Orchard in brief

Orchard Funding Group plc, ("the company" or "Orchard") is an AIM listed company which, through its wholly-owned subsidiaries Bexhill UK Limited ("Bexhill"), Orchard Funding Limited ("Orchard Funding"), Orchard Finance Limited ("Orchard Finance"), Cherry Orchard Funding Limited ("Cherry Orchard") and Orchard Bond Finance plc ("Orchard Bond"), (together "the group") specialises in insurance premium finance, professional fee funding, finance for other service fees and secured property lending. The group is unique in providing brokers with the ability to operate their own finance companies and provides a high level of tailored service to all their clients. For those brokers and organisations who prefer to act as introducers only, Orchard offers competitive finance products for their clients.

"…. I would not hesitate in recommending any broker to use their excellent service and facilities."

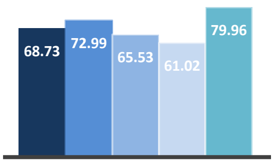
Contents

Group financial highlights

Until 2019, Orchard grew its lending year on year. From August 2019 to July 2021 lending fell primarily due to the impact of COVID-19. This situation has been reversed this year with all areas included in the summaries below showing increases.
The main areas in which increases were made were in lending to premium funding companies and in direct insurance lending, adding approximately £16m between them against loans made in the previous year. We, again, thank our staff, funders, partners and shareholders for all their support.

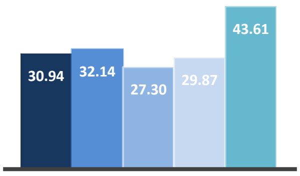
Five year summaries

Key (all £m)
2018
2019
2020
2021
2022



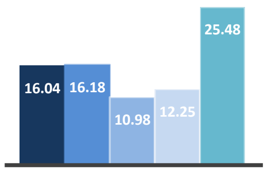
LENDING

Lending up from £61.02m in 2021 to £79.96m in 2022



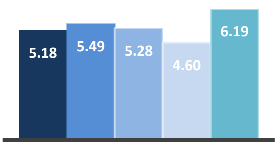
LOAN BOOK

Loan book up from £29.87m in 2021 to £43.61m in 2022



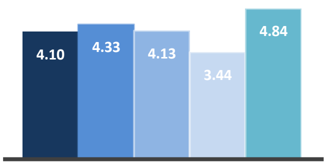
BORROWING

Borrowing up from £12.25m in 2021 to £25.48m in 2022



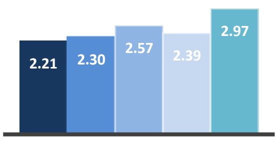
GROSS TOTAL INCOME

Gross total income up from £4.60m in 2021 to £6.19m in 2022



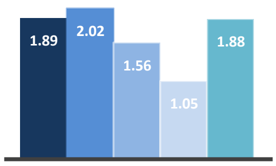
NET TOTAL INCOME

Net total income up from £3.44m in 2021 to £4.84m in 2022



OTHER OPERATING COSTS

Other operating costs up from £2.39m in 2021 to £2.97m in 2022



OPERATING PROFIT

Operating profit up from £1.05m in 2021 to £1.88in 2022

Gross total income consists of interest receivable together with other trading income.
Net total income is gross total income after direct costs.
Operating costs include expected credit loss provision.

Chairman's statement

This has been a good year for our business with Lending volumes, Gross and Net Income at all time highs. We have seen strong performance from our core insurance business despite ongoing aggressive competition from the two major incumbents. We have continued to build a strong relationship with Toyota Financial Services and have successfully piloted our new Bridging Loan proposition. We believe we can grow a profitable secured lending offering to complement our insurance business, competing on the basis of our experienced staff, and our proven underwriting processes and supporting systems.

The economic backdrop improved significantly following the lifting of all COVID restrictions although we do face new headwinds. We are partly insulated from the current high inflation 'cost of living' challenges as our core insurance products are mainly a non discretionary purchase for our consumers. We will have a close watch for any increase in arrears and will continue to support our customers through any difficulties as far as possible. We are likely to see pressure on our net interest margins with the majority of our borrowing subject to increases in market rates.

I am pleased to confirm that we continue to be funded by Toyota Financial Services and National Westminster Bank and I thank them for their continued support. We have started to diversify our funding this year with the issue of a 5 year listed Retail Bond as we now start to lend longer term with our Static Caravan HP product.

We have continued with a hybrid working arrangement, with the majority of our staff benefiting from the flexibility to work from home as a result of our investment in IT infrastructure. This ensures we remain an attractive employer for our small loyal workforce.

Despite the headwinds caused by the current geo-political uncertainty the Board remains cautiously optimistic about the future and in our ability to grow and diversify our balance sheet based on our history of profitable performance, our highly experienced executive team and our nimble systems. I am pleased to confirm that we are proposing to maintain the dividend at 3pence per share continuing our track record of dividend payments since floatation, including during the COVID downturn.

Steven Hicks
Chairman

30 November 2022

Chief executive's review

We are pleased to report a complete recovery of our business from the impacts of Covid-19.

Our total lending, balance sheet, income and profits have all materially increased from last year's numbers. This is a testament to the hard work of the team and proves the resilience of our business model.

As well as the significant improvement in our lending, we have also ensured that we have market leading liquidity to support our business. Our liquidity is provided by Toyota Financial Services PLC, National Westminster Bank PLC and our listed bond programme through Orchard Bond Finance PLC.

We have always managed our expenses carefully and still run a very cost-effective operation.

We have full control and are justly proud of our in-house developed IT, which not only manages all of our loan administration and reporting, but also provides market leading underwriting technology, which will continue to support our conservative lending into the future. We now provide a SAAS service to a number of our customers, which further exemplifies the effectiveness and robustness of our IT platform.

We operate in a very competitive market, dominated by two very large and aggressive financial institutions. Consolidation in the premium finance industry means that we are now the only other lender in the market. Despite significant balance sheet disadvantage, we continue to provide a unique service to our clients and also offer a unique product in the market to insurance companies and brokers wishing to provide in-house finance to their customers.

We enter the new financial year facing many difficult economic headwinds. Our cost of funds has risen significantly. Consumer confidence and spending power are adversely impacted and hence borrowing levels in the general lending market are already in decline. We believe that our business model will see us through these difficult times and still enable us to conduct lending on a prudent basis. All lenders will have to remain vigilant and we are no exception to this requirement.

Whilst insurance premium finance remains our preferred and dominant market, we continue to explore and lend in adjacent markets, which share the credit risk profile of our core market. We keep simple unsecured lending with no other protection to a very limited part of our lending book. We are happy to report that we continue to lend into the professions fee funding market, where we have over 200 accountancy firms on our books, the leisure market, where we have over 100 golf clubs on our books, the school fee funding market and the static caravan market. Most recently we have entered, on a very conservative basis, the property bridge finance market, with our new secured lender, Cherry Orchard Funding Limited. We continue to explore market opportunities carefully and are able to utilise the great experience of our non-executive directors who have both held leading positions in a number of UK banks. Our Chairman, Steven Hicks, is Chair of Risk at 2 UK banks and with Ketan Malde, a former CFO of a number of highly successful banks, provide a watchful and experienced risk management overview of our business.

We continue to be supported by our experienced and loyal staff. We continue to invest in staff to accommodate the changing nature of our business, ensuring that our partners and borrowers have the excellent support that they deserve. Our senior managers have been with us for more than a decade and this is indicative of the type of business that we are – caring and supportive to our people. We believe our staff to be one of our greatest assets and they enable us to continue to deliver a very high level of service to our clients. We have also been able to ensure that all staff are able to work from home and thank them for ensuring that our customers continue to receive excellent service.

We would like to thank Toyota Financial Services PLC and National Westminster Bank PLC for our current liquidity lines. We have adequate liquidity for our near-term lending aspirations.

In summary, we have recovered from Covid-19. We now enter into another period of financial and economic uncertainty, secure in the knowledge that we have a robust business model and a controlled operational cost base that will continue to support our staff, liquidity providers and investors.

We paid a dividend of 2 pence per share in December 2021 and an interim of 1 pence per share in April 2022. I am happy to announce that the board has proposed a final dividend of 2 pence per share to be paid in January 2023, subject to shareholder approval.

Ravi Takhar
Chief executive officer

30 November 2022

Group strategic report

Strategy and objectives

The group's principal objective remains to increase our profitability in a prudent, sustainable manner, having due regard for the interests of all stakeholders. The term stakeholders in this respect is wide ranging and includes employees, shareholders, our introducing partners, other customers, creditors, regulators, other parts of government and the local and wider community. Each of these groups has different, sometimes conflicting, interests, and it is the responsibility of the board to ensure that all stakeholders are treated fairly. This concept of fairness to all permeates through the decision making process.

We have six strategic drivers behind our objective of increasing profitability and these have remained the same for some years:

- to differentiate our business from that of our competitors, based on service excellence, fair pricing and robust underwriting procedures;
- to increase lending in a responsible manner;
- to preserve and, where deemed necessary, increase our sources of liquidity;
- to innovate;
- to continually improve our IT systems;
- to support our excellent staff in their work.

Strategy

Increase profitability
- prudent
- sustainable

Benefits
- employees
- shareholders
- other stakeholders

Drivers
- differentiation
- responsible lending
- liquidity maintenance
- innovation
- IT
- staff support

Differentiation covers a number of factors: the ease of transfer of business from other lenders to us; taking time to fully understand our introducing partners' businesses; being easily contactable by all our customers; providing flexible funding arrangements; reducing our partners costs and giving them regular training and assistance.

The directors still believe in our two pronged approach to lending – to increase the number of partners who fit in with our business values (brokers, accountants and other third party introducers) as well as to increase the volume of business from each of these partners, while always having regard to the risks associated with lending and keeping fair treatment of customers at the heart of our business.

Our approach to innovation is to review markets and product lines which we believe are appropriate for our lending criteria - safe lending and sensible returns. How we have achieved this during the year is detailed later.

Our IT system is fully in-house, providing stability for our future business, the ability to increase lending in our core markets where IT system integration is required and the ability to enter new markets. It gives us much more control over, and thereby reduces risks in, the development of the system. We work with our supplier in the further development of an open banking system, pushing down costs and giving greater security in lending.

Our sales team are our first line in dealing with our partners, arranging prospect meetings and, where required, making use of senior personnel to help them close a deal. They are ably supported by other members of the team who ensure that proper care is taken of our partners. Care of our partners is of paramount importance in our business culture and this aspect is a constant part of training for all staff. Feedback from our partners in this area remains positive.

Our aim is to continue to build strongly to achieve our principal objective by maintain and enhancing the strategies listed above.

Model

Provide credit
- securely
- profitably
- disciplined lending
- strict underwriting

Funding
- £20.0m Toyota Financial Services general facility
- £10.0m Toyota Financial Services restricted facility
- £5.0m Natwest facility
- £3.9m raised from bond issue
- £12.3m own net current financial assets

Our business model

Our core business remains providing credit to businesses and consumers to enable them to spread the cost of their insurance premiums, professional fees or other service fees over a period of up to one year. We began expanding last year into longer term loans (up to seven years) for asset finance and up to three years for gap insurance. We have introduced a bridging loan product this year. Our business model is a "hold to collect" model in which financial assets are held to maturity to collect cash flows of principal and interest, rather than holding them for sale. More detail on this is given in note 2.6 on page 39.

Despite the fact that we now have longer term lending, the nature of our products remains so alike in terms of risk, reward and processes that any segregation would not give meaningful information to users of the financial statements. In most cases our lending is covered by recourse to a guaranteeing partner. Our underwriting and debt management procedures are similar enough that we have not found it necessary to disaggregate results arising from our several markets. We believe that to do so would obscure material information and reduce the understandability of the financial statements. We therefore still report a single trading segment – lending. All of our lending is within the UK.

Lending limits to our customers are set by reference to financial information (credit reports, regulatory and other requirements) and by reference to other qualitative information for both our introducing partners and for the end borrowers. In addition, an annual review process, including regulatory permissions and credit checks, is conducted for each introducing partner and each partner is monitored monthly for the group's financial exposure to that entity. The majority of our lending gives us recourse to the introducing partner, is through regulated introducers and no cash is passed over until at least the first repayment is received. In the case of insurance, the customer can have their cover withdrawn for non-payment with any refunds being paid to Orchard. In the case of longer term lending, the procedure is more vigorous, making use of open banking technology (as mentioned earlier) to further mitigate the risk of default. We have in the past turned down potential borrowers because they did not fulfil our strict requirements. Indeed, we shall continue to do so. In terms of bridging finance, our maximum loan compared to the value of the property ("LTV") is 75%, with no loan this year being more than 70% LTV.

Protected lending

- credit checks
- recourse to introducer
- regulated businesses
- 1st repayment before loan is made

Stable funding

- external audit
- regular reporting

Last year the year the group refinanced its borrowings. The interest rates charged (excluding associated costs) were lower than was previously being charged.

A retail listed bond was issued on 2 March 2022. Full details plus the prospectus are on the company's website at https://www.orchardfundinggroupplc.com/bonds. This raised £3.90m up to 31 July 2022 and has given us further secure liquidity.

Excluding the bond, the group has borrowing facilities up to up to a maximum of £25.00m for general lending. In addition Orchard Finance has a facility of up to £10.00m to be used exclusively for lending in respect of products from the provider of those funds.

Of the general facility, £8.58m was unused at the year end, Of the restricted facility, £4.64m was unused.

The balance of lending is provided both from group resources. At 31 July 2022 the group had net current financial assets (receivables plus cash in hand less current liabilities) amounting to £12.26m.

The group's average cost of finance (calculated by interest payments over borrowings in the period) was 3.57% in the financial year to 31 July 2022 (6.03% on the same basis in the year to 31 July 2021). Cost of funds includes arrangement and legal fees payable for access to funding and fees for non-use of the facility. There was some distortion last year as costs were incurred for a facility which was not used by the year end but which has since been used. If only interest were included in cost of finance the percentages would be 2.95% for 2022 and 3.03% for 2021.

Principal risks and uncertainties

The group's activities expose it to a variety of risks.

The board has identified the following principal risks, their potential impact on Orchard, an assessment of change in risk year-on-year, our risk appetite and how we mitigate risk. Principal risks are those which could have most impact on our ability to continue in business. Indicators of those risks (key risk indicators or KRIs) are shown below. Orchard's sole business is lending money and therefore the risks apply to this area. Since issuing the retail bond further risks have arisen. In addition, turbulence in world markets has led indirectly to interest rate rises.

KRIs

- credit risk
- liquidity risk
- interest rate risk
- non-use risk
- non-payment risk
- systems risk
- conduct risk

Credit risk

Explanation of the risk	The risk that debtors or guarantors will default
Impact on the group	A major loss could have a serious effect on group profits - the whole of the capital loss will impact on profit.
Year-on-year change in risk	Risk has changed in that a worsening economy may lead to higher: inflation, interest rates, unemployment and business collapses. In addition, we are now lending at fixed rates (although the majority of these loans are currently repayable within one year).
Risk appetite	Our aim is to limit reported credit losses to below 0.5% of income generating assets.
Mitigation of risk	In most cases, money is only lent for periods up to one year predominantly through introducers who guarantee the loans and who are regulated businesses themselves. Borrowing limits are set based on prudent underwriting principles. Impairment reviews are regularly conducted to identify potential problems early. Note 17 gives further details of mitigation of credit risk. In addition, our documentation is reviewed regularly by our legal team to ensure that debts are not subject to challenge at a later date.

Liquidity risk

Explanation of the risk	A lack of funding to finance our business.
Impact on the group	Without adequate funding we cannot conduct our business.
Year-on-year change in risk	Risk has fallen. We refinanced last year and the providers of those funds have increased our facility. We obtained longer term funding by issuing a five year retail bond.
Risk appetite	We aim to have 5% more funds than would be sufficient to enable our plans to be met.
Mitigation of risk	Our borrowing facilities are due for renewal in April 2023 for Bexhill and June 2023 for Orchard. Our funders have indicated, so far as they are able, that they have no wish to withdraw their support. Excess available credit plus our net current financial assets amounted to £20.84m at 31 July 2022 (excluding borrowings restricted to Toyota products). Our operating costs for the year were £2.91m (excluding impairment allowance) giving more than sufficient headroom to operate well into the future.

Interest rate risk

Explanation of the risk	The risk that we lend at one rate and borrow at a rate higher than anticipated.
Impact on the group	Reduced margins mean reduced profit.
Year-on-year change in risk	Risk has changed substantially. Since July 2021 Bank of England base rate has increased from 0.10% to 1.25% by 31 July 2022. At the time of writing there have been three further increases taking the rate to 3.00% - a staggering 2,900% increase (albeit from a very low starting point). In this environment we look closely at all new lending to ensure that our margins remain stable. We have longer term fixed rate lending but it still represents a small proportion of our total lending (5.06% of our 2022 lending). However, had base rates been at 3.00% for the whole of the previous year and we still lent money at the rate which we did, the additional cost would have been £252k – 13.43% of reported PBT.
Risk appetite	Our risk appetite in the past was 25% above the interest rate that we were paying when a loan was made, without being able to pass this on to our customers. Clearly

	this is unsustainable in the current climate when rates are rising to counter high levels of inflation. Our appetite now is to ensure that the net interest margin on new lending remains above 10%.
Mitigation of risk	Management is in regular contact with its funders and routinely reviews the financial situation in the economy. The majority of loans made are relatively short term (no more than twelve months with the average at ten) so any increase is likely to have a fairly short-term impact. Longer term loans are still a very small percentage of the business.

Non-use risk

Explanation of the risk	This is the risk that money raised through the retail bond will not be used to the extent that income arising covers the bond interest.
Impact on the group	Having money "sitting idle" will not generate enough income to enable the loans to be serviced. In this situation there will be a drain on the group's resources.
Year-on-year change in risk	This is a new risk for us as we have not had long-term fixed interest borrowings before.
Risk appetite	It was accepted that once the money was received it would take time to make use of it for lending. The appetite is to lend this money within a reasonable time frame (six months of receipt) for products with a rate of return in excess of the rate being paid.
Mitigation of risk	This risk is mitigated by the fact that our subsidiaries are all trading companies currently with a number of sources of funding. Bond money could replace that borrowing if need be.

Non-repayment risk

Explanation of the risk	The retail bond is a five year bond. At the end of that term the money will need to be repaid to the bond holders. This is the risk that there will be insufficient cash in the system to make those repayments.
Impact on the group	The amount raised on the market was approx. £3.90m. Should the company which raised the money not be able to repay this it would lead to the group having to find £0.39m under a guarantee but, more importantly, lead to reputational risk which might cause other funders to consider renewing facilities.
Year-on-year change in risk	This is, again, a new risk for us as we have not had long-term fixed interest borrowings before.
Risk appetite	There is no risk appetite for non-repayment. The costs to the group could be significant.
Mitigation of risk	This risk is mitigated by the fact that the amounts involved could easily be covered by the likely cash position at the time that repayment is due.

Systems risk

Explanation of the risk	Disruption to or failure of our IT systems. Cyber threats – data being accessed illegally.
Impact on the group	Persistent or serious failures could lead to lack of confidence in our system and reduce our operational capabilities. Penalties for allowing data breaches are severe and could lead to us not being able to operate at all.
Year-on-year change in risk	Our new system has been fully operational for almost two years now and we are over the settling down period. The system is proving robust. The risk of cyber-crime has not increased.
Risk appetite	There is no risk appetite for either failure or cyber-crime.
Mitigation of risk	Remote support access enables prompt resolution of incidents. Internet connection provides guaranteed access. We have commissioned a risk assessment of our system by external IT specialists. Our controls are such that even a minor disruption is very quickly picked up and action taken. Systems are covered by a support contract which enables quick identification of any problems.

	The group continues to develop its processes for prevention of cyber threats. If prevention is not guaranteed, the systems in place give us the capability to detect, respond and recover from those attacks. All our staff are well trained in the use of our systems and are well placed to notice and unusual activity.

Conduct risk

Explanation of the risk	Any action that leads to unfair customer outcomes. Any action that has an adverse effect on market stability or effective competition. Fraud.
Impact on the group	Failing to deal effectively with conduct risk faces regulatory action, fines, and reputational damage.
Year-on-year change in risk	Risk has not changed.
Risk appetite	The board has no appetite for non-compliance with regulation or for any instance of fraud within or on the organisation.
Mitigation of risk	The board sets standards which comply with regulation and best practice. The CEO monitors staff compliance with those standards, reports deficiencies to the board and provides staff with advice on the interpretation of the standards. Controls are in place to prevent internal fraud with day to day supervision by the CEO. Regular monitoring of introducing partners is conducted including a review of sources of loan repayments. Our documentation is reviewed by our legal team to ensure that it is meets the requirements of the FCA.

The group's overall risk management programme focuses on reducing the effect of these risks on its financial performance. A risk appetite (the level at which risk is accepted by the group before action needs to be taken) is established for the key risk areas. A regular assessment of the principal risks affecting the group, based on a traffic light classification, is carried out by the executive directors who then pass this on to the full board of directors. The board identifies, evaluates and mitigates financial risks and there are written policies for all major risk areas at subsidiary company level (where the activity takes place). The tables above show the group's principal risk appetite and how risk is mitigated. A risk register is maintained in which any instances of any of the aforementioned risks are recorded and, where necessary, acted upon.

We are committed to maintaining the highest standards of ethics and integrity in the way we do business. We adopt a zero tolerance approach to bribery and fraud and expect our business partners to do the same. Our staff are encouraged to contact the board if they have any concerns in this regard. We are committed to behaviour that results in fair outcomes for our customers (both introducers and end borrowers).

In summary:

- credit risk is reduced by a robust system of checks on introducers, borrowers and by third party guarantees;
- liquidity risk is alleviated by borrowing facilities from our funders;
- interest rate risk is mitigated by the fact that most loans are short term, by regular interaction with our bankers and by reviewing the net interest margin;
- risks attaching to the bond (both non-use and non-repayment) are alleviated by our normal business processes of finding markets which can give a profitable return and generate sufficient cash. If need be we can replace other borrowings with money raised from the issue:
- risk from disruption to the IT system and cyber-crime is avoided by thorough business continuity procedures and procedures designed to prevent, detect, respond and recover from malicious attacks; and
- conduct risk is mitigated by staff training, board oversight and monitoring of introducing partners.

The nature of the business is that loans are made either to finance companies or to clients of our introducing partners. Although there is some significant lending to individual finance companies, the underlying debts making up these loans are collected by Orchard and assigned to Orchard. At 31 July 2022, the largest nominal exposure was £6.69m to one finance company representing 15.25% of our loans (before expected credit loss provisions "ECL"). The highest exposure to a non-finance company was £2.15m and consisted of advances comprising many smaller loans (the average amount for each loan was £211). The reality, therefore, is that our exposure is low. At 31 July 2022 total outstanding loans were £43.87m before ECL (at 30 September 2021 £30.60m), of which the highest individual loan (not a block loan to a premium finance company) was £186.39k. This was for asset finance and represented less than 0.43% of total outstanding loans. This is likely to remain the situation in the near future.

We have experienced late payments in the past. The majority of these are through our customers changing banking details. We make charges for late payments and this reduces our expected credit losses.

We review debts for impairment and make provision where necessary. As part of this process, we have increased the provision by £63k during the year to 31 July 2022, net of reversal of previous provisions and items written off against those provisions (£131k was released in the year to 31 July 2021). This has been charged (2021 credited) to the income statement below operating costs. The provision this year is £135k carried forward at 31 July 2022 (£72k at 31 July 2021). As our loan book grows so does the provision. Note 2.6 outlines the approach to credit impairments.

The main uncertainties in these financial statements are those connected with the level of expected credit losses. Although objective evidence is obtained where possible (macroeconomic factors etc.), these still require a good deal of management judgement. They are detailed in note 3.

The business environment

Having come out of the market turbulence caused by COVID-19, businesses appear to have been thrust into another period of instability. The effect of oil and gas price rises, changes in government and the commotion caused by the invasion of Ukraine have led to further unrest in the markets and pressure on the pound.

As a result of the above we are seeing rates of inflation not seen for many years with the Bank of England increasing interest rates to combat these high inflation rates. Bank of England base rate has increased five times since our last year end with another three increases since 31 July 2022. These eight increases make up an astonishing 2,900% on the rate in force at 31 July 2021.

In this environment, individuals and businesses are more likely to try to conserve cash and spread expenditure over a period of time. Insurance is one type of expenditure which lends itself to this approach. It is also a purchase which is needed (a "distress purchase") either for legal reasons or for security. Orchard's core business is exactly that – providing funds for the spreading of insurance payment. We are in an ideal position to provide help to our introducers and their customers in these difficult times by providing this service.

Development and performance of the business

Overview

Lending was already beginning to grow by the end of our last financial year and this pattern continued in every month this year except December. Overall growth in lending was 30.98% over the previous year.

Most of our premium finance growth will come from the direct insurance side (this was up 39.34% compared to the previous year) rather than from broker premium funding companies ("PFC"'s). PFCs still remain our largest market and, after lending to them fell from £33.8m in 2020 to £29.58m last year, it has grown again to £37.03m in this financial year. The demand for professional fee finance seems to have stabilised this year at £4.38m.

Product lines already introduced are reviewed regularly to evaluate the impact they are having on the business. To date that impact has been encouraging. We continue to use the same disciplined approach when evaluating potential new markets.

We began lending into longer term markets, as mentioned last year and these are going well. We intend to grow these further. Details are shown in future developments on page 12.

To summarise: it remains our intention to increase our sales in existing markets and expand into adjacent markets, always having regard to returns that are needed to keep the business financially healthy. We shall continue to control costs, only spending where we believe it will increase our profitability. We have sufficient liquidity at present but this is always kept under review.

Financial indicators

The function of the group remains to lend money safely. Good quality customers are therefore central to the development of the business. We have continued to add to our introducing partner base and have continued to sell more through this base. Despite hard economic conditions, this continues to work well.

Our margin is an important area. Some of our borrowing is fixed to bank base rate and some to the Sterling Overnight Index Average, "SONIA." As these rates alter so will our borrowing costs. Given the short term nature of most of our lending any likely changes would make a small impression on margins. Our own analysis indicated that, under what could be described as "normal" circumstances, the influence on our business would be negligible. However, as pointed out in Principal risks and uncertainties on pages 6 to 9, these are not normal circumstances. We now ensure that as base rate or SONIA rise, we are faster to readjust our pricing. This was not needed to be done before because rates were low and stable. There remains greater risk with our longer term products that rate increases would erode margins.

Most other operating costs in this business are relatively stable. We have increases resulting from an increased sales function. Exhibition costs are up because we have been unable to attend during the last two years because of COVID-19 but now can. The other main increase is in consultancy fees in setting up the bridging loan system. Overall, operating costs (including ECL) are 24.27% higher than in 2021. Details of these costs are shown in note 6.

Financial key performance indicators (KPIs)

The table below gives a breakdown of group KPIs as well as indicators not considered KPIs but which give a better understanding of the figures.

We have seen increases in lending, revenue and profit this year compared to last. Last year COVID impacted our business for approximately eight months. This year we have seen increases in all markets in which we operate except school fees. We have also seen increases in our costs. Other operating costs rose from £2.52m in 2021 to £2.91 this year (see Consolidated statement of comprehensive income of comprehensive income on page 29). With a profit before tax of 79.05% higher than in 2021 the board are satisfied with the results this year.

Financial KPIs

- lending
- average interest earning assets
- total revenue
- funding
- cost of external funds
- operating costs
- own resources
- ROAE

All £m unless obviously otherwise	**2022**	**2021**	**2020**	**2019**	**2018**
KPIs					
Lending volume	£79.96	£61.02	£65.53	£72.99	£68.73
Average interest earning assets[1]	£36.81	£28.59	£29.72	£31.54	£29.68
Total revenue	£6.19	£4.60	£5.28	£5.49	£5.18
Average external funding	£15.77	£9.28	£12.82	£14.35	£11.49
Cost of external funds	£0.59	£0.56	£0.62	£0.70	£0.63
Cost of funds/funds ratio	3.57%	6.03%	4.84%	4.88%	4.79%
Own resources (net current financial assets)	£12.26	£14.15	£15.50	£14.82	£13.92
Operating costs (pre ECL)	£2.91	£2.52	£2.44	£2.20	£1.92
Net interest margin[2]	11.98%	11.26%	13.26%	13.19%	13.01%
ROAE (Return on average equity)	9.36%	5.35%	8.31%	10.90%	11.10%
Other performance indicators					
Net interest income	£4.41	£3.22	£3.94	£4.16	£3.86
Profit before tax	£1.88	£1.05	£1.56	£1.97	£1.89
Profit after tax	£1.52	£0.84	£1.27	£1.58	£1.51
Gross interest margin	13.58%	13.22%	15.34%	15.41%	15.13%
EPS (pence) [3]	7.11	3.91	5.96	7.67	7.07
DPS (pence) [4]	3.00	3.00	3.00	3.00	3.00
Return on capital employed	5.19%	4.33%	6.74%	7.24%	6.77%

1. Average interest earning assets consist of the average of the opening and closing loan book after taking account of the impairment provision.
2. This has become more important than in the past. As explained on pages 6 and 7, in the light of rising interest rates it gives both a quick indicator of the level of profitability in the loans made and will be used to evaluate whether the interest rate risk on loans made falls within our risk appetite. It is now a KPI.
3. There are no factors which would dilute earnings therefore fully diluted earnings per share are identical.
4. Dividends per share are based on interim dividends paid in the year and proposed final dividend for the year.

Net total income (as shown in the Consolidated statement of comprehensive income) has recovered after a fall last year. Operating costs before ECL are up by £382k. Included in operating costs are consultancy costs of which the major increase was for amounts paid to get Cherry Orchard lending. Staff costs were £110k higher, reflecting the fact that we have to pay more for good people. Last year we had a credit to the income statement for impairment allowance amounting to £131k. This year there is a charge of £63k. Other operating costs (excluding impairment allowance) were up by £52k or 2.18%.

Non-financial indicators

Staffing

The most important non-financial indicator remains quality of management and staff.

Our senior members of staff are all fully trained in every facet of the business and have good relationships with more junior staff members whom they able and willing to assist when required. They have been with us for many years.

Customer care is of paramount importance in our business culture and this aspect is a constant part of training for everyone in the organisation. Feedback from our partners in this area has been very positive. Non-financial performance targets set for our staff have all been met. These include, but are not limited to, ensuring that our partners and end-user customers receive prompt responses to any queries they raise.

Orchard is a small group with 16 non-parent direct employees. Although no employee is on the main board, there is no formal workforce advisory panel, nor is there a designated workforce non-executive director, all employees have access to the executive directors at any time and can raise any issues with them. They are also able to contact the Chairman should they wish to discuss a matter which they feel may not be appropriate for the executive. There are two non-main board directors as directors of the subsidiaries.

Non-financial KPIs

- staffing
- partner retention
- innovation
- IT systems
- quality lending
- strong governance

Partner retention

Partner retention is another significant area in our business. This couples well with another non-financial indicator, brand preference. As our partner base grows, so does awareness of who we are and what we do. We review our partner base regularly to establish whether they are increasing or decreasing the amount of business they do with us. Action is taken if business from one source is unexpectedly dropping.

Innovation

A key non-financial strategy is innovation (see Strategy and objectives on page 4). Innovation is the ability to continually evolve and grow our business in our chosen markets. When looking at new products we stay within our risk parameters and examine whether the returns justify the resources expended. If new products fit our return and risk expectations, we proceed to the testing stage – relatively small amounts of lending. We believe that innovation is fundamental to growth.

IT systems

A robust, reliable and secure IT system is crucial to the business. We work closely with external outsource partners to continually review and develop our IT systems. Our system and has been tried and tested for a number of years. We began taking advantage of the open banking system as part of our risk strategy and this has been invaluable. Our customers have seen advantages of this, making it easier to manage their agreements. We continue to upgrade the system in response to customer requirements.

Quality of lending

Our lending has been based on sound underwriting since we began – we carefully assess any person or body to whom we lend. In addition, we receive at least one instalment before we pay out (eliminating first payment default); the direct debit establishes timely collection and an electronic link to our borrowers; in most cases our partners guarantee the payment should the end borrower default; and, if the partner fails, many of our end borrowers are protected by the financial services compensation scheme thereby ensuring that we are paid. In addition, the open banking system has helped ensure quality of lending.

Good governance

The role of the board is set out in the Corporate governance report on pages 20 to 22. Among its objectives is to protect and enhance long-term value for all stakeholders. It sets the overall strategy for the group and supervises executive management. The non-executive directors are there to challenge the executives. The board also ensures that good corporate governance policies and practices are implemented within the group. In the course of discharging its duties, the board acts in good faith, with due diligence and care, and in the best interests of the group and its shareholders.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the group will be able to continue its operations for the foreseeable future.

The directors continually assess the prospects of the group. Forecasts are prepared for a four year period, on a rolling basis. These are also subject to stress testing, the main aspects of which are the value of loans made, the return on those loans and the level of expected credit losses. In these scenarios, there is no indication that there will be a problem in continuing as a going concern. We are, however, in turbulent times when some of the most respected forecasters seem to find difficulty in assessing what lies ahead. It is therefore important to appreciate that the further away in time the estimate, the less reliable it is. Our forecasts assume a base rate of 3.00% in the short term, although if this increased further there would be little impact because of the short term nature of most of our lending.

The character of our lending is such as to permit us to react to any changes in base rate within a relatively short period of time other than with those loans that can be up to three or seven years ahead. These are relatively small in value, amounting to 5.10% of total loans made in the year and of these 4.38% are 36months or less. Not included in these figures are loans made by Orchard Finance where, although longer term, the risk is taken by the provider of the funds.

As a result of our estimate of the impact of the current, and likely short term future, financial situation, we have revised our forecasts downwards.
The key assumptions and bases used in the forecasts are now:

- Loans through our partners will grow to circa £92m in 2023/24;
- Liquidity will be available to fund those loans;
- Margins on lending will fall slightly to an average of 5.05%;
- Overheads will increase at the rate of inflation with stepped increases at certain points, e.g. when capacity constraints are hit or when project spending is required;
- The funding system will be able to accommodate the increased business.

Looking forward

- loan growth
- available liquidity
- stable margins
- controlled overhead
- capable funding system

The directors have prepared and reviewed the financial projections covering a period of almost four years from the date of signing of these financial statements. In each year, and in particular in the 12 to 18 month period from signing, there is sufficient cash and there are sufficient reserves to enable the group to pay its debts as they fall due. In addition, they have further stress tested these projections to a point which they believe is unlikely to happen (reducing lending, reducing margins and increasing bad debt) to give a confidence buffer. Even in this scenario, based on the level of existing cash, the projected income and expenditure and the excess of our loan book over external debt, the directors have a reasonable expectation that the company and group have adequate resources to continue in business for the foreseeable future. Accordingly, the going concern basis has been used in preparing the financial statements.

Future developments

There has been little change in how we wish to grow the business in the future. We shall continue to grow our core markets and look at adjacent markets. Last year I said that we had tested a small amount of longer term lending for static caravans and we grew this lending to £344k. We continue to review this given its longer term nature but it has been successful so far with no arrears. We began providing short term property finance this year (bridging loans) and we intend to expand this if it continues to go well. The nature of this lending is that we have to wait to be paid until the property is sold. Although this would ordinarily indicate a higher risk business, as already stated our systems are robust. In addition, our LTV is set at less than 75%, giving some comfort in the present economy.

We shall, of course, continue to look at other markets which fit our risk and return profile. We have not identified any at present which would fit our lending criteria.

We took an investment in Open B Banking in 2020 and increased our investment in that company in 2021. We have been working with this supplier to further develop the system to benefit both parties. This will continue.

Despite the fact that we have secure sources of funding at present, we shall continue to look at alternative sources of liquidity as this is of key importance to what we do.

Environmental, social responsibility, community, human rights issues and gender diversity

The impact of the group on the environment consists of power used in an office environment and fuel used for getting to and from work. Environmental issues are therefore negligible (see SECR reporting on page 14).

The group operates out of an office in Luton. During the COVID pandemic, most employees worked from home. This proved remarkably successful from the perspective of both employee and employer and this situation has continued. This has meant that our carbon footprint as a business in the area has fallen (although there will be some impact on the environment from home working).

We provide health club membership and childcare vouchers for any staff who wish them.

Staff make up

- Main board: 4 all male
- Subsidiary boards: 1 male; 2 female
- Other: 9 male; 6 female

We provide equal opportunities for all applicants and members of staff, irrespective of race, colour, sex, disability or marital status.

The composition of the main board of directors is currently all male. The board of the subsidiaries consist of one or two males and two females each. Males make up 61.90% of the employees in total (68.42% in 2020).

We review the background of our suppliers and will not use any supplier which, as far as we are aware, breaches our own high standards as regards human rights.

Section 172(1) Statement

Section 172(1) requires a director of a company to act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard to:

(a) the likely consequences of any decision in the long term,

(b) the interests of the company's employees,

(c) the need to foster the company's business relationships with suppliers, customers and others,

(d) the impact of the company's operations on the community and the environment,

(e) the desirability of the company maintaining a reputation for high standards of business conduct, and

(f) the need to act fairly as between members of the company.

All matters brought to the board for consideration are reviewed in the light of how they will impact on stakeholders. This review involves balancing the interests of all stakeholders and includes having regard to:

- profitability;
- risk associated with the proposal (see Principal risks and uncertainties on page 6);
- how the decision will impact on our employees (both in financial terms and how the quality of their work life and outside life will be affected). Further detail on how we engage with our workforce is shown under Environmental, social responsibility, community, human rights issues and gender diversity above.;
- what impact it will have on our partners and other customers (as mentioned under Non-financial indicators on page 11). Proper customer care, particularly in avoiding unfair outcomes, is of overriding importance to Orchard;
- our reputation (the impact of loss of reputation is dealt with under Conduct risk on page 8);
- either the CEO and/or CFO are in contact with major investors at least twice a year (albeit by Zoom or telephone) to discuss the group’s progress and overall plans. This gives us an insight into how our investors perceive us. All reports and other documents are on our website and any investor may request a meeting with any member of the board.

In a wider sense:

- Orchard does not deal unfairly with its suppliers and business associates and ensures that payment terms are adhered to. In fact, in many cases it assists those associates to expand their business. For example, we increased our investment in Open B Gateway Limited last year, so that they could have the benefit of finance to further develop their software platform;
- it behaves as a good neighbour, helping the local community where it is able and employing people from the locality – which also assists in reducing our carbon footprint;
- in its dealings with government, particularly the revenue authorities, it is completely open, paying what it owes on time;
- it has had no instances from the FCA of non-compliance with regulations;

- Environmental, social responsibility, community, human rights issues and gender diversity are discussed on page 13.

The board considers whether proposals put to it have long-term outcomes which affect its stakeholders. In most cases the proposals have no material long-term consequences. However, where there are potential consequences, the board takes account of the long-term nature of its decisions. For example, some years ago decisions were made both to change our IT system and to apply for a banking licence. Both decisions were long term in nature and required resources to be provided. The board agreed to both, seeing the benefits in the longer term for most of our stakeholders. The company withdrew its application for the banking licence last year but has continued to develop its IT system.

Streamlined Energy and Carbon Reporting (SECR)

The directors believe that the company is exempt from reporting under the SECR framework as its energy use is below the threshold for reporting.

Approved by the directors and signed by order of the board

Liam McShane,
Company secretary

30 November 2022

Directors' report

The directors present their annual report together with the audited accounts of the group and the company for the year ended 31 July 2022.

Results and dividends

The group profit for the year after taxation was £1.52m (2021 £0.84m). This is shown on page 29. The directors consider that the going concern basis is appropriate, supported by the profitability of the group and the significant cash balances. During the year the group paid dividends amounting to £641k to shareholders (2021 £641k) - note 12. The board is pleased to propose a final dividend of 2 pence per share to be paid on 6 January 2023 to shareholders on the register on 23 December 2022, with an ex-dividend date of 22 December 2022. The final dividend is subject to shareholder approval at the company's upcoming annual general meeting on 29 December 2022.

Future developments

Future developments and a fuller business review are contained in the Chief executive's review and the Group strategic report on pages 3 to 14.

Directors and their interests

The directors who served during the year and their beneficial interests in the share capital of the company are shown in the remuneration report on pages 17 and 18. There is a directors' and officers' indemnity insurance policy in existence. There were no other third party indemnity provisions for the directors.

Directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. The directors have elected under company law and the AIM Rules of the London Stock Exchange to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and have elected under company law to prepare the company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

The group and company financial statements are required by law and international accounting standards in conformity with the requirements of the Companies Act 2006 to present fairly the financial position of the group and the company and the financial performance of the group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the 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 group and the company and of the profit or loss of the group for that period.

In preparing each of the group and company financial statements, the directors are required to:

a) select suitable accounting policies and then apply them consistently;
b) make judgements and accounting estimates that are reasonable and prudent;
c) state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Orchard Funding Group plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Research and development

During the financial year nothing was spent on research and development (2021 £Nil).

Financial instruments

Detailed information on the group's financial instruments is stated in notes 2.6 and 2.7.

The group's objectives and policies for managing risk are shown under Principal risks and uncertainties on pages 6 to 9.

Employees and environmental issues

The group is an equal opportunity employer. Details of the group's approach to employee and environmental matters are shown on page 13.

Statement as to disclosure of information to auditor

The directors who were 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 auditor is unaware. Each of the directors have confirmed that they have taken all of the 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 auditor is aware of that information.

Approved by the directors and signed by order of the board

Liam McShane,
Company secretary

30 November 2022

Remuneration report

Remuneration policy is set by the chairman of the remuneration committee, Steven Hicks together with Ketan Malde. The company secretary assists the committee. During the year the remuneration committee met twice. The nominations committee did not meet. Matters normally reserved for consideration by the nominations committee were dealt with by the board as a whole.

Policy statement
The remuneration committee sets the remuneration and all other terms of employment of the executive directors. Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved. It is the chairman's intention to seek to align the interests of the executive directors with those of the shareholders.

This year the committee agreed a discretionary bonus scheme for the CEO that aligns payment with business performance and long term strategic objectives. Going forward, remuneration will continue to be assessed on the basis that it is affordable for the business (relative to PBT), is fair to the individual with the right balance of fixed and variable pay and assessed against stretched targets on a balanced score card.

In this the first year of the new CEO bonus scheme, the business has had a good year financially, has successfully tested new sources of longer term funding via the Retail Bond and has launched a new Bridging Loan product. The committee have agreed a bonus of £200,000 for the CEO (2021 - £50,000).

Service contracts
Service contracts for the executive directors of any companies in the group are determinable within a period not exceeding one year. Therefore, no payment can be made for predetermined compensation which exceeds more than one year's salary, benefits in kind and pension contributions.

Directors' interests
The interests of the directors at 31 July 2022 and 31 July 2021 in the shares of the company were as follows:

2022	Number of ordinary shares held	Percentage of issued ordinary share capital
R Takhar	11,458,333	53.66%
S Hicks	-	-
L McShane	-	-
K Malde	-	-

2021	Number of ordinary shares held	Percentage of issued ordinary share capital
R Takhar	11,458,333	53.66%
M Sismey-Durrant (resigned 7 October 2020)	-	-
L McShane	-	-
K Malde	-	-
S Hicks		

Non-executive directors
The remuneration of the non-executive directors is considered by the executive directors. The non-executive directors do not have contracts of service, but the current term of appointment is ongoing subject to three months' notice.

All directors
Full details of the terms of appointment of all directors are shown on the website at http://www.orchardfundinggroupplc.com/governance/non-executive-directors-appointment-terms/

Board meetings

The board of directors met six times during the year. Attendance includes conference calls and e-mails. There was full attendance at each meeting except for the May meeting when L McShane was unable to attend as he was in hospital. Details of the audit committee attendance is shown on page 21.
All directors are expected to devote such time as is necessary for the proper performance of their duties.

Directors' remuneration

2022	Fees, salary and short term bonuses	Taxable benefits	Total
	£000	£000	£000
Executive directors			
R Takhar	450	2	452
L McShane	40	-	40
Non-executive directors			
S Hicks	35	-	35
K Malde	30	-	30
Total directors' remuneration	555	2	557

2021	Fees, salary and short term bonuses	Taxable benefits	Total
	£000	£000	£000
Executive directors			
R Takhar	300	1	301
L McShane	40	-	40
Non-executive directors			
M Sismey-Durrant (resigned 7 October 2020)	6	-	6
S Hicks	33	-	33
K Malde	30	-	30
Total directors' remuneration	409	1	410

The above information relates to the parent.

The biographies of the directors are shown on page 19.

Steve Hicks
Remuneration committee chairman

30 November 2022

Board of directors and secretary

Short biographies of the group's senior management at the date of approval and details of their roles are set out below:

Steven Hicks – Chairman

Mr Steven Hicks has more than 40 years' experience in Retail and Commercial Banking, has worked at Board level since 2007 and has extensive governance, risk management and compliance knowledge. His previous Board roles were as Chief Operating Officer and Head of Risk at Arbuthnot Latham & Co Limited and CEO at Gentoo Genie Limited where he is now the Chairman. He is currently an Independent Non-Executive Director (INED) and Chair of The Board Risk Committee at the State Bank of India UK Limited, an INED and Chair of The Board Risk Committee at Al Rayan Bank PLC and a director of DS&M Hicks Property Limited.

Rabinder ("Ravi") Singh Takhar – Chief Executive Officer

Mr Ravi Takhar has over 25 years' experience in the management, growth, financing, acquisition and disposal of financial businesses. Mr Takhar joined Bexhill in 2002 and has led the growth of its business to its current size. Prior to creating the group, Ravi was an investment banker and head of Financial Services investment at Nikko, the Japanese investment bank, from 1998 to 2002 as well as chairman of Mortgages PLC, the mortgage lender. Mr Takhar was also head of Mortgage Principal Finance at Investec Bank PLC from 2005 to 2008. He qualified as a banking solicitor at Clifford Chance, a leading international law firm, and has an MA from the University of Oxford.

William ("Liam") Leo McShane – Part-time Chief Financial Officer and Company Secretary

Mr Liam McShane has over 25 years' experience as a chartered certified accountant and is responsible for all internal accounting and treasury management, as well as all monthly and annual accounting for the group. He has been involved in providing tax and financial advice to Bexhill since 2000, from 2002 as a partner in McShane Wright Chartered Certified Accountants. Prior to McShane Wright, Mr McShane became a partner at Clifford Roberts in 1998, having qualified as a chartered certified accountant in 1994. From 1989 until its merger with the British Insurance Brokers Association in 2012, he advised the Institute of Independent Insurance Brokers, an association for professional insurance intermediaries, providing tax and financial advice to the Institute, its members and professional advisers. Mr McShane is a Fellow of the Association of Chartered Certified Accountants. He is on the Bank of England Decision Maker Panel.

Ketan Jayantilal Malde – Independent Non-executive Director

Mr Ketan Malde has more than 30 years of board level experience in the retail and specialist banking arena. Until April 2017, he was the executive board director and CFO of Hampshire Trust Bank plc. His previous board roles were as Chief Operating Officer and FD of Heritable Bank plc and FD of Sun Bank plc. He is the chairman of the audit committee and member of the remuneration committee. Mr Malde is a director of Nesate Consultants Ltd. Mr Malde is a graduate of the University of Leeds and a Fellow of the Chartered Association of Certified Accountants.

Corporate governance report

Compliance

Corporate governance defines the decision-making systems and structure through which shareholders directly or indirectly control the company. Orchard Funding Group plc is a public limited company registered in England and Wales and listed on AIM.

The governance of Orchard Funding Group plc vests in the board of directors of the holding company, according to the laws and regulations for an AIM listed company extant in the UK. We believe that a sound and well understood governance structure is essential to maintain the integrity of the group in all its actions, to enhance performance and to impact positively on our shareholders, staff, customers, suppliers and other stakeholders.

Orchard has followed the QCA Corporate Governance Code ("the Code") since September 2018, as the benchmark for measuring our adherence to good governance principles (having previously used the Code as a guide). These principles provide us with a clear framework for assessing our performance as a board and as a company. These principles, and their application by the company, are laid out fully on our website at http://www.orchardfundinggroupplc.com /governance/chairmans-governance-report/.

The board, led by our chairman, who has responsibility for corporate governance policies and implementation, has established a strategy and business model both of which promote long-term value for shareholders and security for its other stakeholders (staff, customers, suppliers and government). The model is detailed in the group strategic report on pages 4 and 5. In summary, Orchard Funding Group plc borrows from its bankers and uses this together with its own reserves, to lend to its customers. It will also make use of money raised from the bond issue. There is a strict underwriting procedure, recourse arrangements, levels of lending decision making commensurate with the skill and seniority of each staff member with, where necessary, the final lending decision being made by the board. This has meant that stakeholder assets are given a high level of protection. The board continues with the evolution in control, monitoring and risk management.

Governance during the last year

The governance and control framework is regularly reviewed, although no specific enhancements were required over the last 12 months. We will continue to review and improve our governance arrangements as appropriate.

Directors

The board currently consists of two executive and two independent, non-executive directors. The executives take no part in the audit or remuneration committees to ensure the independence of those bodies. All directors have the experience necessary to carry out their functions. Before appointment by the board, each applicant produces a full CV and is interviewed to establish if he has the necessary skills and will fit in with the ethos of the group. Directors ensure that they keep up to date with relevant regulation and legislation through courses, reading and interaction with those making the rules. Before final appointment to the board, full satisfactory references are required and full checks conducted, the results of which are checked and approved by the board. Currently, given the size of the group, director evaluations are informal, consisting of discussions at board meetings. This does not strictly comply with the requirements of the Code but the board believes that it is appropriate for the existing structure.

The company supports the concept of an effective board leading and controlling the company. The board is responsible for approving company policy and strategy. In the past it has met formally approximately every two months but since the onset of COVID-19 contact has been by e-mail, telephone or video communication. It has a schedule of matters specifically reserved to it for decision (see website at http://www.orchardfundinggroupplc.com/ governance/matters-reserved-for-the-board/). Management supply the board with appropriate and timely information and the directors are free to seek any further information they consider necessary. All directors have access to advice from the company secretary and independent professionals at the company's expense. The current board members' biographies are on page 19.

All directors are subject to election at the first Annual General Meeting (AGM) after their appointment. They are then subject to re-election every three years.

K Malde is subject to re-election at the AGM to be held in December 2022. No other director is required to seek re-election this year.

Relations with shareholders

The CEO and/or CFO are always available to key shareholders to explain what is happening with the group, at the same time getting valuable opinions from shareholders on how they view our plans. The board is kept informed of the views of shareholders and other stakeholders by regular updates from the CEO and CFO, together with formal responses on shareholder's views gathered and supplied by the company's advisers. The views of private and smaller shareholders, typically arising from the AGM or from direct contact with the company, are also communicated to the board on a regular basis. In addition, details of our financial reports and AGM details are sent to all shareholders and these, together with results of votes are included on the website at:
http://www.orchardfundinggroupplc.com/annual-report-and-accounts/: and at
http://www.orchardfundinggroupplc.com/agm-notice/.

Audit committee

The composition of the audit committee was Ketan Malde (chairman) and Steven Hicks (the two non-executive directors). The company secretary is also the secretary of the committee. The audit committee will meet not less than two times every year and otherwise as required. The audit committee is responsible for ensuring that the financial performance of the group is properly measured and reported, for measuring and assessing risk and for reviewing reports from the auditor relating to the group accounts and the group's internal control systems.

The audit committee was sent the audit plan by the group's auditor, RSM UK Audit LLP, prior to the commencement of the audit. The plan set out the objectives of the audit; the approach, scope and timetable; audit risks and other areas of focus; and governance and control.

The auditor identified three significant risks during the planning process. These were:

• management override of controls;	
• the calculations and disclosure of expected credit losses; • presentation, classification and measurement of listed debt.	both of these were considered key audit matters

The audit committee considered and approved the audit plan after discussion with the auditor. It also met to review the accounts prior to their authorisation for issue.

The audit committee reviewed whether the auditor had provided significant non-audit services. There were none during the year.

Orchard has no separate risk committee at present. This role falls to all the directors and is dealt with at board meetings. This is a departure from *the re*quirements of the Code, but, given the size of Orchard, it was felt that this was a more appropriate arrangement for the group.

The audit committee met three once in the year. Both members were present for the meeting.

The work and terms of reference of the audit committee are shown on the website at http://www.orchardfundinggroupplc.com/governance/board-sub-committees/

Risk and internal controls

In any lending environment, effective risk management is crucial. In addition to our strict underwriting procedures (including mitigating factors), we have a process to identify both key and other risks, maintain a risk register and act quickly and decisively where any issues are raised. Our key risks are credit risk, liquidity risk, interest rate risk, IT risk and conduct risk. Our approach to these is detailed in the group strategic report on pages 6 to 8.

The board is responsible for ensuring that the group maintains a system of internal financial controls including suitable monitoring procedures. The objective of the system is to safeguard group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable.

Internal financial control monitoring procedures undertaken by the board include the review of monthly financial reports and monitoring of performance, setting of annual budgets and monthly forecasts and the prior approval of all significant expenditure.

The board views the management of conduct risk as extremely important to our business. This is part of our culture and is essential to enable us to achieve our objectives, strategy and support our business model. We are a small entity in terms of staffing and our CEO is regularly present on our premises. As the chief officer on the board he monitors how our staff operate and promotes a healthy corporate ethos by example and supervision (both close and remote). Staff are encouraged to approach him with any problems or ideas and he regularly disseminates information from the board back to them. He reports to the board on an exception basis. In this way the board is kept in a position to assess the state of the culture.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. An assessment and explanation of why the board consider the going concern basis to be appropriate is discussed on pages 11 and 12 of the Group strategic report.

Steven Hicks
Chairman

30 November 2022

Independent auditor's report to the members of Orchard Funding Group plc

Opinion

We have audited the financial statements of Orchard Funding Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 July 2022 which comprise the Consolidated statement of other comprehensive income, Consolidated and Company statements of financial position, Consolidated and Company statements of changes in equity, Consolidated and Company statements of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group and company financial statements is applicable law and UK-adopted International Accounting Standards.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards.
- the company financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards.
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	**Group** • Calculation and disclosure of expected credit losses • Presentation, Classification and measurement of listed debt **Parent Company** • None
Materiality	**Group** • Overall materiality: £156,000 (2021: £78,500) • Performance materiality: £117,000 (2021: 58,800) **Parent Company** • Overall materiality: £91,000 (2021: £45,000) • Performance materiality: £68,200(2021: 33,700)
Scope	Our audit procedures covered 100% of revenue, total assets and profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, 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 were addressed in the context of our audit of the group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Calculation and disclosure of expected credit losses

Key audit matter description	The group's main trade is providing loans to customers for different product offerings. With the wider impact on the economy from Covid-19 and cost of living it is expected under IFRS 9 that management will need to continue to carefully consider forward looking information to ensure the calculation of expected credit losses, which is performed in line with the general approach, is compliant with the requirements of the standard.
How the matter was addressed in the audit	Our procedures included: • Review management's paper in relation to IFRS 9 and understand the reasons for any changes to approach from the prior year and agree to supporting documentation as appropriate. • Consider whether there has been any significant change in credit risk, including the review of new facilities entered into and/or extended in the period. • Consider whether management has considered appropriate forward-looking information to assess whether credit risk has changed. • Review how the loan book has been allocated between stages 1, 2 and 3 and assess whether the approach taken is reasonable and consistently applied. • Consider whether the expected credit loss rates being applied are reasonable based on available supporting evidence and the findings from the above tests. • Review specific provisions made in the year to supporting documentation for reasonableness. • Consider the disclosures made in the financial statements against the requirements of IFRS 9 and supporting information for reasonableness.

Presentation, Classification and measurement of listed debt

Key audit matter description	The group has issued loan notes that are admitted to trading on the London Stock Exchange. The designation of these instruments as either basic or non-basic is dependent on the substance of the underlying contractual terms, and therefore the initial recognition and subsequent measurement basis is also dependent on the correct interpretation of these terms.
How the matter was addressed in the audit	Our procedures included: • Obtaining management's assessment of the measurement basis for the instruments by reference to the underlying terms and conditions attached to the company's various debt instruments in issue and evaluating the appropriateness and reasonableness of the treatment applied by management. • Corroborate the key inputs to the measurement calculations and re-perform these calculations.

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£156,000 (2021: £78,500)	£91,000 (2021: £45,000)
Basis for determining overall materiality	5% of result before taxes	0.5% of total assets
Rationale for benchmark applied	The group's lending volumes, revenues and profits returned to a normalised level following the fluctuations during the Covid-19 pandemic. Therefore, we have applied materiality on the current year metric only rather than the previous three year average.	The parent company's function is to hold and manage the group's investments in subsidiaries. The company's total assets are, therefore, a key benchmark.
Performance materiality	£117,000 (2021: 58,800)	£68,200(2021: 33,700)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £7,820 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £4,550 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of 6 components, all of which are based in the UK. The coverage achieved by our audit procedures was:

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	6	100%	100%	100%

None of the audits were undertaken by component auditors

Conclusions relating to going concern

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. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included

- understanding how the cash flow forecasts for the going concern period had been prepared and the assumptions adopted;
- considering the reasonableness of the projections against current year results; and
- considering the outcome of the prior year budgets to current year results.

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 group's or the parent 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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. The objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory framework that the group and parent company operates in and how the group and parent company are complying with the legal and regulatory framework;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud;
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the Group audit engagement team included:
IFRS and Companies Act 2006	Review of the financial statement disclosures and testing to supporting documentation; and Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	Inspection of advice received from internal tax advisors.
FCA Compliance	We performed audit procedures to inquire of management, including the executive directors, whether the company is in compliance with these laws and regulations. We inspected compliance documentation, including but not limited to, compliance monitoring documentation, regulatory returns, the complaints register and follow up action and correspondence with the FCA as well as considering whether the group has acted within its permission of consumer credit and other regulatory obligations.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Management override of controls	Testing the appropriateness of journal entries and other adjustments; Assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RSM UK Audit LLP

PAUL WATTS (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London
EC4A 4AB
30 November 2022

Consolidated statement of comprehensive income

	Notes	2022 £000	2021 £000
Continuing operations			
Interest receivable and similar income	5	5,003	3,783
Interest payable and similar charges	6	(587)	(559)
Net interest income		4,416	3,224
Other trading income	5	1,187	817
Other direct costs	6	(756)	(603)
Net other income		431	214
Net total income		4,847	3,438
Other operating costs	6	(2,905)	(2,516)
Net impairment (losses)/gains on financial assets	6	(63)	131
Operating profit	9	1,879	1,053
Interest receivable	8	1	-
Interest payable	8	(2)	(3)
Profit before tax		1,878	1,050
Tax	10	(360)	(211)
Profit for the year from continuing operations attributable to the owners of the parent		1,518	839
Earnings per share attributable to the owners of the parent during the year (pence)			
Basic and diluted	13	7.11	3.91

The notes on pages 37 to 59 are an integral part of these consolidated financial statements

Consolidated statement of financial position - Assets

	Notes	2022 £000	2021 £000
Non-current assets			
Property, plant and equipment	14	13	23
Right of use assets	14	16	56
Intangible assets	15	7	4
Investment at fair value through profit and loss	16	81	81
Loans to customers	17	6,594	2,257
		6,711	2,421
Current assets			
Loans to customers	17	37,143	27,616
Other receivables and prepayments	17	189	233
Cash and cash equivalents:			
Bank balances	18	4,796	2,170
		42,128	30,019
Total assets		48,839	32,440

The notes on pages 37 to 59 are an integral part of these consolidated financial statements

Consolidated statement of financial position – Liabilities and equity

	Notes	2022 £000	2021 £000
Liabilities			
Current liabilities			
Trade and other payables	22	6,337	4,182
Borrowings	20	19,468	11,439
Tax payable		299	138
		26,104	15,759
Non-current liabilities			
Borrowings	20	6,057	878
Deferred tax liabilities	21	1	3
		6,058	881
Total liabilities		32,162	16,640
Equity attributable to the owners of the parent			
Called up share capital	19	214	214
Share premium		8,692	8,692
Merger reserve		891	891
Retained earnings		6,880	6,003
Total equity		16,677	15,800
Total equity and liabilities		48,839	32,440

The financial statements on pages 29 to 59 were approved, and authorised for issue, by the board of directors on 30 November 2022and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 37 to 59 are an integral part of these consolidated financial statements

Company statement of financial position

	Notes	2022 £000	2021 £000
Assets			
Non-current assets			
Investments in subsidiaries	16	2,857	2,807
Investment at fair value through profit and loss	16	81	81
		2,938	2,888
Current assets			
Other receivables and prepayments		9,894	9,913
		9,894	9,913
Total assets		12,832	12,801
Liabilities and equity			
Current liabilities			
Trade and other payables		291	115
Total liabilities		291	115
Equity attributable to the owners of the parent			
Called up share capital	19	214	214
Share premium		8,692	8,692
Merger reserve		2,692	2,692
Retained earnings		943	1,088
Total equity		12,541	12,686
Total equity and liabilities		12,832	12,801

The company's profit and total comprehensive income for the year was £496k (2021 £211k)
The company has not presented a separate retained earnings account as permitted by section 408 of the Companies Act 2006

The financial statements on pages 29 to 59 were approved, and authorised for issue, by the board of directors on 30 November 2022 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 37 to 59 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

	Called up share capital £000	Retained earnings £000	Share Premium £000	Merger reserve £000	Total equity £000
Balance at 1 August 2020	214	5,805	8,692	891	15,602
Profit and total comprehensive income	-	839	-	-	839
Transactions with owners:					
Dividends paid	-	(641)	-	-	(641)
Balance at 31 July 2021	214	6,003	8,692	891	15,800
Profit and total comprehensive income	-	1,518	-	-	1,518
Transactions with owners:					
Dividends paid	-	(641)	-	-	(641)
Balance at 31 July 2022	214	6,880	8,692	891	16,677

Retained earnings consist of accumulated profits less losses of the group. They represent the amounts available for further investment in group activities. Only the element which constitutes profits of the parent company are available for distribution (see page 3434). There are no restrictions on payment of dividends by the subsidiaries to the parent or by the parent to shareholders.

The share premium account arose on the IPO on 1 July 2015 at a premium of 95p per share. Costs of the IPO have been deducted from the account as permitted by IFRS.

The merger reserve arose through the formation of the group on 23 June 2015 using the capital reorganisation method.

The notes on pages 37 to 59 are an integral part of these consolidated financial statements

Company statement of changes in equity

	Called up Share Capital £000	Retained earnings £000	Share Premium £000	Merger reserve £000	Total Equity £000
Balance at 1 August 2020	214	1,518	8,692	2,692	13,116
Total comprehensive income for the period	-	211	-	-	211
Transactions with owners:					
Dividends paid	-	(641)	-	-	(641)
Balance at 31 July 2021	214	1,088	8,692	2,692	12,686
Profit and total comprehensive income	-	496	-	-	496
Transactions with owners:					
Dividends paid	-	(641)	-	-	(641)
Balance at 31 July 2022	214	943	8,692	2,692	12,541

Retained earnings consist of accumulated profits and losses of the parent company. They represent the amounts available for further investment in group activities and are available for distribution. There are no restrictions on payment of dividends.

The share premium account arose on the IPO on 1 July 2015 at a premium of 95p per share. Costs of the IPO have been deducted from the account as permitted by IFRS.

The merger reserve arose through the formation of the group on 23 June 2015 using the capital reorganisation method.

The notes on pages 37 to 59 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

	2022 £000	2021 £000
Cash flows from operating activities:		
Operating profit	1,879	1,053
Depreciation and amortisation	63	71
	1,942	1,124
Increase in loans to customers, other receivables and prepayments	(13,820)	(2,679)
Increase in trade and other payables	2,155	1,243
	(9,723)	(312)
Tax paid	(201)	(337)
Net cash absorbed by operating activities	(9,924)	(649)
Cash flows from investing activities		
Interest received	1	-
Purchases of property, plant and equipment	(4)	(3)
Purchase of intangible assets	(12)	(75)
Proceeds of sale of assets	-	-
Net cash absorbed by investing activities	(15)	(78)
Cash flows from financing activities		
Dividends paid	(641)	(641)
Net receipts from borrowings	13,236	12,245
Net borrowings repaid	-	(10,977)
Lease repayments	(30)	(30)
Net cash generated by financing activities	12,565	597
Net increase/(decrease) in cash and cash equivalents	2,626	(130)
Cash and cash equivalents at the beginning of the year	2,170	2,300
Cash and cash equivalents at the end of year	4,796	2,170

The notes on pages 37 to 59 are an integral part of these consolidated financial statements

Company statement of cash flows

	2022	2021
	£000	£000
Cash flows from operating activities:		
Profit before tax	496	211
Dividend received	(1,250)	(900)
	(754)	(689)
Increase in other receivables and prepayments	(5)	(15)
Increase in trade and other payables	175	49
Funding by subsidiaries	634	730
Net cash generated by operating activities	50	75
Cash flows from investing activities		
Purchase of investment	(50)	(75)
Net cash absorbed by investing activities	(50)	(75)
Net increase/(decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at the beginning of the year	-	-
Cash and cash equivalents at the end of year	-	-

The notes on pages 37 to 59 are an integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. General information

Orchard Funding Group plc ("the company") and its subsidiaries (together "the group") provide funding and funding support systems to insurance brokers and professional firms through the trading subsidiaries. The group operates in the United Kingdom.

The company is a public company listed on the AIM market of the London Stock Exchange, incorporated in England and Wales and domiciled in the United Kingdom. The address of its registered office is 1st Floor, 721 Capability Green, Luton, Bedfordshire LU1 3LU.

The principal activities of the group and the nature of its operations are set out in the strategic report on pages 4 to 14.

2. Summary of significant accounting policies

The principal accounting policies applied in the presentation of these consolidated financial statements are set out below.

2.1 Basis of preparation

The consolidated financial statements of Orchard Funding Group plc have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

The financial statements have been prepared on a historical cost basis except for an investment measured at fair value through other comprehensive income.

The preparation of financial statements under International Accounting Standards in conformity with the requirements of the Companies Act 2006 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

2.2 Effect of new, or changes to financial reporting standards

At the date of authorisation of these financial statements, all of the new or amended Accounting Standards and Interpretations issued by the International Accounting Standards Board ('IASB') that are mandatory for the current reporting period and are relevant to the group's operations have been applied.

2.3 Financial reporting standards, amendments and interpretations in issue but not yet effective

There are a number of new standards, amendments and interpretations that been issued but are not effective for these financial statements. They are not expected to impact the financial statements as either they are not relevant to the group's activities or are consistent with accounting policies already followed by the group.

2.4 Consolidation

(a) Subsidiaries

Subsidiaries are entities over which the group has control. The group controls an entity when the group has rights to, or is exposed to, variable returns from its involvement with, and has the ability to affect those returns through its power over, the entity.

Investment in subsidiaries in the parent company Statement of financial position are stated at cost, less any provision for impairment.

(b) Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

(c) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity. Such losses are noted in the financial statements.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.6.

2.5 Going concern

The financial statements have been prepared on a going concern basis which assumes that the group will be able to continue its operations for the foreseeable future.

The directors have prepared and reviewed financial projections, on an annual basis, covering a period of almost four years from the date of signing of these financial statements, with a particular focus on the period of 12 to 18 months from the date of signing. Based on the level of existing cash, the projected income and expenditure and the excess of our loan book over external debt (amounting to approximately £18.26m at the year end), the directors have a reasonable expectation that the company and group have adequate resources to continue in business for the foreseeable future. Accordingly, the going concern basis has been used in preparing the financial statements. This is discussed more fully in the Group strategic report on pages 11 and 12.

2.6 Financial assets

Under IFRS 9 financial assets are classified and measured as:

- amortised cost;
- fair value through the Consolidated statement of other comprehensive income; or
- fair value through the Consolidated income statement;

on the basis of both our business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

(a) Fair value

Fair value is the price a willing buyer and willing seller would exchange an asset. It assumes that both parties have the same understanding of the transaction that they are entering into (one party does not have information that the other does not) and they enter into it freely.

IFRS 13 requires entities to use one or more valuation techniques:

- market approach – use of prices and other relevant information generated by market transactions;
- cost approach – the price to replace the asset;
- income approach – converting future cashflows to a single, discounted amount.

In evaluating fair value, the entity is required to disclose the fair value hierarchy, which categorises the inputs used in the valuation into three levels.

- Level 1 inputs are quoted prices in active markets for identical assets;
- Level 2 inputs are inputs other than Level 1 which are observable for the asset, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset, such as net asset values for an unquoted investment.

In most cases initial cost will be a fair estimate of fair value.

The financial assets of the group consist of investments, loans to customers, other receivables and cash and cash equivalents (see note 2.14 for cash and cash equivalents). Their classification and measurement bases are set out below.

Expected credit loss

Expected credit losses (ECLs) are the probability-weighted estimate that the present value of all cash flows expected to be received fall short of those actually contracted to be received. An ECL occurs even if the full amount is received but later than contractually due. No loss event is needed for an impairment allowance to be recognised.

The group uses the general approach to ECLs. This means that the credit risk for each group of financial assets is assessed at each reporting date and an impairment allowance calculated and provided as necessary. Calculations are made using the probability of default method. A probability is applied to the exposure at default, under three different scenarios, to arrive at a weighted probability of default. The scenarios used are estimates of the likelihood of losses taking account of macro-economic forecasts (unemployment, interest rates, inflation and house prices), our current arrears and other factors which would influence collectability in the future (e.g. poor credit rating for a customer). Taking account of the above, a first scenario is set. A second is then set based on a deterioration of the general business environment which would lead to credit losses being twice what they would in the first. A third scenario is based on credit losses of four times the first. To each of the above a weighting is applied. Management has judged this to be a 65% probability of the first scenario, 20% of the second and 15% of the third.

A three-stage model for calculating ECLs is used, based on changes in credit quality since initial recognition. IFRS 9 also requires either 12 month or lifetime ECLs to be recognised depending on which of the three stages to which the asset is assigned. While ECLs are applied to all financial assets, in Orchard the assets to which they predominantly apply are loans to customers and, in the parent accounts, intra group receivable balances.

- Stage 1. When a financial asset is first recognised it is assigned to stage 1. If there is no significant increase in credit risk since initial recognition the financial asset remains in stage 1. Stage 1 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from stage 2.
- Stage 2. When a financial asset shows a significant increase in credit risk from initial recognition it is moved to stage 2. Stage 2 also includes financial assets where the credit risk has improved and the financial asset has been reclassified back from stage 3.
- Stage 3. When there is objective evidence of impairment and the financial asset is considered to be in default, or otherwise credit impaired, it is moved to stage 3.

The assessment process for evaluating the quality of financial assets is ongoing to enable early identification of credit impairment. These assets are reclassified if there has been any change in credit quality and, where necessary, they are moved to another stage.

A full description of our risk management processes is shown in the Group strategic report on pages 6 to 9.

(b) Investments

Classification and measurement

Investments which are not in subsidiaries or associates are initially recognised at fair value and measured subsequently at fair value through the Consolidated statement of other comprehensive income where the group has made an irrevocable election to do so. Otherwise gains and losses are recognised at fair value through the Consolidated income statement.

Income recognition

Dividends received are recognised in the Consolidated income statement when received.

(c) Loans to customers

Classification and measurement

The group's business model is to hold loans to customers to collect cashflows, being payments of interest and capital. Loans to customers are not held for resale. The contractual characteristics of the financial assets are that both interest and capital are due from the borrower during the life of the asset

Loans to customers are amounts due from borrowers for monies loaned to them. They are therefore contractual payments of interest and capital. If collection is expected wholly within one year they are classified as current assets. If not, they are presented as non-current assets. Loans to customers are initially recognised at fair value and subsequently recognised at amortised cost using the effective interest rate method, less provision for impairment.

Income recognition

Interest arising from funding activities (interest income from financial assets at amortised cost) is not within the scope of IFRS 15 but is the primary source of revenue for the group. It is calculated using the effective interest method and recognised in the Consolidated income statement. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life or duration of the financial instrument to the carrying amount of the instrument.

Interest income is calculated by applying the effective interest rate to the carrying amount of a financial asset before any allowance for expected credit losses except for credit impaired assets in stage 3.

Interest income includes default and settlement fees on loans and fees for not making use of the loan facility granted (non-use fees). Revenue from non-use fees, default and settlement fees is recognised at a point in time. Other interest receivable is recognised over time.

All cancellations after the year end are provided for in full.

Impairment

Impairment reviews are carried out using the ECL approach outlined in 0 above.

Any loans outstanding for a period of up to 30 days are not considered to be suffering from an increase in credit risk. Loans outstanding for a period of up to 60 days from premium funding companies are still not considered to be impaired or having a deterioration in credit quality. This is because the group's loans in respect of this type of lending are short term agreements of less than 12 months, the majority give Orchard a right of recovery from introducers and there are often mundane reasons for the delay such as change of bank by the borrower. While these late payments do constitute expected credit losses, any loss is offset by charges made for late payment. Advances described above are included in Stage 1 of the credit assessment outlined in 0 above.

A significant increase in credit risk is determined by management, based on their experience and judgement. Preliminary assessment of credit risk is based on days past due. Any loans over 30 days past due (apart from those due from premium funding companies as outlined above) are viewed initially as being an increase in credit risk and further analysis is carried out on the debt, including evaluating the broker or borrower. These loans are included in Stage 2.

A loan to a customer will only be considered credit impaired if it is in default of contractual terms, 90 days past due, or there is other objective evidence of impairment. Where a financial asset is classified as credit impaired it will be moved into stage 3. Advances are considered to be in default where the borrower is in breach of contract, is bankrupt, or experiences other significant financial difficulties which are expected to have a detrimental impact on their ability to pay interest or principal on-the advance. If in a subsequent period the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, a reversal of the previously recognised impairment loss is recognised in the Consolidated income statement. All credit impaired loans are provided for in full, unless there are circumstances which would indicate that a lower amount should be provided for.

An advance is written off once legal advice has been received that the debt is uncollectable.

(d) Other receivables

Classification and measurement

Other receivables are primarily amounts due from customers for use of the lending system, for managing loans and recharges of costs incurred on behalf of customers. They are included as current assets if they are due to be settled within one year. If not, they are presented as non-current assets. They are initially recognised at fair value and subsequently recognised at amortised cost. Where necessary provision for impairment is made.

Amounts owed by group companies to the parent are included as current assets in the Company statement of financial position, initially recognised at fair value and subsequently at amortised cost.

Income recognition

Other trading income consists of income arising from the provision of funding systems under licence, fees for managing loans and recharges for costs incurred. Licences are charged and billed on a monthly basis to the user, and revenue is recognised over time. Income arising from managing loans is recognised when the service is performed, normally also on a monthly basis, and is therefore also over time. Recharges are costs which have already been incurred and therefore have already been provided to the customer. These are recognised at a point in time.

The group does not have any contracts where the period between the transfer of the promised service to the customer and payment by the customer exceeds one year. The group does not, therefore, have any assets or liabilities in this respect; nor does it adjust any of the transaction prices for the time value of money.

Impairment

Impairment reviews are carried out using the ECL approach outlined in 0 above. This approach applies equally to balances between companies in the group but for reasons indicated in note 17 no impairment provision is necessary.

2.7 Financial liabilities

Under IFRS 9 financial liabilities are classified as:

- measured at amortised cost;
- measured at fair value through profit or loss; or
- designated at fair value through profit or loss.

The group has three principal classes of financial liabilities: trade payables, bank borrowings and financing for right of use assets.

(a) Trade payables

Classification and measurement

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are initially recorded at fair value and thereafter at amortised cost using the effective interest rate method. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

(b) Bank and other borrowings

Classification and measurement

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. After initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

Charges

Charges consist of interest payable and associated costs (charges and legal fees for setting up the facility). Where the facility is not fully utilised and there is a non-utilisation charge, this is recognised as a transaction cost as incurred, at amortised cost, in the Consolidated income statement.

(c) Liabilities arising from right of use assets

These are dealt with in note 2.8.

2.8 Right-of-use assets

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost.

Hire purchase assets are also recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each payment is allocated between the liability and finance cost.

Both leases and hire purchase contracts are referred to as leases and right-of-use assets in these financial statements.

Assets and liabilities arising from right-of-use assets are initially measured on a present value basis.

Assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Liabilities include the net present value of the following payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The group's leasing contracts only consist of fixed payments.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Orchard discounts at the interest rate implicit in the contract for hire purchase contracts and uses its incremental borrowing rate for short term leasehold property contracts, given the difficulty of establishing the rate implicit in the lease for those contracts.

After the commencement date, where there are any estimates used in accounting for the lease which may alter through changes in the contract (for example contractual clauses which allow the term to be increased) the lease is reassessed and, where necessary, both the asset and lease liability are remeasured. If the carrying amount of the right-of-use asset has already been reduced to zero and there is a further reduction in the measurement of the lease liability, then the lessee recognises any remaining amount of the remeasurement in the Consolidated income statement

Where there is a modification to the lease then:

- where the scope of the lease is increased by adding the right to use one or more assets; and
- the consideration for the lease increases by an amount equivalent to the standalone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract,

the lease is accounted for as a separate lease and no adjustment is needed to the original lease. A new discount rate will be applied to the separate lease.

In all other circumstances modifications will lead to adjustments to the asset and liability of the original lease and the discount rate will be revised.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Charges

The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The amount is disclosed in note 8.

The charge for depreciation for right of use assets is reported in other operating costs in the Consolidated income statement, is shown in note 9.

The basis of the depreciation charge is shown in note 2.12.

2.9 Employee benefits

Three of the subsidiaries in the group operate a defined contribution pension scheme. Contributions payable are charged to the income statement in the period to which they relate. There are no other post-employment benefits.

A defined contribution plan is a pension plan under which the group pays fixed contributions (based on salary) into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2.10 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the Consolidated income statement, except to the extent that it relates to items recognised in the Consolidated statement of other comprehensive income or directly in equity, in which case it is recognised in each respectively.

The current tax charge is calculated on the basis of tax laws enacted in the United Kingdom, where the group exclusively operates.

Deferred tax is recognised on temporary differences arising between the tax based assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that are expected to apply when the liability or asset reverses.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.11 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements:

- in the case of an interim dividend in the period in which this is recommended by the directors and paid;
- in the case of a final dividend in the period in which the dividend is approved by the company's shareholders.

2.12 Property, plant and equipment

(a) Cost

Property, plant and equipment which are owned by the group are stated at historical cost less depreciation and impairment. Historical cost consists of expenditure that is directly attributable to the acquisition of the items. Property, plant and equipment which are held as right-of-use assets are dealt with under note 2.8.

(b) Depreciation

Depreciation is calculated using the following rates:

Owned assets:	
Office equipment and fixtures	20.00% straight line
Computer equipment	33.33% straight line
Motor vehicles	25.00% reducing balance
Right-of-use assets:	
Leasehold property	Over the remaining period of the lease straight line

2.13 Intangible assets

(a) Cost

Intangible assets are stated at historical cost less amortisation. Historical cost consists of expenditure that is directly attributable to the acquisition of the items.

(b) Amortisation

Software development costs are amortised over 3 years on a straight line basis.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank current accounts. It includes bank overdrafts where they are repayable on demand and form an integral part of the group's cash management.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, there was no identified impairment loss.

2.15 Share capital

Ordinary shares are classified as equity and any costs of issue are deducted from the proceeds received. No other class of shares exists in the group.

2.16 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand pounds unless otherwise stated.

2.17 Segmental reporting

The group operates wholly within the United Kingdom therefore there is no meaningful information that could be given on a geographical basis. Since 2017 the board has only recognised one segment – lending. This is because the risks, rewards and management of the debt are so similar, or that certain other lending is immaterial in terms of income, assets or lending, that any segregation (other than central costs) would not give meaningful information to users of the financial statements.

The board therefore assesses the entire business based on operating profit (before tax and exceptional items, but after finance costs which form part of Interest payable and similar charges and other direct costs).

3. Critical accounting estimates and judgements

The directors are required to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. The financial position at the year end and the financial performance during it are sensitive to these. Estimates and judgements made by the board are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the group and that are believed to be reasonable under the circumstances. The following are considered critical in so far as use of alternative estimates would have an impact on the reported results of the next financial year.

3.1 Expected credit losses

The evaluation of expected credit losses requires a number of significant judgements and estimates to be made against a background of uncertainty. This is so, not only in assessing whether credit risk has moved since the original recognition of the financial asset, particularly as regards loans to customers, but also in estimating future cash flows. Assumptions have to be made based on past experience together with what is anticipated to happen in the future. The level of expected credit loss allowance would be different if these estimates were replaced by another set. Additional details of management's judgements in this area are include within the accounting policy in note 2.6b.

3.2 Fair value of investments

As mentioned in note 2.6(a), the assessment of fair values is based on one or more inputs. The company has investments in two, non-group companies. Details of these are shown in note 16.2. For both of these investments, level 3 inputs are used. The initial assessment of net asset values is then adjusted based on our view of the state of each company's finances. By its nature, this approach requires a great deal of subjectivity and other persons assessing the fair values of these investments may take an alternative view. Our total exposure in these investments is £81k.

4. Financial risk management

4.1 Financial risk factors

The group's activities expose it to a variety of financial risks. Risk management is carried out by the board of directors. It identifies, evaluates and mitigates financial risks. These have been dealt with in detail in the Group strategic report on pages 6 to 9. Below is a summary of the financial risks.

(a) **Credit risk -** this is the risk that customers will not repay their loans.

(b) **Liquidity risk -** this is the risk that the company will have insufficient funds to conduct its business.

(c) **Interest rate risk** – risk arising from an interest rate increase from our bankers at the same time as loans already made being effectively charged at a lower margin for part of the borrowing term.

(d) **Non-use risk –** this is a risk that cash raised from the bond issue will not be used.

(e) **Non-repayment risk –** the risk that there will be insufficient funds to repay bondholders.

4.2 Maximum exposure to credit risk

(a) Investments

The maximum exposure to credit risk on investments at fair value through profit and loss is £81k.

(b) Loans to customers and other receivables

The group adopts the general approach to measuring the expected credit loss on its loans and other receivables. The approach is set out in note 2.6.

The maximum exposure to credit risk on loans to customers was £43.87m. Credit risk is minimised by a strict underwriting policy, and the additional factors set out in note 17. As shown in note 17 over 99% of customer receivables are subject to recourse to the introducing partner in the event of default by the borrower. When estimating ECLs, debts with recourse are considered to have better credit risk than those without, as the supporting partner will take on the liability if the underlying borrower fails to pay.

4.3 Capital management

Capital consists of net debt (borrowings less cash and cash equivalents) plus total equity. The group's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the board may adjust the level of dividends paid, return capital to shareholders issue new shares or sell assets to reduce debt.

Consistent with market practices the group monitors capital on the basis of Return on Capital Employed ("ROCE"). This is calculated as earnings before interest, tax, depreciation and amortisation divided by capital as defined above.

The table below shows the ROCE at 31 July 2022 and 31 July 2021.

	2022 £000	2021 £000
Operating profit	1,879	1,053
Depreciation and amortisation	63	71
EBITDA	1,942	1,124
Capital employed:		
Capital and reserves (including current year)	16,677	15,800
Bank borrowings (net of cash held)	20,685	10,075
Other borrowings	44	72
Total capital and borrowings	37,406	25,947
ROCE	5.19%	4.33%

5. Revenue

Revenue (which for these purposes includes interest income, which is outside the scope of IFRS 15) consists of income which is recognised at a single point in time and that which occurs over a given period There is a small amount of income falling within the scope of IFRS 15 which is recognisable over more than one year. Any discounting would be immaterial.
The group has no single major customer. All income is from financing. Revenue can be analysed as follows:

	2022 £000	2021 £000
Revenue		
Interest revenue	5,003	3,783
Other revenue	1,187	817
	6,190	4,600
Timing of revenue recognition:		
At a point in time – direct debit charges	672	573
At a point in time – non utilisation fees	794	189
Over time – loan administrative fees	374	101
At a point in time – default and settlement fees	46	-
Over time – licence fees	141	143
Over time – interest revenue outside the scope of IFRS 15	4,163	3,594
	6,190	4,600

6. Expenses by nature

	Note	2022 £000	2021 £000
Interest payable and similar charges			
Interest payable in direct costs	8	464	281
Bank fees in direct costs		123	278
		587	559
Other direct costs			
Bank fees in direct costs		756	592
Other direct costs		-	11
		756	603
Other operating costs			
Employee costs (including directors)		1,377	1,267
Advertising and selling costs		544	518
Professional and legal fees		418	194
IT costs		165	152
Cost of listing		79	84
Depreciation and amortisation		63	71
Other net expenses		259	230
		2,905	2,516
Impairment losses/(gains)	17	63	(131)

7. Employees and directors

7.1 Employee costs

	2022 Group £000	2022 Company £000	2021 Group £000	2021 Company £000
Wages and salaries (including directors)	1,220	555	1,130	499
Social security costs	145	72	125	58
Pension costs – defined contribution plans	12	-	12	2
	1,377	627	1,267	559

The average number of persons employed by the group was:

	2022 Group £000	2022 Company £000	2021 Group £000	2021 Company £000
Directors	4	4	4	4
Administration	16	-	16	1
	20	**4**	**20**	**5**

7.2 Directors' remuneration

2022	Fees, salary and bonus £000	Taxable benefits £000	Total £000	Employer's NIC £000	Total £000
Total directors' remuneration	555	2	557	72	629

2021	Fees and salary £000	Taxable benefits £000	Total £000	Employer's NIC £000	Total £000
Total directors' remuneration	409	1	410	47	457

R Takhar was the highest paid director during the year earning £452k including taxable benefits and short-term bonus (2021 301k). Details are shown in the Remuneration report on page 18.
Key management personnel are considered to be the directors (executive and non-executive).
No director is accruing benefits under a pension scheme.

8. Finance income and costs

The group's income comes from making loans.
Interest payable on borrowings to finance these loans is therefore included as a cost of sale under interest payable and similar charges. The amount included was £464k (2021 £281k).

The group receives a small amount of interest from its bank balances. This year it amounted to £1k (2021 £Nil).
Interest payable is in respect of right-of-use assets and amounted to £2k (2021 £3k).

9. Operating profit

This is stated after charging:

	2022 £000	2021 £000
Depreciation of owned property, plant and equipment	14	19
Depreciation of right of use assets	40	40
Amortisation of intangible assets	9	12
Interest payable on liabilities in respect of right-of-use assets	2	3
Auditor's remuneration:		
Audit fees – parent company and consolidation	40	41
Audit fees – subsidiaries	93	48

10. Tax expense

10.1 Current year tax charge:

	2022 £000	2021 £000
Current tax expense	360	202
Adjustment re previous year tax expense	2	12
Deferred tax expense relating to the origination and reversal of temporary differences	(2)	(3)
	360	211

10.2 Tax reconciliation

The tax assessed for the year differs from the main corporation tax rate in the UK -19% for 2022 and 2021. The differences are explained below.

	2022 £000	2021 £000
Profit before tax for the financial year	1,878	1,050
Applicable rate – 19.00% (2021 19.00%)	19.00%	19.00%
Tax at the applicable rate	357	199
Effects of:		
Expenses not deductible for tax	1	-
Adjustment re previous year tax expense	2	12
Tax charge for the year	360	211

11. Profit of the parent company

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent is not presented as part of these financial statements. The parent company's profit for the year was £496k (2022 profit £211k).

12. Dividends

	2022 £000	2021 £000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 July 2021 of 2p (2020 2p) per share	427	427
Interim dividend for the year ended 31 July 2022 of 1p (2021 1p) per share	214	214
	641	641
Proposed final dividend for the year ended 31 July 2022 of 2p (2021 2p) per share	427	427

13. Earnings per share

Earnings per share is based on the profit for the year of £1.52m (2021 £0.84m) and the weighted average number of the ordinary shares in issue during the year of 21.35m(2021 21.35m). There are no options or other factors which would dilute these therefore the fully diluted earnings per share is identical.

14. Property, plant and equipment and right of use assets

14.1 Property, plant and equipment

	Office equipment and fixtures £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 August 2020	62	85	12	159
Additions	-	3	-	3
At 31 July 2021	62	88	12	162
Additions	-	4	-	4
At 31 July 2022	62	92	12	166
Depreciation				
At 1 August 2020	51	62	7	120
Charged to other operating costs in the consolidated statement of income	6	12	1	19
At 31 July 2021	57	74	8	139
Charged to other operating costs in the consolidated statement of income	3	11	-	14
At 31 July 2022	60	85	8	153
Carrying value at 31 July 2022	2	7	4	13
Carrying value at 31 July 2021	5	14	4	23

14.2 Right of use assets

The following assets are right of use assets

	Short leasehold premises £000
Cost	
At 31 July 2021 and 31 July 2022	153
Depreciation	
At 1 August 2020	57
Charged to other operating costs in the consolidated statement of income	40
At 31 July 2021	97
Charged to other operating costs in the consolidated statement of income	40
At 31 July 2022	137
Carrying value at 31 July 2022	16
Carrying value at 31 July 2021	56

Details of the liability relating to the above are shown in note 20. Interest charged in the year is shown in note 8.

15. Intangible assets – group

	Software development costs £000
Cost	
At 1 August 2020	151
Additions	-
At 31 July 2021	151
Additions	12
At 31 July 2022	163
Amortisation	
At 1 August 2020	135
Charged to other operating costs in the consolidated statement of income	12
At 31 July 2021	147
Charged to other operating costs in the consolidated statement of income	9
At 31 July 2022	156
Carrying value at 31 July 2022	7
Carrying value at 31 July 2021	4

16. Investments

16.1 Subsidiaries

	Shares in subsidiaries £000
Cost and carrying value	
At 31 July 2020 and 31 July 2021	2,807
Additions	50
At 31 July 2022	2,857

Details of the subsidiaries are:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary
Bexhill UK Limited	England and Wales	Finance provider	100%
Orchard Funding Limited	England and Wales	Finance provider	100%
Orchard Finance Limited	England and Wales	Finance provider	100%
Cherry Orchard Funding Limited	England and Wales	Finance provider	100%
Orchard Bond Finance plc	England and Wales	Finance provider	100%

All subsidiaries are included in the consolidation. The registered office of each subsidiary is that of the parent, 1st Floor, 721 Capability Green, Luton, Bedfordshire LU1 3LU.

During the year the group acquired Orchard Bond Finance plc.

Orchard Bond Finance plc was acquired on 10 December 2021 from R Takhar at par of £50k. The company had previously been a private company under the name of CRM Associated Limited and was re-registered as a public company on 29 September 2021. It began collecting cash from the bond issue on 2 March 2022. Prior to this it had been dormant since its incorporation in 2010. Its results therefore cover the period from 2 March 2022 and there was no income or expenditure in the previous year.

During the year Cherry Orchard began to trade. It began to incur expenditure on 3 January 2022 and received its first income on 30 June 2022. Until 31 January is had no income or expenditure.

16.2 Investments at fair value through profit and loss

Accolade Education Finance Limited

In the past shares were transferred in Accolade Education Finance Limited with a nominal value of £20 representing 20% of the issued share capital of that company, to Orchard Funding Group plc at £nil cost.
This size of shareholding would be sufficient to deem Accolade Education Finance Limited an associate as significant influence would normally exist in these circumstances. However, the group does not have any representation on the board of the company; it takes no part in its management; there is not (and no intention to have) any interchange of managerial personnel and there is no intention to have transactions between the parties which are material to either side.
This investment was made for strategic purposes and was as much for the benefit of Accolade Education Finance Limited as the group. For this reason, and those given in the previous paragraph, the board considers classification as a trade investment to be more appropriate.
The amount paid for this asset was £nil and there is no easily obtainable, reliable information on which to base a Level 1 or Level 2 valuation therefore a Level 3 valuation has been used based on net asset value (see note 2.6 for an explanation of each level). The net asset value at 30 November 2021 (the latest set of published accounts) was £115k. The next set is not due for filing at Companies House until 31 August 2023. For the purposes of fair valuing the investment, given that the group is not entitled to any management information and the lack of any other public information, the net asset value has been used as a starting point. However, the company was not in a position to pay dividends and the accounts appeared to have certain items which did not seem to comply with accounting standards, although from lack of notes it was impossible to state with certainty whether or not it did. For reasons just stated, the board therefore considers the fair value of this investment to remain at £6k. The value may very well be higher than our estimate but there is no objective information to suggest this. Given the maximum risk is £6k, the directors view the valuation as presenting minimal risk of material misstatement.

Open B Gateway Limited

Three years ago, the group acquired 300 shares in Open B Gateway Limited, a company the principal activity of which is business software development. The shares were purchased at par (£1 per ordinary share) and represent a 30% holding in that company.

Again, this size of shareholding would have been sufficient to deem the company an associate as significant influence would normally exist in these circumstances but until recently the group did not have any representation on the board of the company, took no part in its management, there was no interchange of managerial personnel and the group was not entitled to financial information other than that available to shareholders. No significant influence existed.
For these reasons the board considered a trade investment to be a more appropriate classification.

The investment is subject to a fair value review. In this case a Level 3 value has been applied for the same reasons as the investment in Accolade Education Finance Limited. The business has progressed as expected, details of the software and how it works are publicly shown on Bexhill's website, we are using the software and are able to measure the benefits in terms of improved underwriting and it has led to faster decisions being made on lending.

The board therefore believes a fair value for the investment would be £75k, equal to the amount invested.

17. Loans to customers and other receivables

	2022		2021	
	Group £000	Company £000	Group £000	Company £000
Non-current				
Financial assets at amortised cost				
Loans to customers:				
Gross	6,595	-	2,259	-
Impairment provision	(1)	-	(2)	-
	6,594	-	2,257	-
Current				
Financial assets at amortised cost				
Loans to customers:				
Gross	37,277	-	27,686	-
Impairment provision	(134)	-	(70)	-
	37,143	-	27,616	-
Financial assets at amortised cost				
Intercompany receivables	-	9,864	-	9,888
Other receivables	127	-	124	-
	127	9,864	124	9,888
	37,270	9,864	27,740	9,888
Prepayments	62	30	109	25
	37,332	9,894	27,849	9,913

Loans to customers

Standard credit terms for loans to customers are based on the length of the loan but repayments are due on a monthly basis. Detail of impairment reviews are shown in note 2.6.

The expected credit losses on receivables not past due have been assessed as very low, because of the following factors:

- With the majority of our lending (99.55% this year), no loan is made until the first repayment has been received by the group;
- In the event of default, the group has recourse to the underlying borrower;
- In the case of insurance receivables, the Financial Services Compensation Scheme provides additional cover to the group;
- For insurance receivables, the cover ceases, premiums paid are refunded, and the group has access to these refunds.

Loans to customers can be analysed as follows. The reference to stage 1, 2 and 3 refer to those stages explained in note 2.6.
The figures refer to the group as the company has no loans to customers.

Total loans to customers:

	2022			2021		
	Gross £000	Impairment allowance £000	Net £000	Gross £000	Impairment allowance £000	Net £000
Amount receivable – stage 1	43,652	(39)	43,613	29,882	(29)	29,853
Amount receivable – stage 2	126	(9)	117	18	-	18
Amount receivable – stage 3	94	(87)	7	45	(43)	2
	43,872	(135)	43,737	29,945	(72)	29,873

Amounts falling due within one year:

	2022			2021		
	Gross £000	Impairment allowance £000	Net £000	Gross £000	Impairment allowance £000	Net £000
Amount receivable – stage 1	37,065	(38)	37,027	27,624	(27)	27,597
Amount receivable – stage 2	118	(9)	109	18	-	18
Amount receivable – stage 3	94	(87)	7	45	(43)	2
	37,277	(134)	37,143	27,687	(70)	27,617

Amounts falling due after one year but less than five years:

	2022			2021		
	Gross £000	Impairment allowance £000	Net £000	Gross £000	Impairment allowance £000	Net £000
Amount receivable – stage 1	6,501	(1)	6,500	2,227	(2)	2,225
Amount receivable – stage 2	8	-	8	-	-	-
Amount receivable – stage 3	-	-	-	-	-	-
	6,509	(1)	6,508	2,227	(2)	2,225

Amounts falling due after more than five years:

	2022			2021		
	Gross £000	Impairment allowance £000	Net £000	Gross £000	Impairment allowance £000	Net £000
Amount receivable – stage 1	86	-	86	31	-	31
Amount receivable – stage 2	-	-	-	-	-	-
Amount receivable – stage 3	-	-	-	-	-	-
	86	-	86	31	-	31

Over 99% of customer receivables are subject to recourse to the introducing partner in the event of default by the borrower.

	2022 Group £000	2021 Group £000
Impairment provision at 1 August	72	217
increase /(decrease) in provision in the year	63	(131)
Receivables written off during the year	-	(14)
Impairment provision at 31 July	135	72

Intercompany receivables

The holding company is owed a substantial amount by its two largest subsidiaries. These debts are interest free and due on demand. Neither subsidiary has the cash to repay these immediately and therefore, under the requirements of IFRS 9, provision may need to be made in the financial statements of the holding company. However, the board does not see any need for a provision because:

- the loans to customers which each subsidiary has made will generate sufficient cash to repay these loans (after payment of other liabilities) on a "run off" basis (as cash is collected it could be paid across to the parent). The majority of loans to customers in the subsidiaries are all repayable within 12 months; and
- any risk of loss is considered remote (not expected) and therefore no impairment provision is necessary.

18. Cash and cash equivalents

	2022 Group £000	2021 Group £000
Amounts held at banks	4,796	2,170

Cash and cash equivalents consist of group bank balances. The parent company has no bank account.

19. Called up share capital

Allotted, issued and fully paid at 31 July 2022 and 31 July 2021

Number	Class	Nominal value	£000
21,354,167	Ordinary shares	1p	214

20. Borrowings

	2022 £000	2021 £000
Non-current:		
Borrowings	6,042	834
Borrowings arising from right-of-use assets	15	44
	6,057	878
Current:		
Borrowings	19,439	11,411
Borrowings arising from right-of-use assets	29	28
	19,468	11,439

The parent company has no external borrowings.

20.1 Terms and debt repayment schedule

The group refinanced its borrowings during the previous financial year, resulting in Bexhill repaying £9.48m of its loan and Orchard Funding £1.50m of its loan to their respective funders. The total amount of £10.98m is shown as being repaid in the 2021 column of the Consolidated statement of cashflows on page 35.

Bexhill's current facility was increased during the year from £15.00m to £20.00m and is renewable in April 2023. Orchard Funding's facility is renewable in June 2023 and November 2023 for Orchard Finance. There is no indication that these facilities will not be renewed.

Borrowings by Bexhill of £14.92m (2021 £10.17m) are secured by a fixed and floating charge over all the assets of Bexhill, bear interest at an average rate of 3.10% excluding associated costs (2021 2.92% on the same basis) and are repayable within one year of the advance. The maximum drawdown on the facility is currently £20.00m (2021 £15.00m) of which £5.08m was undrawn at the year-end (2021 £4.83m).

Orchard Funding borrowings are secured by a fixed and floating charge over all the assets of Orchard Funding, bear interest at an average rate of 3.53% pa excluding associated costs (2021 5.28% on the same basis) and are repayable within one year of the advance. The maximum drawdown facility is currently £5.00m (2021 £5.00m) of which £3.50m was undrawn at the year-end (2021 £5.00m).

Orchard Finance has access to a maximum drawdown borrowing facility of £7.50m (2021 £7.50m) of which £4.64m was undrawn at the year end (2021 £5.43m). This facility can only be used for products of the lender, bears no interest, is secured by a fixed and floating charge and is repayable as monies are received by Orchard Finance from loans made by it.

On 3 March 2022 a five year, retail bond was issued. The bond raised £3.90m in 5 tranches. These were issued at between 0.9965 discount and 1.006 premium. The total amount issued was also £3.90m. Costs of the issue amounting to £0.21m were offset against the proceeds and amortised over five years. The market value of the bonds was £3.99m at 29 July 2022, the last trading day of the financial year.

The directors consider that the terms of these facilities closely match the maturity dates of the group's receivables.

No amounts are due after five years on any of the facilities.

Liabilities in respect of right-of-use assets are unsecured, bear interest at the group's marginal cost of borrowing on inception of the lease. This is 3.60%.

The minimum payments under lease liabilities are as follows:

	2022 Group £000	2021 Group £000
Within 1 year	30	30
Later than 1 year but no later than 5	15	45
	45	75
Future finance charges	(1)	(3)
	44	72

The present value of lease liabilities are as follows:

Within 1 year	29	28
Later than 1 year but no later than 5	15	44
	44	72

20.2 Reconciliation of liabilities arising from financing activities

The information given below relates to the group. The parent has no cash-flows from financing activities as all its costs are paid for by its subsidiaries.

	At 1 August 2020 £000	Cash flows £000	At 31 July 2021 £000	Cash flows £000	At 31 July 2022 £000
Non-current:					
Other loans	-	834	834	5,208	6,042
Borrowings arising from right-of-use assets – leases	72	(28)	44	(29)	15
	72	806	878	5,179	6,057
Current:					
Bank loans	10,977	434	11,411	8,028	19,439
Borrowings arising from right-of-use assets - leases	27	1	28	1	29
	11,004	435	11,439	8,029	19,468
Total liabilities from financing activities	11,076	1,241	12,317	13,208	25,525
Interest on right-of-use assets included in liabilities		(3)		(2)	
Cashflows from financing activities		1,238		13,206	
Comprising:					
Net receipts from borrowings		12,245		13,236	
Borrowings repaid		(10,977)		-	
Lease repayments		(30)		(30)	
		1,238		13,206	

21. Deferred tax

21.1 Deferred tax liabilities

The balance comprises temporary differences attributable to:	2022 Group £000	2021 Group £000
Accelerated capital allowances	3	3
	3	3

21.2 Movement on deferred tax balances

Deferred tax assets	
At 1 August 2020	6
Charged to Consolidated income statement	(6)
At 31 July 2021 and 31July 2022	-

Deferred tax liabilities	
At 1 August 2020	-
Charged to Consolidated income statement	3
At 31 July 2021	3
Credited to Consolidated income statement	(2)
At 31 July 2022	1

22. Trade and other payables

Current liabilities	2022		2021	
	Group	Company	Group	Company
	£000	£000	£000	£000
Trade payables	4,522	-	3,274	-
Other payables	55	-	32	-
Other tax and social security costs	33	15	31	15
Accruals and deferred income	1,727	276	845	100
	6,337	291	4,182	115

Trade payables are unsecured and are usually paid within 30 days of recognition. Included within accruals and deferred income is deferred income of £699k (2021: £104k) related to income received in advance for loan administration services. The majority of this balance is expected to reverse within the next 12 months.

23. Financial instruments

The company is exposed to the risks that arise from its use of financial instruments. The objectives, policies and processes of the company for managing those risks and the methods used to measure them are detailed in note 4.

23.1 Principal financial instruments

The principal financial instruments used by the company, from which financial instrument risk arises, are as follows:

- Loans to customers
- Other receivables
- Cash and cash equivalents
- Trade payables
- Borrowings
- Financing for right-of-use assets

23.2 Financial instruments by category

The group held the following financial assets at the reporting date:

	2022		2021	
	Group	Company	Group	Company
	£000	£000	£000	£000
Non-current assets				
Financial assets at fair value through consolidated income statement:				
Investments	81	-	81	-
Financial assets at amortised cost:				
Investments	-	2,938	-	2,888
Loans to customers	6,594	-	2,257	-
Current assets				
Financial assets at amortised cost:				
Loans to customers	37,143	-	27,616	-
Other receivables: current	127	9,864	124	9,888
Cash and cash equivalents:				
Bank balances and cash in hand	4,796	-	2,170	-
	48,741	12,802	32,248	12,776

The group held the following financial liabilities at the reporting date:

	2022		2021	
	Group	Company	Group	Company
	£000	£000	£000	£000
Financial liabilities at amortised cost:				
Interest bearing loans and borrowings:				
Borrowings payable: non-current	6,057	-	878	-
Borrowings payable: current	19,468	-	11,439	-
Trade and other payables	6,305	276	4,151	100
	31,830	276	16,468	100

23.3 Fair value of financial instruments

The board do not consider the fair value of financial assets and liabilities to be materially different to their carrying values.

23.4 Financial risk management

The group's activities expose it to a variety of financial risks. These risks are dealt with in detail in the Group strategic report on pages 6 to 9 and note 4.

24. Related party transactions

24.1 Ultimate controlling party

The ultimate controlling party is considered to be R Takhar who owns 53.66% of the issued share capital.

24.2 Group companies

The following transactions took place between group companies during the year, all of which were considered to be at arm's length:

Bexhill – the parent company was repaid £0.49m from Bexhill (2021 £0.15m). Bexhill made payments on behalf of the parent company amounting to £0.43m (2021 £0.46m) and paid dividends to the parent company amounting to £1.05m (2021 £0.60m). At the year-end Bexhill owed the parent company £1.18m (2021 £1.04m). The loan is unsecured, interest free and repayable on demand.
Bexhill paid expenses on behalf of Orchard Funding amounting to £Nil (2021 £0.003m). At the year-end Orchard Funding owed Bexhill £Nil (2021 £0.003m).
Orchard Funding – Orchard Funding repaid £1.00m to (2021 was paid £0.12m by) the parent company. Orchard Funding had payments made on its behalf by the parent amounting to £1,12m (2021 made payments on behalf of the parent amounting to £1,01m) and paid dividends to the parent company of £1,8m (2021 £0.30m). At the year-end Orchard Funding owed the parent company £10,77m (2021 £8,85m). The loan is unsecured, interest free and repayable on demand.
Orchard Funding's transactions with Bexhill are shown above.

Orchard Finance – Orchard Finance owed the parent £0.009m at the end of the year (2021 it was owed £0.003m by the parent). The parent paid £0.012m on behalf of Orchard Finance during the year (2021 £Nil).

Cherry Orchard– Cherry Orchard had expenses paid by the parent amounting to £0.095m. It received a further £0.45, from the parent. At the year end £0.52m was owed to the parent. No transactions took place in the previous year.

Orchard Bond– Orchard Bond did not have a bank account when the bonds were issued. Some of the money received therefore went through the parent company. Receipts from the bond issue going through the parent amounted to £2.78m and associated costs paid by the parent were £0.21m. The parent also acquired the shares of the company for £0.05m. No transactions took place in the previous year.

24.3 Other entities

The group is related to the following parties with whom it had activity during this or the previous period.

Name of related party	Nature of the relationship
Mr R Takhar	CEO of, and shareholder in, the company
McShane Wright	A firm in which a director, L McShane, is a partner
Associated Premium Funding Limited	A company wholly owned by Mr R Takhar

Mr R Takhar - during the year Mr Takhar (including connected shareholdings) received dividends amounting to £343,750 (2021 £343,750). Mr Takhar also disposed of his entire holding in Orchard Bond to the parent at par – 50,000 £1 shares - on 10 December 2021.

McShane Wright - during the year the firm of McShane Wright provided the group with accountancy and associated services. The charge made for these was £29,906 (2021 £30,278). Of this £28,080 (2021 £28,080) is shown as part of directors' remuneration in note 7.2 and £1,826 (2021 £2,198) is shown under administrative expenses. At the year-end it was owed £8,340 (2021 £7,200).

Associated Premium Funding Limited - Associated Premium Funding Limited acts as a funding company for a number of clients of Bexhill. In this respect, payments to or receipts from this company are on behalf of third parties.

25. Treatment of borrowings

The group borrows money and lends this on, together with its own funds, to its customers.

Any increase in activity leads to an increase in debtors and an associated increase in borrowings. If the company was one which bought and sold goods or services the money borrowed would be similar to the company's stock in trade and the change in creditors would be shown as part of operating cash flows. However, accounting standards require cash flows from financing to be shown separately and this means that there appears to be a large inflow or outflow of cash from the company's operations (depending on whether lending to customers decreases or increases in the year) which is then covered by borrowings. For reasons stated above this is not the case.

26. Post balance sheet events

There were no post balance sheet events which fall to be disclosed in these financial statements.

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