sustainability 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 the Regulator of Social Housing.

"We appreciate the work that MORhomes has put in to complete this deal in a very challenging market and are very pleased with the outcome. The speed that all sides were able to turn around the requirements for the transaction to be processed were faster than we could have achieved anywhere else. This will help us mitigate current short term interest rate risks as we continue our work to provide local affordable homes."

Mark Mayler – Group Finance Director,
Selwood Housing

Conditions in the capital markets have been challenging throughout the year. The benchmark gilt yield on our 2038 bond more than doubled from 1.75% at the start of the year to end the year at 3.75%, having been as low as 0.75% in August 2021 – a five-fold increase in little over 18 months, as a consequence of the rapid increase in underlying interest rates. Combined with the rent cap, this has required housing associations to adjust the phasing of their investments, with a knock-on impact on funding needs. The final quarter of the financial year saw just 2 capital markets issuances compared to 14 in the same period last year. The growth of the business has reflected this, with a single loan of £20m completed during the year as housing associations reduced their levels of investment as a consequence of high interest rates and inflation. Nevertheless, we have 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- with the outlook also affirmed as stable, at a time when some peers and many housing associations have suffered rating downgrades and / or downward revisions to rating outlooks. Looking to the future, we consider that this positions us well to secure an increasing share of housing association lending as volumes recover. 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 (see 'future strategy' below).

The financial result for the year was a loss after tax of £97k (2022: £113k loss). 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 bonds, which will increase as we increase our loan book. The result for the year was achieved by further building the loan book, generating other income and controlling costs, though the result was below expectations as a result of a shortfall in lending volume, in common with the market as a whole.

We have established a sound financial position. As at March 2023 shareholders' funds were £3.8m (2022: £3.8m). Of this, £2.7m (2022: £2.6m) 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 £0.5m (2022: £0.5m) is the equity value of contingent convertible loans provided by borrowers. The remaining £0.6m (2022: £0.7m) represents the 'membership' equity from the 67 housing association members, less losses to date.

Our credit management systems, which are a key part of our operations, are based on our deep understanding of our housing association borrowers and have been operating effectively during the year. Our proprietary credit

MORhomes PLC
STRATEGIC REPORT (continued)

model uses historic data and forecast financial projections, which are based on data supplied by our borrowers to the Regulator of Social Housing. All borrowers' credit models were updated and reviewed during the year and their financial performance monitored quarterly. The loan documentation enables us to call for cash in an interest reserve account if a borrower were to exceed its borrowing limit as a result of a weakening of its credit status, though this has never been required to date.

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	AS AT 31 MARCH		
		Target 2023	Actual 2023	Actual 2022
<u>New loans</u>				
New loans (amount)	£m	100	20	65
<u>Bond performance</u>				
Premium v benchmark comparator	Bpts	10	32	27
<u>Financial</u>				
Operating cost budget	£k	1,025	1,016	1,045
<u>Loan security in place</u>				
Loans > 6 months old - % secured	%	100%	100%	100%
<u>Credit strength</u>				
S&P credit rating		- A- (Stable)	A- (Stable)	

In common with peers, overall new loans for the year were down which, while disappointing, was a reflection of market conditions and overall market activity during the year, combined with a desire to maintain credit strength. The spread of our bond compared to a benchmark comparator was significantly wider than target, with the hoped-for narrowing against the chosen comparator not flowing through in the same way as it did against other comparators. Overhead costs were kept within budget and we hit the target for getting loan security in place, with new loans typically now being secured within 6 months rather than the 12 month contractual requirement. Importantly we maintained our A- (Stable) credit rating with S&P despite multiple downgrades elsewhere amongst peers and the sector more broadly.

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 addressable market for housing association debt capital markets (DCM) issuance while maintaining our credit strength.

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 much less than the cost and resources required to access the market through most other routes.

Our medium-term strategy concentrates on:

- **Building the loan book** – by marketing our borrowing proposition and benefits to shareholders and potential shareholders. Our current shareholders represent around one third of the housing association DCM issuance market (by borrowing requirement and number) which puts us in a good position to

MORhomes PLC

STRATEGIC REPORT (continued)

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 PLC model, maintaining a strong credit rating, attracting more investors and progressively improving their return by reducing the spread to gilts at which our bonds trade. Our innovative Sustainability Bond Framework is an important part of our appeal to investors.
- **Building governance and operational excellence** - maintaining strong governance, including risk management and good internal control, improving our operational efficiency and providing our services cost-effectively, in particular while levels of borrowing in the market in general are subdued.



Broadland Housing is investing MORhomes funding into a high-quality development of five homes in Thetford, Breckland which will provide dedicated support to people who have been sleeping rough.

The housing association has partnered with Breckland Council to build four terraced homes and an adjoining bungalow with a shared garden space.

Once completed, people who have experienced homelessness will move in and be supported to move on into longer-term accommodation. Additional support will revolve around access to education, employment opportunities and healthcare.

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 liquidity risk. 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
- Effective credit management systems overseen by the Credit Committee
- A long-term financial business plan stress tested and independently verified
- An operating manual identifying all key operational risks and related control systems
- A performance reporting system including KPIs and a corporate scorecard reported monthly to the Board
- An internal Audit programme testing key controls where the Audit and Risk Committee deems it necessary.

MORhomes PLC
STRATEGIC REPORT (continued)

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 by the Board, cognisant of points raised by the auditors.

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
- 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 enable risks to achieving the corporate strategy 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 exist.

The Board has carried out a comprehensive 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	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; 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, market conditions, and pricing/competition from alternative sources of funding	Marketing approach described above; contingency plans to establish 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 (see diagram in strategic report on page 6) 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	Principal risks around climate change relate to borrower credit risk, and are covered in the Climate Change section of this Strategic Report.

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.

MORhomes PLC
STRATEGIC REPORT (continued)

CLIMATE CHANGE

While not mandatory, the company voluntarily reports in line with the Taskforce on Climate-Related Financial Disclosures, including Streamlined Energy and Carbon Reporting.

Governance

Responding to climate-related issues is fundamental to MORhomes PLC business strategy, including issuing all its bonds within Social and Sustainability Bond Frameworks and maintaining high profile public leadership on sustainability issues. Accordingly, and in line with its approach more generally, the Board considers climate-related issues periodically throughout the year, including through discussion at the Audit and Risk Committee, Socially Responsible Investment Committee and Credit Committee. The Strategic Plan and long-term financial plans reflect climate-related strategies and the corresponding targets and activities are integral to the corporate plan and budgets which the Board uses to monitor business performance on a monthly basis. Climate related risks are systematically assessed via the risk management framework, and they are regularly considered by the Board throughout the year.

At management level, climate-related responsibilities rest with the Chief Executive Officer who assesses, monitors and manages climate-related issues, reporting both to the Board and to the Audit and Risk Committee, Socially Responsible Investment Committee and Credit Committee.

Strategy

Under its Articles of Association the company is only permitted to lend to registered UK not-for-profit Housing Associations, and 100% of its business is concentrated in this sector. It currently cannot, does not and has no intention in the future of having any exposure to consumer lending or to financing related to fossil fuels, forestry, water, or any other sector other than UK social housing. The company has a remote operating model, with no office building and with staff being home-based and conducting the vast majority of business remotely by digital means.

The company's principal assets are long-term loans to registered UK not-for-profit Housing Associations with maturities between 2038 and 2051. The principal climate-related issue facing the company is the impact climate-related issues have on borrowers' ability to make interest payments during the life of the loans and capital repayments on maturity of loans extended to them. Housing Associations will be required to invest in their existing housing stock in order to improve their performance to the required standards, and new build homes will need to be built to a higher standard. The Credit Committee reviews the credit level it assigns to each borrower on at least an annual basis, looking at 5 years of historic audited financial statements (where available) and the 5 years of forward business plan submitted to the regulator.

Identified climate-related issues led to the incorporation of climate-related issues into the credit model, and climate-related issues form an important part of the Credit Committee's consideration when determining borrower and potential borrower credit levels. In addition, identified climate-related issues led the company to develop a Sustainable Bond Framework which was launched in February 2021, with the first Sustainable Bond issued under the Framework in November 2021. The company is an early adopter of the Sustainability Reporting Standard for Social Housing, and encourages borrowers and shareholders alike to adopt the standard. Participation in the company's Sustainable Bond requires prospective borrowers first to undertake a Sustainable Housing Assessment which the company has created in conjunction with real estate consultancy Ritterwald, aligned with the Sustainability Reporting Standard for Social Housing, with the assessment being independently verified by Ritterwald.

Although there is uncertainty about the pace of development of technology and therefore the ultimate cost to Housing Associations of addressing climate-related issues, as well as uncertainty about future government regulatory requirements and funding policy, Housing Associations generally have the ability to adjust the level of their development activity to enable them to fund climate-related work on their existing housing stock. The Board therefore considers the company's strategy currently to be resilient to climate-related issues.

Risk Management

The assessment of climate-related risks is undertaken by the Audit and Risk Committee with input from the Socially Responsible Investment Committee and Credit Committee as appropriate, and overseen by the Board. This approach considers a range of different factors including existing and emerging regulatory requirements, and provides a relative risk-weighting for climate-related risks in relation to other risks. Specific credit-related risks

MORhomes PLC
STRATEGIC REPORT (continued)

are considered in more detail by the Credit Committee in so far as they relate to each borrower and prospective borrower.

At an organisational level, climate-related risks are managed by the Audit and Risk Committee with input from the Socially Responsible Investment Committee and Credit Committee as appropriate, and overseen by the Board. Specific climate-related risks that impact on borrower creditworthiness are managed in more detail by the Credit Committee in so far as they relate to each borrower and prospective borrower.

Processes for identifying, assessing and managing climate-related risks are an integral part of the company's holistic approach to risk management.

Metrics and Targets

As the principal climate-related risk faced by the company is the impact of physical and transition risks on the credit worthiness of counterparties hence the principal means of measuring and managing impact on the company is through the impact on the composition of the lending portfolio by credit level. The company has made and intends to continue to make commitments within its EMTN programme documentation to ensure a skew of exposure to stronger credits. The company discloses composition of the portfolio on a quarterly basis by means of quarterly business updates released through RNS. As at 31 March, the composition of the company's portfolio by credit level was:

Credit Level	Portfolio Limit	2023	2022
Level 1 (strongest)	Unlimited	4%	4%
Level 2	60% (plus balance of Levels 3/4)	60%	58%
Level 3	30% (plus balance of Level 4)	26%	27%
Level 4	20%	10%	11%
Level 5 (fail)	0%	0%	0%

In addition, the company also produces an unaudited Annual Sustainability Impact report which sets out the impact of funds lent, the most recent of which is released at the same time as this Annual Report covering the impact of all funds lent up until 31 March 2023. The report includes data on key criteria defined in the Sustainability Reporting Standard. As a summary of the use of proceeds:

Impact	ICMA Category	Total £m outstanding (across social and sustainability bond portfolio)	£m allocated over last financial year (from new issuance of social and sustainability bonds)
Social	Affordable Housing	471.8	18.7
Social & Environmental	Green Buildings	46.6	-

The company includes climate-related objectives in the plans of relevant staff members including all members of senior management. Individual performance is assessed against those plans, with appropriate steps taken in relation to performance against plan. The Board does not currently consider it appropriate to offer performance-related incentives to staff while the company builds towards profitability. Should performance-related incentives be introduced in the future, it would be the Board's intention to incorporate an assessment of performance against climate-related objectives when determining the appropriate incentive level for each member of staff.

Given the nature of the company's business being financial services and its operating model being remote, with no office building and with staff being home-based and conducting the majority of business remotely by digital means, Greenhouse Gas Scope 1 (direct) and Scope 2 (indirect) emissions are considered to be nil (2022: nil). Scope 3 emissions (from assets not owned or controlled by the company) that the company can influence relate primarily to housing funded by its loans, where the company seeks to have a strong positive impact via its Sustainability Bond Framework, as described above and under 'Corporate Social Responsibility' in the Directors' report below¹.

¹ See US Environmental Protection Agency for definitions of GHG emissions:
<https://www.epa.gov/climateleadership/scope-1-and-scope-2-inventory-guidance>

MORhomes PLC

STRATEGIC REPORT (continued)

The company intends to continue to minimise Greenhouse Gas emissions in the same way in future, with an ambitious target to maintain zero Scope 1 and Scope 2 emissions.

Similarly, the company does not:

- produce any electronic or hazardous waste;
- produce any emissions of sulphates, phosphates, cadmium, lead, nickel, benzene, naphthalene or pesticides of any kind;
- emit any inorganic pollutants; or
- emit any ozone-depleting substances.

The company also has an ambitious target not to produce or emit any of the aforementioned items in the future either.

ASSESSMENT OF BUSINESS POSITION AND FUTURE PROSPECTS

At the end of the year the company has continued to build on the strong platform it has established in previous years. It has issued one tap of its 2038 maturity bond, on-lending the proceeds to a new borrower, with total lending growing by £20m during the year. The terms of the loans made to date give the company a solid base and future income stream. 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 macro-economic conditions including those arising from the war in Ukraine and the rent cap. It engages regularly and 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, 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 maintain the credit strength of the business and consequently provide an alternative source of new loans to our shareholders.

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.



In the town of Trowbridge alone, there are currently over 500 households waiting for a home on the Wiltshire Housing register.

MORhomes funding is enabling Selwood Housing to build much-needed local affordable homes. Its Platinum Court development in Trowbridge will see the transformation of a derelict former pub site into family homes for social rent and shared ownership.

MORhomes PLC
STRATEGIC REPORT (continued)

The organisation is also working with local builders, adding to the social value created for the local community area from the funding.

It is Selwood's first EPC A rated development, so the homes will be warmer, cost less to run and help them meet its 2030 and 2050 carbon reduction targets. All the homes have photovoltaic panels, electric car charging points and air source heat pumps.

"I feel excited to see the place we named and can't wait to see it when it's complete," said a councillor from local Studley Green Primary school, whose pupils chose the development's name.

Signed on behalf of the Board

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Neil John Hadden
Director
7 July 2023

MORhomes PLC
DIRECTORS' REPORT

DIRECTORS' REPORT

The directors submit their report and the audited financial statements for the year ended 31 March 2023.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDENDS

The results for the year are set out on page 39.

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

No dividends are proposed for the year (2022: £Nil).

DIRECTORS

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

CORPORATE SOCIAL RESPONSIBILITY

MORhomes PLC 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 PLC bonds are Social Bonds in accordance with the Social Bond Principles 2018², or Sustainable Bonds in accordance with the Sustainability Bond Guidelines 2018³. 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.

In 2018, prior to initial launch, MORhomes PLC established a Social Bond Framework following these principles, which can be found on our website. We 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 2021 we went further by issuing a Sustainable Bond Framework in accordance with the Sustainability Bond Guidelines 2018³. This can also be found on our website, along with a link to an independent second party opinion from Sustainalytics also concluding that the Framework is 'credible and impactful and aligns with the Sustainability Bond Guidelines 2018'. This Framework has been applied to the 2051 bond and will be applied to future new bonds. This makes the bonds more attractive to investors interested in the bonds' impact on all three strands of the 'ESG' agenda (environmental, social and governance).

In parallel with this Annual Report we publish our sustainability impact report. This comprehensive report showed that the funds were being used to develop 4,494 new homes of a variety of tenures in 65 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 surpluses which will be invested back into neighbourhoods, communities, and more social housing. More detail and stories of our sustainability impact can be read in the full report which is available from our website. The company intends to continue to produce an annual sustainability impact report.

² Social Bond Principles - <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

³ Sustainability Bond Guidelines - <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainability-Bonds-Guidelines-June-2018-270520.pdf>

MORhomes PLC

DIRECTORS' REPORT (continued)

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

The £542.4m of funds raised up to the balance sheet date (2022: £522.4m) 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 sustainability impact report.



Cornerstone Housing is using its MORhomes loan to support development at Rosebanks in the thriving village of Thorverton near Exeter.

Two homes will be available for affordable rent and are ring fenced for people with a local connection. New residents are expected to move in before the end of the year.

MORhomes PLC wider corporate social responsibility is underpinned by its regard for the UK Corporate Governance Code issued by the Financial Reporting Council on 16 July 2018 (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. In addition, as a consequence no workdays have been lost to injuries sustained at work.

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, and a Modern Slavery Policy setting out a zero tolerance approach including through contractual arrangements where appropriate. There have been no cases of bribery or corruption identified.

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 2022 which included a presentation to shareholders and an opportunity for shareholders to ask questions of the Board. We also held a meeting for all shareholders in March 2023 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 very well attended and were supportive. Similar events are planned going forwards. Shareholders can also contact the Chair or Senior Independent Director directly at any time.

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

MORhomes PLC
DIRECTORS' REPORT (continued)



Residents in Burnley are enjoying settling into their new neighbourhood on Tay Street. Calico Homes invested MORhomes funding towards 40 new homes, including one-bedroom apartments and houses with two and three bedrooms. The new homes have been built on formerly under-utilised, grassed brownfield land.

New resident, Nicola, said: "I'm really happy and cannot wait to get settled". Fellow resident, Danielle, added: "I'm pleased that my little boy now has a back garden to play out in."

The new neighbourhood is made up of a mixture of families, professionals, and couples to create a well-balanced and positive community environment.

The wider development also provides ecological enhancement for wildlife to include elements such as bird boxes, bat boxes and hedgehog houses, helping to support the local environment.

The Board also takes its responsibilities to investors very seriously and is committed to providing regular opportunities for investors to meet management and receive presentations on the progress of the business either individually or collectively. During the year investors have been invited to such presentations every quarter, and an investor day was held in October 2022 which was open to all investors and potential investors. We also provide quarterly business reviews and yearly and half yearly financial statements and other information required by the bond documentation. 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 and who have access to bespoke training opportunities appropriate for their roles. For example, a graduate trainee programme was offered with training provided including through an external credit professional. Employees are encouraged to look for certifications to progress their careers and develop their skillsets. Employees have access to flexible working arrangements including the ability to work from home, work part-time, and work more flexible hours to suit their personal circumstances. A whistleblowing policy is in place including whistleblower protection, and the Board has designated the Senior Independent Director as the director responsible for engagement with the workforce, including surveying colleagues at least annually. Remuneration for executives 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, including assessing the capital and liquidity position, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing this Annual Report and Financial Statements.

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

MORhomes PLC
DIRECTORS' REPORT (continued)

INDEPENDENT AUDITORS

Although KPMG LLP was appointed as auditors of the company for the year at the Annual General Meeting on 8 September 2022, it resigned its position during the year indicating that there were no matters which needed to be brought to shareholders' or creditors' attention. As a consequence the Audit and Risk Committee ran a formal tender process to identify a replacement auditors to fill the casual vacancy, with PricewaterhouseCoopers LLP subsequently recommended to and appointed by the Board.

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

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.

THIRD PARTY INDEMNITY PROVISION FOR DIRECTORS

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

SHARE CAPITAL

The company issued share capital with nominal value totalling £11,600 during the year (2022: £37,450). The funds raised from the share capital issues was £120,000 (2022: £386,000) (see note 16 for further details).

POST BALANCE SHEET EVENTS

Following the end of the financial year, the company completed an offsetting set of transactions in order to maximise its issuance flexibility going forwards while at the same time maintaining materially the same balance of principal outstanding. On 4 April 2023 it issued £1,701,000 of Second Secured Notes, being the maximum possible drawdown on the facility in place at the time in order to support future lending. Simultaneously it also repurchased and cancelled £1,700,000 of European Medium Term Notes. While not being the purpose of the transaction, the repurchase was undertaken at a discount and so the cancellation generated a profit of £268,415 which will be accounted for in the financial statements for the year ended 31 March 2024.

Patrick Symington retired as Chief Executive Officer and as a Director of the company on 30 April 2023. He was replaced as Chief Executive Officer and as a Director of the company by Andrew Morton on 1 May 2023.

Following Andrew Morton's appointment as Chief Executive Officer, he resigned his position as Company Secretary on 22 May 2023 and was replaced as Company Secretary by Allia Bond Services Ltd.

STRATEGIC REPORT

Information on the principal risks 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 year (2022: £Nil).

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

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulation.

MORhomes PLC
DIRECTORS' REPORT (continued)

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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 the financial statements comply with the Companies Act 2006.

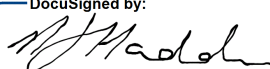
The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the directors' report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

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Neil John Hadden
Director
7 July 2023

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 PLC 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 PLC 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 CGC 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 the oversight of 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 year the Board consisted of 8 non-executive directors and the Chief Executive Officer, with 2 non-executive directors retiring as planned from the Board at 31 August 2022. 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 year.

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 (including 6-monthly staff surveys / engagement) 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 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 Officer 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 Officer are available on request from admin@morhomes.co.uk.

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.

MORhomes PLC

GOVERNANCE REPORT (continued)

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.

The original non-executive members of the Board were 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 CGC. This did not involve open advertising or the use of external search consultants. Subsequently the Board adopted a policy of open advertising. 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, and with an intention to increase the diversity of the Board in line with the recommendations of the 2020/21 external Board effectiveness review. On 1 April 2021 one Board member was replaced in accordance with this policy. A further Board member was replaced on 1 October 2021, and an additional appointment was made on 1 April 2022 to secure an outstanding candidate in advance of the next planned Board member retirement, with 2 Board members then retiring as planned on 31 August 2022. The Board also appointed 3 new independent non-executive members of the credit committee in advance of the retirement of two members. The recruitment process considered their potential as future Board members, and the Board has agreed in principle that these members can be considered for future Board vacancies, subject to a further appointment process. An external consultancy, Saxton Bampfylde, was appointed to advise on the search and recruitment of the non-executive Board and committee posts – it has no connection with the Company or its directors.

During the year the Board conducted an internal 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 the review and appraisals was that MORhomes PLC continues to have an effective Board with the required skills. Implementation of increased diversity and all other recommendations from the external review in 2020/21 had further strengthened the Board and committees. The review identified some minor actions to improve Board effectiveness further, which have been implemented.

Non-executive 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. All directors are subject to re-election annually at the Annual General Meeting.

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 PLC. 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. The terms of reference of each committee were reviewed during the year. 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.

MORhomes PLC

GOVERNANCE REPORT (continued)

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.

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

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 Malcolm Cooper and its members Geraldine Howley, Patrick Minjauw, Lisa Pinney and Gloria Yang.

The main responsibilities of the committee are to:

- review changes to standard documentation relating to loans
- oversee the company's borrowing application process
- review the overall policy and process for granting credit approval to borrowers
- appoint credit service providers
- 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 year the committee monitored performance of existing loans, including quarterly monitoring (with follow-up actions where appropriate), a specific review following the rent cap, and annual credit renewals for all current borrowers, as well approving new credit applications and overseeing the granting of new loans. The committee kept the credit policy under review including reviewing the proprietary credit model that underlies our credit rating system.

NOMINATION AND REMUNERATION COMMITTEE

The committee comprises at least two members, both 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 Geraldine Howley and its member Anjila Thomas.

The main responsibilities of the committee are:

- to review the structure, size and composition (including the skills, knowledge, experience and diversity) of the board
- 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
- to oversee the company's relationship with its employees and approve personnel policies.

During the course of the year the committee oversaw an internal 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

MORhomes PLC

GOVERNANCE REPORT (continued)

a discussion by the Board and each committee on its own effectiveness. Board effectiveness evaluations will be carried out annually, with independent external evaluation at least once every three years.

Further, the committee oversaw a thorough assessment process to appoint a new Chief Executive Officer to replace Patrick Symington following his retirement on 30 April 2023.

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 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 applies these principles in recruitment of Board and committee members and senior executives.

The experience of the directors and senior executives is set out under the heading of "DIRECTORS" below.

At the end of the year 0% (2022: 0%) of senior executives and 56% (2022: 40%) of non-executive Board and committee members were female. 0% (2022: 33%) of senior executives and 22% (2022: 10%) of non-executive Board and committee members were from a black and minority ethnic (BAME) background. The Company is committed to equality and diversity, and specific focus will continue to 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, with 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. There has been no specific engagement with shareholders on these arrangements, given their straightforward nature.

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.

Details of executive and non-executive director remuneration can be found in Note 7 to the Financial Statements.

AUDIT AND RISK COMMITTEE

The committee comprises at least two 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, which is considered to be the financial services industry.

At the date of this report the Chair of the committee was Charles Tilley and its members were Jane Pilcher and Anjila Thomas.

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 financial statements 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

MORhomes PLC
GOVERNANCE REPORT (continued)

-
- 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
 - to review procedures and controls relating to compliance, whistleblowing, prevention of fraud and bribery
 - to assess the need for internal audit and oversee any work deemed necessary
 - to consider and make recommendations to the board on the appointment, re-appointment and removal of the company's external auditors
 - to assess annually the external auditors' independence and the effectiveness of the audit process and review the policy on the provision of non-audit services by the auditors
 - to meet with the external auditors without management being present at least once a year
 - to review the findings of the audit with the external auditors.

The external auditors were appointed during the year following a tendering process overseen by the committee which was undertaken following the resignation of the previous external auditors.

The committee is satisfied as to the independence of the auditors. The company's policy is that the auditors 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 auditors following the year 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).

During the year 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.

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

- Going concern, where the committee considered and satisfied itself as to the company's ability to meet its liabilities as they fall due for the period of at least 12 months from the date of signing the Financial Statements.
- Impairment, where the committee discussed and agreed the calculation of the impairment provision, including the assumptions and judgements used.
- 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 impact of increasing inflation and interest rates on the company where the committee noted the direct control it has over the majority of its cost base (wages and salaries) and the fixed rate back-to-back nature of the company's lending which protects it against interest rate movements. Its housing association borrowers are currently protected by a skew towards long-term fixed rate borrowing and by the inflation-linked rent formula, though the committee noted the imposition of a rent cap for the 2023/24 financial year and considered the implications thereof for the company's borrowers. 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.

During the year the committee engaged McDermott Solutions Ltd to provide internal audit services – it has no connection with the Company or its directors. The internal audit involved performing a completion review of actions arising from the internal audit of the company's payment and credit processes which had been conducted in the previous financial year. The committee determines and regularly reviews the scope of internal audit work required across the full scope of its operations, including consideration of ethical standards and anti-corruption policies. There has been no internal audit this financial year.

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. The policy includes whistleblower protections.

MORhomes PLC
GOVERNANCE REPORT (continued)

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 Neil Hadden and its members Malcolm Cooper, Jane Pilcher and Charles Tilley.

The main responsibilities of the committee are:

- To make recommendations to the Board on the company's strategy and policy in relation to its status as an SRI company and its approach to Environmental, Social and Governance (ESG) issues
- To oversee the company's implementation of its SRI and ESG strategy and policy
- To oversee the company's Sustainable Bond Framework and the corresponding arrangements for ensuring the framework is implemented and adhered to as appropriate.

During the course of the year the committee met to monitor the company's continuing alignment with the Sustainable Bond Framework and the Principles, including utilisation of the bond proceeds. The committee has confirmed that this is the case, and further details are included above in the Directors' Report. The committee oversaw the production and publication of the company's sustainability impact report which is issued in parallel with this Annual Report.

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 year and the number attended by each director and committee member.

Member	Board 1 Apr 2022 – 31 Mar 2023					
	Scheduled meetings	Attended	Additional meetings	Attended	Total meetings	Total attended
Directors						
N J Hadden	8	8	1	1	9	9
M C Cooper	8	7	1	1	9	8
R C Young	3	3	0	0	3	3
C B Tilley	8	8	1	1	9	9
P Shorthouse	3	2	0	0	3	2
G Howley	8	8	1	0	9	8
A Thomas	8	7	1	1	9	8
J Pilcher	8	7	1	1	9	8
P J Symington	8	8	1	1	9	9

MORhomes PLC
GOVERNANCE REPORT (continued)

1 Apr 2022 – 31 Mar 2023

Member	Credit Committee		Nomination and Remuneration Committee		Audit and Risk Committee		Socially Responsible Investment Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
Directors								
N J Hadden	0	0	0	0	0	0	1	1
M C Cooper	10	10	0	0	0	0	1	1
R C Young	0	0	1	1	1	1	0	0
C B Tilley	0	0	0	0	4	4	1	1
P Shorthouse	0	0	1	1	0	0	0	0
G Howley	10	9	3	2	0	0	0	0
A Thomas	0	0	3	3	3	3	0	0
J Pilcher	0	0	0	0	4	4	1	1
Committee members								
L Pinney	10	9	0	0	0	0	0	0
G Yang	10	10	0	0	0	0	0	0
P Minjauw	10	10	0	0	0	0	0	0

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

Chair 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 prior to the Homes and Communities Agency where he held a number of positions including serving as Deputy Chief Executive. He moved to Aldwyck Housing Association in 2005 as group Chief Executive and became Chief Executive of Genesis in October 2009, stepping down in 2018 on the merger of Genesis with Notting Hill. Currently Chair of Golden Lane Housing Association.

MORhomes PLC
GOVERNANCE REPORT (continued)



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

Member of Socially Responsible Investment Committee

Malcom is a Finance professional with wide experience in infrastructure, property, and construction with over 15 years as Group Treasurer for National Grid plc. He is currently the Deputy President of the Association of Corporate Treasurers and holds a number of Non-Executive positions including Non-Executive Director, Chair of the Audit Committee and Chair of the Responsible Business Committee at Morgan Sindall plc. Non-Executive Director and Chair of the Audit and Risk Committee of Local Pensions Partnership Investments Ltd. Non-Executive Director, Chair of the Audit and Risk Committee and Chair of the Remuneration Committee of Southern Water Services Limited. Non-Executive Director, Chair of the Audit Committee at Custodian REIT plc.



Peter Shorthouse | Resigned from the Board on 31 August 2022

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.



Charles Tilley OBE | Chair of Audit and Risk Committee and Director

Member of Socially Responsible Investment Committee

Charles is Chair of the Integrated Reporting and Connectivity Council which acts as an advisor to the IFRS Foundation, advisor to Anmut Limited and is a governor of Seaford College as a member of the board of the Johnson Trust Limited. He is a former CEO of the International Integrated Reporting Council and CIMA, the Chartered Institute of Management Accountants through which he is a qualified accountant, following CFO roles at two banks and partnership at KPMG.



Rob Young | Resigned from the Board on 31 August 2022

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)



Patrick Symington | Retired as Chief Executive and resigned from the Board on 30 April 2023

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 is a Board Member of Estuary Housing Association and Independent Member of the Treasury Committee at Metropolitan Thames Valley. He was previously Executive Director at First Wessex responsible for Finance, IT, Governance and Business Transformation and has also been a Board Member and Chair of Risk at Stonewater HA.



Geraldine Howley OBE | Chair of Nomination and Remuneration Committee and Director

Member of Credit Committee

Geraldine is a senior leader in the housing sector in the U.K. She is Chair of CIH Governing Board and Director of the GEM Programme. Geraldine is a Fellow of CIH and a dedicated housing professional with over 40 years' experience of social housing. As a CEO, Chair and Board member she has delivered transformational change, business turnaround, financial restructuring and business start-ups in various organisations. She has been recognised for her achievements with an OBE and an Honorary Doctorate for her services to housing and young people.



Jane Pilcher | Director

Member of Audit and Risk Committee, New Issues Committee and Socially Responsible Investment Committee

Jane is a Finance professional with over 20 years of experience as a Group Treasurer, most recently at Anglian Water where she led the raising of green and sustainable finance since 2018. Jane is an Independent non-executive director, Chair of the Risk Committee and Member of the Assets and Liabilities Committee at the Loughborough Building Society and former Senior Independent non-executive director of the Cambridge Building Society and Chair of the Remuneration Committee. She is also a fellow of the Association of Corporate Treasurers.

MORhomes PLC
GOVERNANCE REPORT (continued)



Anjila Thomas | Director

Member of Audit and Risk Committee, New Issues Committee and Nomination & Remuneration Committee

Anjila is a Senior Managing Director at ING Bank with over 28 years of Banking experience working in the Retail, Wholesale, and Investment Banking Industry. Board Member of ING 's London Branch and leads ING UK's Corporate Sector team, Energy Project Advisory and Transaction Services Businesses. Anjila also has expertise is working with Clients to deliver Strategic & Transaction Solutions across a variety of banking products; M&A, Lending, Sustainable Finance, Debt Capital Markets, Hedging Solutions, Payments, & Working Capital Solutions. Prior to joining ING, Anjila worked at NatWest Bank covering Retail, Mid-Corporate and Large Corporate Client Relationship Management & Head Office Credit. She also has a BSc (Hons) Economics and a BSc Financial Services (ACIB)



Andrew Morton | Chief Executive Officer

Appointed to the Board on 1 May 2023

Andrew is a qualified chartered accountant with over 30 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 ran his own advisory business alongside a portfolio of Chair and Non-Executive Director roles, and is currently Vice Chair of Alexandra Palace Trading Limited, Chair of Middlesex FA's Commercial Advisory Board and Director of Middlesex Community Football Centres Limited.

COMMITTEE MEMBERS



Gloria Yang | Member of Credit Committee

Gloria is a fellow of ACCA and currently Executive Director of Finance at Moat Homes Limited, and Chair and Board Member of the Audit and Risk Committee at Phoenix Community Housing. Gloria has held a number of executive, consultancy and non-executive roles in the social housing sector over the last 17 years, including at Origin Housing, Clarion, East Thames, Metropolitan Thames Valley and Wandle.

MORhomes PLC
GOVERNANCE REPORT (continued)



Lisa Pinney | Member of Credit Committee

Lisa Pinney is currently employed by Trivallis as Executive Director - Resources following her recent long standing position at Pobl Group as Executive Director – Resources. Lisa has been a qualified accountant for over 25 years and has an MA in Leadership and Management. With a professional background in Housing, Education and Manufacturing, Lisa champions collaboration, value for money, and organisational effectiveness. A long-time endurance sport enthusiast, Lisa is an avid participant in middle and long distance triathlons



Patrick Minjauw | Member of Credit Committee

Patrick Minjauw is currently Director of Corporate Finance and Treasury at Orbit. He held the role of Deputy Treasurer of Clarion Housing Group from 2017 to 2021 and briefly assumed the role of Director Treasury and Corporate Finance during this time.

Prior to joining Clarion, Patrick held various corporate treasury positions in Adecco Group in Zurich, Switzerland, and was credit analyst in a bank in Belgium.

COMPANY SECRETARIAL

The Company Secretary is Allia Bond Services Ltd, which was appointed on 22 May 2023 following Andrew Morton’s appointment as Chief Executive Officer. Andrew Morton served as Company Secretary throughout the year and up to the appointment of Allia Bond Services Ltd.

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

SHAREHOLDERS

The following is a list of shareholders (housing association groups) as at the 31 March 2023:

MORhomes PLC GOVERNANCE REPORT (continued)

1 A2Dominion	24 Hexagon	47 Plymouth Community Homes
2 Aster	25 Hightown Housing	48 Pobl
3 Broadacres	26 Housing Solutions	49 Red Kite Housing
4 Broadland	27 Hyde	50 Rochdale Boroughwide Housing
5 Calico Homes	28 Incommunities	51 Selwood
6 Clanmil	29 Jigsaw Homes	52 Settle Group
7 ClywdAlyn Housing Limited	30 Karbon	53 Shepherds Bush
8 Coastal Housing Group	31 LiveWest	54 South Yorkshire
9 Cornerstone	32 Local Space	55 Sovereign
10 Cottsway Housing Association Ltd	33 Melin	56 Staffordshire Housing
11 Colne	34 Midland Heart	57 Stonewater
12 emh Group	35 Network Homes	58 Swan Housing
13 Flagship	36 Newlon	59 Thrive Homes
14 ForViva	37 Newydd Housing Association	60 Together Housing
15 Futures Housing Group	38 North Devon Homes	61 Torus
16 Gentoo	39 North Star	62 Town & Country
17 Golding	40 Notting Hill Genesis	63 Vivid
18 Greatwell Homes	41 Octavia	64 Wales & West
19 Grŵp Cynefin	42 One Housing	65 Walsall Housing Group
20 Hafod	43 Ongo	66 Wandle
21 Halton Housing	44 Origin	67 Wythenshawe
22 Hastoe	45 Paradigm Housing	
23 Heart of Medway (MHS)	46 Platform	

Signed on behalf of the Board

DocuSigned by:

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Neil John Hadden
Chair of the Board of Directors

7 July 2023

Independent auditors' report to the members of MORhomes PLC

Report on the audit of the financial statements

Opinion

In our opinion, MORhomes PLC's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 March 2023; the Statement of Comprehensive Income, the Statement of Changes in Equity, and the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of our audit procedures performed were determined by our risk assessment and other qualitative factors.
- We tailored the scope of our audit to ensure that we have performed sufficient work to enable us to opine on the financial statements.
- We identified all material financial statement line items and disclosures including those that were considered qualitatively material, and conducted our work over those accordingly.
- We performed additional risk assessment, giving consideration to relevant internal and external factors including climate change.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORHOMES PLC (continued)

Key audit matters

- Expected Credit Loss ('ECL') provision for loan assets
- Risk of fraud in revenue recognition – Effective Interest Rate (EIR) adjustments

Materiality

- Overall materiality: £5,601,706 based on 1% of total assets.
- Performance materiality: £4,201,280.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><i>Expected Credit Loss ('ECL') provision for loan assets</i></p> <p>Although the balances in relation to the expected credit loss (ECL) provision are not material as at 31 March 2023, determining expected credit losses ('ECL') involves management judgement and is subject to a high degree of estimation uncertainty. Management makes various assumptions when estimating ECL. The ECL provision may be materially misstated if the judgements or estimates made by the Company are inappropriate. In particular, judgement is required in respect of the probability of default and whether a loan has experienced a significant increase in credit risk. Given that the Company has no loss experience and the inherent uncertainty in this estimate, this has been considered as a key audit matter.</p> <p>Related disclosures in the Financial Statements: Note 3 - Use of estimates and assumptions Note 10 - Loan assets Note 15 - Financial instruments</p>	<p>In response to this key audit matter, we have:</p> <ul style="list-style-type: none"> • Understood and evaluated the design and implementation of the relevant controls; • Assessed the reasonableness of key methodologies, assumptions and judgements made by management; • Tested the mathematical accuracy of the impairment calculation through the recalculation of the management model; • Performed sensitivity analysis of the ECL provision by flexing the PD, the LGD, including the valuation of the secured properties; • Assessed the credit ratings of the borrowers; and • Assessed the reasonableness of the disclosures in the financial statements in accordance with the requirements of IFRS 9 and IFRS 7. <p>We have no matters to report relating to the above audit procedures performed.</p>
<p><i>Risk of fraud in revenue recognition – Effective Interest Rate (EIR) adjustments</i></p> <p>Interest income is recognised using the effective interest rate (EIR) which is the rate that exactly discounts contractual future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate for financial instruments, the company uses contractual future cash flows considering the contractual life as a proxy for the expected life. Risk of fraud in revenue recognition in relation to the EIR adjustments is considered as a significant matter due to the use of judgements by the management and estimations involved in the computation of EIR adjustments.</p>	<p>In response to this key audit matter, we have:</p> <ul style="list-style-type: none"> • Understood and evaluated the design and implementation of the relevant controls; • Tested the methodologies and assumptions used in the EIR adjustments; • Performed recalculation of EIR adjustments including the testing of completeness and the accuracy of the data and inputs used in the calculation of EIR adjustments;

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORHOMES PLC (continued)

<p>Related disclosures in the Financial Statements:</p> <p>Note 1 - Accounting Policies - Revenue</p> <p>Note 3 - Use of estimates and assumptions</p> <p>Note 4 - Interest income</p>	<ul style="list-style-type: none"> • Tested the journal entries posted in relation to the EIR adjustments; and • Performed the sensitivity analysis over the key assumption, being the expected life of loans, used in the calculation of EIR adjustments. <p>We have no matters to report relating to the above audit procedures performed.</p>
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How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which it operates. As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<i>Overall company materiality</i>	£5,601,706.
<i>How we determined it</i>	1% of total assets
<i>Rationale for benchmark applied</i>	The Company is established as a not for profit entity, funded almost entirely by debt and that the users focus their attention on the Company's total assets. It is therefore considered appropriate that overall materiality could in the context of the total assets.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £4,201,280 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £560,171 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORHOMES PLC (continued)

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the directors' going concern assessment. This sets out why the directors believe that the Company will continue in operational existence for the foreseeable future and why they anticipate that the Company will have adequate funds available to meet its obligation as they fall due;
- Performing an assessment to identify factors that could impact the going concern basis of accounting, including the key terms of the transaction as set out in the transaction documents, such as what constitutes an event of default;
- Inspecting the transaction documents to agree that the Notes are limited recourse instruments; and
- Assessing the appropriateness of the disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the annual report and the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to any breaches of the listing requirements of the London Stock Exchange and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent postings of journals and management bias in accounting estimates.. Audit procedures performed by the engagement team included:

- Making enquiries with management and those charged with governance including review of minutes of meetings in so far as they related to the financial statements and consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Incorporating an element of unpredictability into the nature, timing and/or extent of our testing;
- Testing journals using a risk-based approach and evaluating whether there was evidence of bias;
- Challenging estimates and judgements made by management in their significant accounting estimates, in particular in relation to the expected credit loss provisions of loans (see related key audit matter); and
- Testing of the financial statement disclosures.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MORHOMES PLC (continued)

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- 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
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 21 November 2022 to audit the financial statements for the year ended 31 March 2023 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.



Jessica Miller (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

7 July 2023

MORhomes PLC
 STATEMENT OF COMPREHENSIVE INCOME
 Year ended 31 March 2023

FINANCIAL STATEMENTS

	Note	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Interest income	4	18,391	16,504
Interest expense	4	(17,669)	(15,914)
Net interest income		<u>722</u>	<u>590</u>
Other income		248	320
TOTAL INCOME		<u>970</u>	<u>910</u>
Impairment reversal/(charge)		44	(41)
Operating expenses		(1,143)	(1,120)
LOSS BEFORE TAXATION		<u>(129)</u>	<u>(251)</u>
Income tax credit	8	32	138
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<u>(97)</u>	<u>(113)</u>

All results are from continuing operations.

The accompanying notes form an integral part of the financial statements.

MORhomes PLC
STATEMENT OF CHANGES IN EQUITY
Year ended 31 March 2023

	Note	Share capital £'000	Share premium £'000	Contingent convertible notes £'000	Accumulated losses £'000	Total equity £'000
BALANCE AT 1 APRIL 2021		569	2,828	497	(423)	3,471
Issue of share capital	16	37	349	-	-	386
Issue of contingent convertible notes	14	-	-	41	-	41
COMPREHENSIVE LOSS						
Loss for the year		-	-	-	(113)	(113)
TOTAL COMPREHENSIVE LOSS		-	-	-	(113)	(113)
BALANCE AT 31 MARCH 2022 AND 1 APRIL 2022		606	3,177	538	(536)	3,785
Issue of share capital	16	12	108	-	-	120
Issue of contingent convertible notes	14	-	-	4	-	4
COMPREHENSIVE LOSS						
Loss for the year		-	-	-	(97)	(97)
TOTAL COMPREHENSIVE LOSS		-	-	-	(97)	(97)
BALANCE AT 31 MARCH 2023		618	3,285	542	(633)	3,812

The accompanying notes form an integral part of the financial statements.

MORhomes PLC
STATEMENT OF FINANCIAL POSITION
As at 31 March 2023

Company registration number: 10974098

	Note	31 March 2023 £'000	31 March 2022 £'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	3	4
Loan assets	10	556,127	537,681
		<u>556,130</u>	<u>537,685</u>
CURRENT ASSETS			
Loan assets	10	518	1,186
Trade and other receivables	11	682	449
Cash and cash equivalents	12	2,845	2,875
		<u>4,045</u>	<u>4,510</u>
TOTAL ASSETS		<u>560,175</u>	<u>542,195</u>
CURRENT LIABILITIES			
Trade and other payables	13	(952)	(782)
Bond liabilities	14	(581)	(1,423)
		<u>(1,533)</u>	<u>(2,205)</u>
NON-CURRENT LIABILITIES			
Bond liabilities	14	(554,830)	(536,205)
		<u>(554,830)</u>	<u>(536,205)</u>
TOTAL LIABILITIES		<u>(556,363)</u>	<u>(538,410)</u>
NET ASSETS		<u>3,812</u>	<u>3,785</u>
EQUITY			
Share capital	16	618	606
Share premium	17	3,285	3,177
Contingent convertible notes	17	542	538
Accumulated losses	17	(633)	(536)
TOTAL EQUITY		<u>3,812</u>	<u>3,785</u>

The financial statements on pages 39 to 66 were approved by the Board of directors and authorised for issue and are signed on its behalf by:

DocuSigned by:

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Neil John Hadden
DIRECTOR
7 July 2023

The accompanying notes form an integral part of the financial statements.

MORhomes PLC
 STATEMENT OF CASH FLOWS
 Year ended 31 March 2023

	Note	31 March 2023 £'000	31 March 2022 (Restated) £'000
OPERATING ACTIVITIES			
Net cash flow generated from operating activities	18	18,135	16,099
Interest paid		(18,511)	(16,496)
Loans advanced		(18,402)	(65,959)
Net cash (outflow) from operating activities		<u>(18,778)</u>	<u>(66,356)</u>
INVESTING ACTIVITIES			
Payments to acquire property, plant and equipment		(1)	(1)
Net cash (outflow) from investing activities		<u>(1)</u>	<u>(1)</u>
FINANCING ACTIVITIES			
Proceeds from issue of shares		120	387
Proceeds from issue of bonds		18,629	65,812
Net cash inflow from financing activities		<u>18,749</u>	<u>66,199</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(30)	(158)
Cash and cash equivalents at beginning of year		2,875	3,033
Cash and cash equivalents at end of year		<u><u>2,845</u></u>	<u><u>2,875</u></u>

The accompanying notes form an integral part of the financial statements.

FINANCIAL STATEMENTS NOTES

1 ACCOUNTING POLICIES

The financial statements for the year ended 31 March 2023 were authorised by the Board on 7 July 2023. 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, CB4 2HY, England.

The principal accounting policies adopted by the company are set out below. These policies have been consistently applied.

BASIS OF PREPARATION AND ACCOUNTING

These financial statements have been prepared in accordance with UK-adopted international accounting standards 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 pounds sterling (£) which is the company's functional and presentational currency. 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 year of £129k (2022: £251k), this includes interest income of £18,391k (2022: £16,504k) and interest expense of £17,669k (2022: £15,914k). The company has a deficit on the profit and loss reserve of £633k (2022: £536k). Cash and cash equivalents amount to £2,845k (2022: £2,875k). 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 and February 2051. 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 macroeconomic events, looking at least 12 months beyond the date of approval of the financial statements. 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 move towards profitability as it wins new business, as set out in the Strategic Report. The company has in place sufficient capital and liquidity facilities, and has stress tested its business plan for a range of different scenarios of business volume and borrower repayment activity and determined that it is able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of the financial statements. 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.

REVENUE

Issuance cost recharges

Issuance cost recharges are costs incurred by the company relating to specific bond issuance. They 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 cost recharges

Programme cost recharges are costs incurred by the company relating to the company's overall EMTN programme and allocated recharged to borrowers proportionally. They 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.

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 income

Other income 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 year is the tax payable on that year'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 years, 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.

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. Deferred tax assets are classified within trade and other receivables.

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 from 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 NOTES

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	3 - 5 years
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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 PROPERTY, PLANT AND EQUIPMENT

At the reporting date, the company reviews the carrying amounts of its property, plant and equipment 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

(a) The company has applied the following amendments for the first time for their annual reporting period commencing 1 April 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;
- Onerous contracts – Cost of Fulfilling a Contract – Amendments to IAS 37; and
- Annual Improvements to IFRS Standards 2018-2020.

The amendments are not expected to significantly affect the Company's financial statements.

(b) Standards and amendments early adopted by the Company

No new or amended standards and interpretations were adopted early by the Company

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.

Estimates and assumptions

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Impairment

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 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 0.05% (2022: 0.03% and 0.05%) and loss given default ranging between 20% and 40% (2022: 35% and 45%). We have used a loss given default of 20% for all secured borrowers and 40% for those that are unsecured.

A sensitivity analysis has been performed below:

3 USE OF ESTIMATES AND ASSUMPTIONS (Continued)

2023

Probability default:	ECL Provision £'000	+0.1% PD £'000	-0.1% PD £'000	+10% LGD £'000	-10% LGD £'000
0.03%	4	19	-	6	2
0.04%	24	84	-	36	12
0.05%	18	54	-	27	9
Probability default:	46	157	-	69	23

2022

Probability default:	ECL Provision £'000	+0.1% PD £'000	-0.1% PD £'000	+10% LGD £'000	-10% LGD £'000
0.03%	7	32	-	10	5
0.04%	-	-	-	-	-
0.05%	83	248	-	106	60
Probability default:	90	280	-	116	65

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 (which, as a proxy, is estimated to be its contractual life) 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

During the year the company has recognised net deferred tax assets of £32k (2022: £138k). 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). In considering whether sufficient taxable profits will be available in the future against which the reversal of temporary differences can be used, the directors have considered the taxable profits that would be generated both in their base case scenario and in the event that no further lending volume is achieved, with both instances resulting in sufficient profits being generated.

Contingent convertible notes

During both the current year and the previous year, the company entered into a transaction creating 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 5.15% (2022: 5.45% and 5.35%) to be a suitable estimate.

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

3 USE OF ESTIMATES AND ASSUMPTIONS (Continued)

	Equity element of convertible note	+10 BPS	-10 BPS
	£'000	£'000	£'000
2023			
Equivalent rate for comparable instrument:			
5.15%	4	6	1
Equity	<u>4</u>	<u>6</u>	<u>1</u>
	Equity element of convertible note	+10 BPS	-10 BPS
	£'000	£'000	£'000
2022			
Equivalent rate for comparable instrument:			
5.45%	23	29	19
5.35%	18	23	13
Equity	<u>41</u>	<u>52</u>	<u>32</u>

4 NET INTEREST INCOME

The following table provides an analysis by geographical market:

	31 March 2023 £'000	31 March 2022 £'000
Interest income from financial investments		
Loans and advances to customers	18,318	16,504
Interest from banks	<u>73</u>	<u>-</u>
	18,391	16,504
Interest expense:		
Bond liabilities	(17,669)	(15,914)
Total interest expense	<u>(17,669)</u>	<u>(15,914)</u>
Net interest income	<u>722</u>	<u>590</u>

The company has a single segment, with all net interest income being derived from lending to providers of social housing. All interest income recognised is for the services provided in the United Kingdom.

The major customers are made up of 23 Housing Associations entities, from 21 different groups, (2022: 22 Housing Associations entities from 20 different groups) 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 YEAR

	31 March 2023 £'000	31 March 2022 £'000
Loss for the year has been arrived at after charging:		
Depreciation on property, plant and equipment	2	1
Staff costs including directors' emoluments (see note 7)	<u>543</u>	<u>608</u>

6 AUDITORS' REMUNERATION

	31 March 2023 £'000	31 March 2022 £'000
The analysis of auditors' remuneration is as follows (excluding VAT):		
Fees payable to the company's auditors for:		
- Audit of the company's annual financial statements	140	75
Total audit fees	<u>140</u>	<u>75</u>
Other services:		
All other non-audit services paid to previous auditor	30	25
Total fees	<u>170</u>	<u>100</u>

No non-audit services were provided by the PricewaterhouseCoopers LLP.

7a STAFF COSTS AND DIRECTORS' EMOLUMENTS

	31 March 2023 Number	31 March 2022 Number
The average monthly number of employees (including directors) was:		
Directors	8	11
Management and support staff (including key management personnel see note 7c)	3	4
	<u>11</u>	<u>15</u>
Staff costs including directors' emoluments (see 7b)	31 March 2023 £'000	31 March 2022 £'000
Wages and salaries	473	534
Social security costs	52	53
Other pension costs	18	21
	<u>543</u>	<u>608</u>

7b DIRECTORS' REMUNERATION

	31 March 2023 £'000	31 March 2022 £'000
Short term employee benefits	223	226
Pension costs	6	6
	<u>229</u>	<u>232</u>

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

	2023	2022
Position	Pay	Pay
Chair of Board	£22,500	£22,500
Chair of Credit Committee and Senior Independent Director	£17,500	£17,500
Other Committee Chairs	£15,000	£15,000
Board member	£12,000	£12,000
Additional per committee (above 2 committees)	£1,500	£1,500
Committee member only	£4,000	£4,000

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

	2023	2022
Director	Salary	Salary
Rob Young	£6,250	£13,500
Charles Tilley	£15,000	£15,750
Peter Shorthouse	£5,000	£12,000
Andrew Kitchingman	£-	£7,667
Neil Hadden	£22,500	£22,500
Malcolm Cooper	£17,500	£17,500
Patrick Symington	£119,093	£119,093
Geraldine Howley	£13,750	£12,000
Jane Pilcher	£12,000	£6,000
Anjila Thomas	£12,000	£-

The highest paid director received £119,093 (2022: £119,093). Pension has been provided to one director amounting to £5,955 (2022: £5,955).

No post-employment benefits have been provided to directors (2022: £Nil).

7c KEY MANAGEMENT PERSONNEL

	31 March 2023 £'000	31 March 2022 £'000
Short term employee benefits	363	366
Pension costs	13	13
	<u>376</u>	<u>379</u>

Key management includes those who are responsible for planning, directing and controlling activities of the entity. No post-employment benefits have been provided to key management personnel (2022: £Nil).

8 INCOME TAX CREDIT

	31 March 2023 £'000	31 March 2022 £'000
Current tax		
UK corporation tax on profits for the year	-	-
Total current tax	<u>-</u>	<u>-</u>
Deferred tax		
Origination and reversal of timing differences	(32)	(138)
Total deferred tax	<u>(32)</u>	<u>(138)</u>
Total tax credit	<u>(32)</u>	<u>(138)</u>

A reconciliation between tax credit and the product of accounting loss before taxation multiplied by the UK rate of Corporation Tax for the years ended 31 March 2023 and 31 March 2022 is as follows:

	31 March 2023 £'000	31 March 2022 £'000
Loss before taxation:		
Continuing operations	(129)	(251)
At UK standard rate of corporation tax of 19% (2022: 19%)	(24)	(48)
Deferred tax – difference in closing tax rates	(8)	(90)
Expenses not deductible for tax purposes	-	-
Tax credit in the Income Statement	<u>(32)</u>	<u>(138)</u>
Effective income tax rate	25%	55%

8 INCOME TAX CREDIT (Continued)

During the year the company has recognised deferred tax assets of £32,000 (2022: £138,000) relating to tax losses that are available to offset against future taxable profits.

9 PROPERTY, PLANT AND EQUIPMENT

	Office Equipment £'000
Cost:	
At 1 April 2022	9
Additions	1
Disposals	-
At 31 March 2023	<u>10</u>
Accumulated depreciation and impairment:	
At 1 April 2022	(5)
Charged in the year	(2)
At 31 March 2023	<u>(7)</u>
Net book amount:	
At 31 March 2023	3
At 31 March 2022	<u>4</u>

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

10 LOAN ASSETS

	31 March 2023 £'000	31 March 2022 £'000
Loans to Housing Associations	<u>556,645</u>	<u>538,867</u>

The £542,400,000 (2022: £522,400,000) nominal loan balance excluding premium / discount and costs comprises 23 loans to 21 groups (2022: 22 loans to 20 groups) of not for profit Registered Providers of social housing. The loans are due for repayment in February 2038 and February 2051. As at year end £542,200,000 (2022: £491,300,000) of the loans were secured, with security valued at £803,212,714 (2022: £694,600,000) held against them. These securities have been valued at different dates ranging between November 2021 and March 2023 however the management do not expect any significant change in the value of the securities as at the year end. For the remaining £nil (2022: £31,100,000), the loan was secured with a fixed charge on a single property which was not of significant 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 £324,515,876 (2022: £458,362,073). This calculation has been done using a commercial rate of interest at the reporting date using the gross redemption yield for 2038 and 2051 maturities of bonds. The weighted average of commercial interest rate is 5.57% (2022: 3.61%). The carrying value includes a provision of £46,465 (2022: £90,044) 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 3.58% (2022 3.58%) per annum £19,428,613 (2022: £18,694,813). The loan is made up as follows:

	31 March 2023 £'000	31 March 2022 £'000
Gross amount	560,816	542,186
Issue cost recharges	(4,643)	(4,415)
Impairment	(46)	(90)
Loan interest accrued	518	1,186
Carrying value	<u>556,645</u>	<u>538,867</u>

Accrued interest of £518k (2022: 1,186k) represent the current portion of the loan as shown in current assets.

11 TRADE AND OTHER RECEIVABLES

Trade and other receivables:

	31 March 2023 £'000	31 March 2022 £'000
Trade receivables	10	5
Prepayments and accrued income	265	69
Deferred tax asset	407	375
	<u>682</u>	<u>449</u>

The debtors above include the following non-current amounts:

	31 March 2023 £'000	31 March 2022 £'000
Deferred tax asset	407	375
	<u>407</u>	<u>375</u>

Deferred tax assets are attributable to the following:

	Assets 31 March 2023 £'000	Assets 31 March 2022 £'000
Tax losses and other deductions	407	375
Tax assets	<u>407</u>	<u>375</u>

	1 April 2022 £'000	Recognised in statement of comprehensive income £'000	31 March 2023 £'000
Tax losses and other deductions	375	32	407
	<u>375</u>	<u>32</u>	<u>407</u>

11 TRADE AND OTHER RECEIVABLES (Continued)

The company has recognised a deferred tax asset as the Board believes that it is in a good position to continue to grow the business with new loans and increase its profitability. In addition, the company has stress tested its business plan for a range of different scenarios of business volume and borrower repayment activity and has determined that it is able to realise the deferred tax asset in future periods.

The government has announced an intention to increase the rate of UK Corporation Tax from 19% to 25% on 1 April 2023.

12 CASH AND CASH EQUIVALENTS

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 2023 £'000	31 March 2022 £'000
Cash at bank	2,845	2,875
Cash and cash equivalents	<u>2,845</u>	<u>2,875</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.

13 TRADE AND OTHER PAYABLES

Trade and other payables:

	31 March 2023 £'000	31 March 2022 £'000
Trade payables	57	65
Accruals	780	585
Other creditors	115	132
	<u>952</u>	<u>782</u>

Trade payables comprise amounts outstanding for trade purchases.

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

14 BOND LIABILITIES

	31 March 2023 £'000	31 March 2022 £'000
European Medium Term Notes	529,412	512,765
Second Secured Notes	20,210	19,320
Contingent Convertible Notes	5,789	5,543
	<u>555,411</u>	<u>537,628</u>

Accrued interest of £581k (2022: 1,423k) represent the current portion of the bond liabilities as shown in the current liabilities.

European Medium Term Notes:

On 16 August 2022 the company issued £18,700,000 European Medium Term Notes due in February 2038 secured by a first floating charge on the Issuer's undertaking, property and assets. The proceeds received were £17,402,407, including discount. Interest on the 3.4% bond is payable twice a year, on 19 August and 19 February in arrears. Interest totalling £76,852 has been accrued.

Second Secured Notes:

On 16 August 2022 the company issued £1,000,000 5.076% Second Secured Notes due on 5 March 2038 secured by a second floating charge on the Issuer's undertaking, property and assets. The proceeds received were £932,007 including discount. Interest on the notes is payable twice a year, on 19 August and 19 February in arrears. Interest totalling £5,959 has been accrued.

Contingent Convertible Notes:

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 £27,873 has been accrued. Of the total amount issued of £6,237,600 (2022: £5,662,600), £541,739 (2022: £538,040) has been reflected within equity.

	31 March 2023 £'000 Fair value	31 March 2022 £'000 Fair value	31 March 2023 £'000 Nominal value	31 March 2022 £'000 Nominal value
European Medium Term Notes	410,453	501,766	518,400	499,700
Second Secured Notes	21,191	20,123	19,995	18,995

The fair value has been calculated using the market value at the reporting date. European Medium Term Notes have a fair value hierarchy of level 1 and Second Secured Notes have a hierarchy level 2.

The fair value of Contingent Convertible Notes remains unchanged.

	31 March 2023 %	31 March 2022 %
The weighted average interest rates paid were:		
European Medium Term Notes	3.082	3.051
Second Secured Notes	4.809	4.761
Contingent Convertible Notes	<u>5.767</u>	<u>5.792</u>

15 FINANCIAL INSTRUMENTS

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

	31 March 2023 £'000	31 March 2022 £'000
Financial assets measured at amortised cost		
Loan assets	556,645	538,867
Trade receivables	10	5
Cash and cash equivalents	2,845	2,875
	<u>559,500</u>	<u>541,747</u>
Financial liabilities measured at amortised cost		
Trade payables	57	65
Accruals	780	585
Other creditors	115	132
Borrowings	555,411	537,628
	<u>556,363</u>	<u>538,410</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
2023				
Less than 1 year	2,845	518	10	3,373
1 – 3 years	-	-	-	-
3 – 5 years	-	-	-	-
Over 5 years	-	556,127	-	556,127
Balance at 31 March 2023	2,845	556,645	10	559,500
	Cash and cash equivalents	Loan assets	Trade and other receivables	Total
	£'000	£'000	£'000	£'000
2022				
Less than 1 year	2,875	1,186	5	4,066
1 – 3 years	-	-	-	-
3 – 5 years	-	-	-	-
Over 5 years	-	537,681	-	537,681
Balance at 31 March 2022	2,875	538,867	5	541,747

Financial liabilities analysed by remaining contractual maturity are as follows:

	Borrowings	Trade and other payables	Total
	£'000	£'000	£'000
2023			
Less than 1 year	581	952	1,533
1 – 3 years	-	-	-
3 – 5 years	-	-	-
Over 5 years	554,830	-	554,830
Balance at 31 March 2023	555,411	952	556,363
	Borrowings	Trade and other payables	Total
	£'000	£'000	£'000
2022			
Less than 1 year	1,423	782	2,205
1 – 3 years	-	-	-
3 – 5 years	-	-	-
Over 5 years	536,205	-	536,205
Balance at 31 March 2022	537,628	782	538,410

Gross undiscounted cash flows analysed by maturity are as follows:

	Borrowings	Trade and other payables	Total
	£'000	£'000	£'000
2023			
Less than 1 year	18,528	952	19,480
1 – 3 years	37,057	-	37,057
3 – 5 years	37,057	-	37,057
Over 5 years	746,690	-	746,690
Balance at 31 March 2023	839,332	952	840,284

15 FINANCIAL INSTRUMENTS (Continued)

	Borrowings	Trade and other payables	Total
	£'000	£'000	£'000
2022			
Less than 1 year	17,830	782	18,612
1 – 3 years	35,661	-	35,661
3 – 5 years	35,661	-	35,661
Over 5 years	737,609	-	737,609
Balance at 31 March 2022	826,761	782	827,543

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.

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

	Carrying value 2023	Carrying value 2022	Concentration 2023	Concentration 2022
Level 1	£19.3m	£19.3m	4%	4%
Level 2	£323.6m	£303.6m	60%	58%
Level 3	£139.5m	£139.5m	26%	27%
Level 4	£60m	£60m	10%	11%
Level 5 (Fail)	£Nil	£Nil	0%	0%

Based on 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. By deduction, Level 4 would be broadly equivalent to Standard and Poors rating A- and Level 5 would be broadly equivalent to Standard and Poors rating BBB+ or worse.

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 financial statements

15 FINANCIAL INSTRUMENTS (Continued)

- 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 (2022: 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 2023 £'000	31 March 2022 £'000
Financial assets measured at amortised cost:		
Loan assets	556,645	538,867
Trade receivables	10	5
Cash and cash equivalents	2,845	2,875
	<u>559,500</u>	<u>541,747</u>

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 (2022: £Nil)

Write-off policy

Receivables and loans 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 and loans 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 amounts being recovered.

15 FINANCIAL INSTRUMENTS (Continued)

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 counterpart 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;
- Indicators 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.

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, or unless previously agreed. No assets are considered to have experienced a significant increase in credit risk as at the year end.

Forward looking information

Loans are secured on property and therefore the company considers its greatest exposure to macroeconomic conditions to be the impact on the value of security held as collateral. In determining provisions for loss impairment the Group uses three macroeconomic scenarios for house prices which are considered to represent a range of plausible scenarios. Scenarios are developed based on analysis of third party published economic data and forecasts as well as expert management judgement. A summary of the three macroeconomic scenarios for house price movements are as follows:

	31 March 2023	31 March 2022
	%	%
Base case (50% weighting)	(5.7)	(3.2)
Upside (25% weighting)	4.3	6.8
Downside (25% weighting)	(15.7)	(13.2)

15 FINANCIAL INSTRUMENTS (Continued)

Impairment losses on financial instruments

Impairment losses comprises:

	31 March 2023 £'000	31 March 2022 £'000
Impairment losses on financial assets measured at amortised cost:		
Loan assets	<u>(44)</u>	<u>41</u>

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	Prepayments and accrued income
Performance:	£'000	£'000	£'000
Performing	556,645	10	265
Under-performing	-	-	-
Non-performing	-	-	-
Total gross carrying amount at 31 March 2023	<u>556,645</u>	<u>10</u>	<u>265</u>
	Loan assets	Trade receivables	Prepayments and accrued income
Performance:	£'000	£'000	£'000
Performing	538,867	5	70
Under-performing	-	-	-
Non-performing	-	-	-
Total gross carrying amount at 31 March 2022	<u>538,867</u>	<u>5</u>	<u>70</u>
	Loan assets	Trade receivables	Prepayments and accrued income
Probability of default:	£'000	£'000	£'000
0.03%	69,067	-	-
0.04%	304,093	-	-
0.05%	183,485	10	265
Total gross carrying amount at 31 March 2023	<u>556,645</u>	<u>10</u>	<u>265</u>
	Loan assets	Trade receivables	Prepayments and accrued income
Probability of default:	£'000	£'000	£'000
0.03%	69,039	-	-
0.04%	-	-	-
0.05%	469,828	5	70
Total gross carrying amount at 31 March 2022	<u>538,867</u>	<u>5</u>	<u>70</u>

15 FINANCIAL INSTRUMENTS (Continued)

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

Loss allowance	Loss allowance based on '12 month expected credit losses'		
	Loan assets £'000	Trade receivables £'000	Prepayments and accrued income £'000
Balance at 1 April 2022	(90)	-	-
Reversal for the year	44	-	-
Balance at 31 March 2023	<u>(46)</u>	<u>-</u>	<u>-</u>

All financial instruments are currently recognised as stage 1 instruments.

16 SHARE CAPITAL

	31 March 2023 £'000	31 March 2022 £'000
Authorised: 6,178,000 ordinary shares of £0.10 each (2022: 6,062,000 of £0.10)	<u>618</u>	<u>606</u>
Allotted, issued and fully paid: 6,178,000 ordinary shares of £0.10 each (2022: 6,062,000 of £0.10)	<u>618</u>	<u>606</u>

Movements in ordinary share capital:

	Date	Number of shares	Nominal Value	£'000
Balance brought forward	1 April 2022	6,062,000	£0.10	606
Issue of shares	16 August 2022	100,000	£0.10	10
Issue of shares	17 March 2023	16,000	£0.10	2
Closing balance	31 March 2023	6,178,000	£0.10	<u>618</u>

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.

Accumulated losses

Cumulative profit and loss net of distributions to owners.

18 NOTES TO THE STATEMENT OF CASH FLOWS

	31 March 2023 £'000	31 March 2022 £'000
Continuing operations		
Loss before tax	(129)	(251)
Adjustments for:		
Depreciation	2	1
Interest expense	17,669	15,914
Interest income	(18,391)	(16,725)
Impairment (reversal)/expense	(44)	41
Interest received	19,059	16,966
(Increase)/decrease in receivables	(201)	188
Increase/(decrease) in payables	170	(35)
Net cash generated from operating activities	<u>18,135</u>	<u>16,099</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

	31 March 2023 £'000	31 March 2022 £'000
Transactions with related parties:		
Interest income	18,391	16,504
Other income	248	320
Loan additions (net of issue cost recharges)	18,402	65,959
Issue of share capital (including share premium)	120	387
Issue of contingent convertible notes	230	251
Interest expense	327	286

19 RELATED PARTY TRANSACTIONS (Continued)

Amount due from related parties:	Loans	Interest	Total
2023	£'000	accrued £'000	£'000
Housing Associations with joint control	556,127	518	556,645
Amount due to related parties:			
	Loans	Interest	Total
	£'000	accrued £'000	£'000
Housing Associations with joint control	6,238	28	6,266
Amount due from related parties:			
	Loans	Interest	Total
2022	£'000	accrued £'000	£'000
Housing Associations with joint control	537,681	1,186	538,867
Amount due to related parties:			
	Loans	Interest	Total
	£'000	accrued £'000	£'000
Housing Associations with joint control	6,008	27	6,035

20 POST BALANCE SHEET EVENTS

On 4 April 2023 the company issued £1,701,000 5.076% Second Secured Notes due on 5 March 2038 secured by a second floating charge on the Issuer's undertaking, property and assets. The proceeds received were £1,388,763 including discount. Interest on the notes is payable twice a year, on 19 August and 19 February in arrears.

On 4 April 2023 the company also repurchased and cancelled £1,700,000 European Medium Term Notes due 2038 secured by a first floating charge on the Issuer's undertaking, property and assets. The price paid was £1,410,375 including discount and accrued interest. The repurchase and cancellation generated a profit of £268,415 which will be included in the results for the year ended 31 March 2024.