midland heart

Trading Update

(unaudited)

for the period ending 30 September 2021

MAKING WHAT MATTERS Brilliant

Contents

Chief Executive's foreword

The first six months of this year have seen us continue to deliver on the core objectives of our corporate plan, *Making What Matters Brilliant*. We've maintained our record investment in our customers' homes, built new affordable homes, improved our customer app and continued to provide our colleagues with the training and development they need to do their jobs brilliantly.

As we've moved out of the restrictions we all faced during the pandemic, we've maintained our focus on both customer and colleague safety. We're still maintaining a safe distance when visiting our customers homes, making sure that windows are open in rooms where work is being undertaken and making sure that customers are aware of how they can stay safe when we visit. This focus has meant that over 99% of customers said they felt safe when we had to visit homes to complete emergency work during national lockdowns.

Another area of focus has been to embed new smarter ways of working post-pandemic. We've invested in new tools and systems to help colleagues do their work in the most efficient way for them, ensuring they can spend more time closer to our customers and out and about in our communities. This investment has seen a significant reduction in our business mileage and allowed us to rationalise our office estate to three core locations. Many of the offices we no longer need are in our schemes and retirement villages and are in the process of being repurposed to create more affordable homes.

This year we've also launched our new, more ambitious low carbon strategy, which focuses on reducing the environmental impact of the homes we rent, the homes we build and the way we work. Our plan commits us to being a carbon neutral landlord by 2050.

We've approached all of this work, as we do every other challenge we face as an organisation, with our customers at the front of our mind and by setting goals we know will have a meaningful impact, that we can deliver on time and represent good value for money. As a result we remain in a strong financial position heading into the final half of this year and towards the end of our corporate plan in 2025.

Glenn

Glenn Harris MBE
Chief Executive, Midland Heart

Key highlights

G1/V1 ratings from the regulator

£33.2m Surplus for the half year **up 36%**

On track to deliver **4,000 new homes** by 2025

31% operating margin

Completed stock swap with Orbit where we acquired **620 additional units** from Orbit and **transferred 526 units**

80% colleague engagement

Operating and financial review (All figures are unaudited)

GROUP STATEMENT OF COMPREHENSIVE INCOME	Sept 2020 (£'000)	Sept 2021 (£'000)
Turnover (A)	96,552	104,132
Operating expenditure (B)	(63,315)	(72,279)
Surplus on disposal of property, plant and equipment	1,659	11,343
Surplus on revaluation of investment properties	-	-
Operating Surplus	**34,896**	**43,196**
Interest receivable	434	136
Interest and financial costs	(10,983)	(10,086)
Surplus before tax	**24,347**	**33,246**
Taxation	39	-
Surplus for the year	**24,386**	**33,246**
Movement in fair value of cash flow hedged financial instuments	(2,235)	4,333
Total comprehensive income for the year	**22,151**	**37,579**
Operating margin (A-B/A)	**34%**	**31%**

GROUP STATEMENT OF FINANCIAL POSITION	Sept 2020 (£'000)	March 2021 (£'000)	Sept 2021 (£'000)
Housing properties	1,570,075	1,615,900	1,677,701
Investment properties	25,479	27,250	27,074
Other fixed assets	35,483	38,718	42,339
Fixed asset investment	2,596	2,230	1,805
Total Fixed Assets	**1,633,633**	**1,684,098**	**1,748,919**
Other	14,069	24,914	14,983
Cash and cash equivalents	173,842	107,971	68,046
Total Current Assets	**187,911**	**132,885**	**83,029**
Creditors: Amounts falling due within one year	(37,540)	(55,212)	(38,379)
Net Current Assets	**150,371**	**77,673**	**44,650**
Total Assets less Current Liabilities	**1,784,004**	**1,761,771**	**1,793,569**
Creditors: Amounts falling due after more than one year	(1,410,014)	(1,359,628)	(1,355,597)
Pension:defined benefit liability	(15.453)	(35,364)	(33,615)
Total Net Assets	**358,537**	**366,779**	**404,357**
Revenue reserves	440,254	431,803	465,048
Cash flow hedge reserve	(81,717)	(65,024)	(60,691)
Total Reserves	**358,537**	**366,779**	**404,357**

- Underlying operating surplus stable; increase due to surplus on stock swap with Orbit and stronger First Tranche sales
- More investment in new homes and existing stock
- Investment in new East Midlands Hub, smarter working and network replacement projects

Striving for business as usual: Our Covid update

Investing in homes	• Completed hundreds of home improvements, from in stalling new energy efficient boilers to replacing windows, doors and roofs
Service first	• Urgent repairs maintained throughout the pandemic and routine repairs resumed as soon as possible • 92% Customer satisfaction
Growth and partnerships	• On track to deliver circa 700 homes ,169 delivered to Sept 21
People focussed	• All staff retained or redeployed, no colleagues faced the uncertainty of furlough • 80% colleague engagement
Safe and strong	• Gas safety compliance maintained • Building safety obligations met

Value for money and social impact

Delivering strong returns on investment

	March 2021	September 2021
Gearing (%)	28.9	30.3
Operating margin (social housing lettings only) (%)	32.6	33.7
Operating margin (overall) (%)	30.9	30.6
EBITDA MRI Interest cover (%)	214	295
ROCE (annualised rate) (%)	3.7	4.8

Becoming an early adopter of the Sustainability Reporting Standard

We are very proud to be an early adopter of the Sustainability Reporting Standard for Social Housing, the result of an innovative collaboration between banks, investors, housing associations, service providers and impact investing organisations. The group was established, in 2019, following the recognition that there was no common reporting standard for Environmental, Social and Governance (ESG) reporting. ESG factors are rapidly increasing in relevance in the credit process and the new reporting standard will help us secure investment on the best possible terms as well as clearly articulating our social impact. This includes:

- **Providing genuinely affordable homes and supporting customers**

  We provide good quality, affordable homes for those who would otherwise be unable to afford them. Around 90% of our homes are offered at social rent and we let hundreds of homes each month. All our new homes on site are for social and affordable rent or shared ownership. Our specially trained team of money advisors work closely with any customers who fall into financial difficulty, ensuring 99% of those who engage are able to successfully sustain their tenancy. This work has been all the more essential during Covid, with our advisors helping over 700 customers between April and September.

- **Reducing carbon emissions**

  This year we launched our new, more ambitious carbon reduction plan. As well as exploring ways to reduce the carbon footprint of new homes, we are investing over £100million in improving our existing homes. This includes installing the most efficient A-rated boilers and upgrading windows, doors and roofs to offer higher standards of thermal insulation. We aim to ensure all our homes meet a minimum EPC rating of D by 2025 and are currently undertaking a retrofit pilot in collaboration with British Gas in Coventry.

- **Investing in jobs**

  We recognise the important role we play in supporting the local and regional economy. As well as paying all our staff the Living Wage, we aim to be a leading employer, offering brilliant career and development opportunities. We're proud to be recognised as one of the UKs 50 most inclusive employers for the second year and offer an award winning benefits package. Over the last six months, we've made 230 job offers and are running large scale recruitment campaigns to attract and retain the best people.

Treasury position

Cash and Liquidity
Total: £220m

Cash: **£68m**

Available facilities: **£152m** +
Fully secured and unissued
Retained Bond

Unencumbered Assets
5,823

MVT: **£469m**
EUV: **£322m**

Drawn Debt and Swaps

Outstanding Loan Balance **£574m**

SWAPS: **£150m**
Fully hedged and collateralised by
property/credit threshold

Golden Rules

Liquidity Rule:
18 months
New funding required
by March 2023

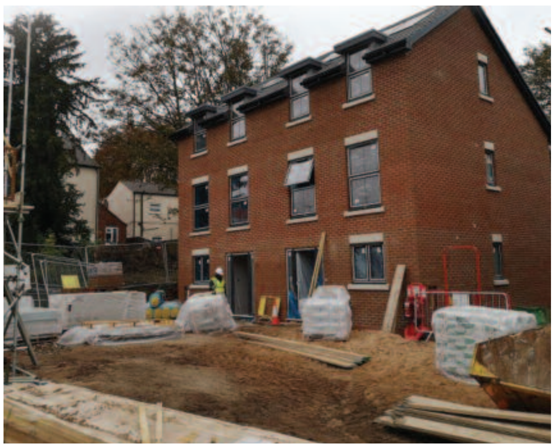
Interest Cover
Min: 150%
Current: 425%

Gearing
Max: 70%
Current: 43%

Moody's Credit Rating
A1
(stable)

Contribution to new housing supply

- On track to achieve our corporate plan aim to build **4,000 homes by 2025, with 1,300 homes now on site**.
- Over two thirds of the homes we have on site are far **social and affordable rent**. The remainder are for **shared ownership**.
- On site at a **pioneering low carbon development** in Handsworth, which will meet the Government's **Future Homes Standard** three years ahead of schedule.



MAKING WHAT MATTERS *Brilliant*

Enquiries

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