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") and Orchard Finance Limited ("Orchard Finance"), (together "the group") specialises in insurance premium finance, professional fee funding and finance for other service fees. The group is unique in providing insurance brokers with the ability to operate their own finance companies and provides a high level of tailored service to all its clients. For those brokers and organisations who prefer to act as introducers, it offers competitive finance products for their clients.

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

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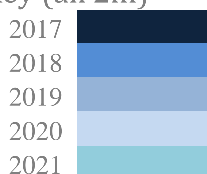
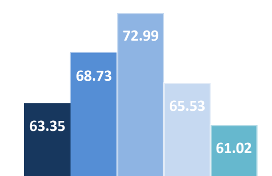
Group financial highlights

Between 2015 and 2019 Orchard grew its lending year on year. In the latter part of the year to July 2020 it felt the impact of COVID-19 as a result of which lending fell. This fall continued into the first eight months of this financial year after which lending began to grow again. Overall, loans made in the year to July 2021 are lower than in the year to July 2020. Despite this situation, lending in the insurance premium funding market has grown and we have commenced lending into the asset finance market. While cost management continues to be an important part of our strategy, we have had to increase these this year. More detail is given on page 10. We, again, thank our staff, funders, partners and shareholders for all their support during this unprecedented period.

Five year summaries

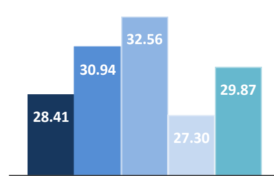
Key (all £m)





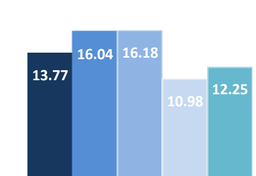
LENDING

Lending down from £65.53m in 2020 to £61.02m in 2021



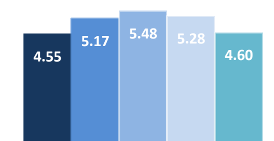
LOAN BOOK

Loan book up from £27.30m in 2020 to £29.87m in 2021



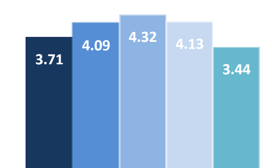
BORROWING

Borrowing up from £10.98m in 2020 to £12.25m in 2021



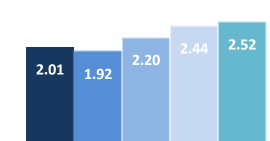
GROSS TOTAL INCOME

Gross total income down from £5.28m in 2020 to £4.60m in 2021



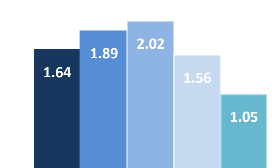
NET TOTAL INCOME

Net total income down from £4.13m in 2020 to £3.44m in 2021



OTHER OPERATING COSTS

Other operating costs up from £2.44m in 2020 to £2.52m in 2021



OPERATING PROFIT

Operating profit down from £1.56m in 2020 to £1.05 in 2021

Gross total income consists of interest receivable together with other trading income.
Net total income is gross total income after direct costs.

Chairman's statement

The economic backdrop has made this another challenging year for the group. The ongoing COVID-19 restrictions have impacted on consumer demand and there has been continued aggressive competition for business from the established players in the market.

This has had an inevitable impact on our results. Our new lending volumes have fallen by 6.9%, total revenue is down 12.9%, profit after tax is down 34.1% and EPS has reduced from 5.96p to 3.91p when compared to the full year ending July 2020.

However there are several positives that I take from this year. Our business has proved to be resilient, and we are in a good position to grow as the economy recovers and consumer demand returns post the pandemic. I am very pleased that our core insurance business has continued to perform, and the majority of our staff have been able to work from home with no impact on our customers or partners. We have secured new funding from Toyota Financial Services PLC and National Westminster Bank PLC replacing our historical Barclays Bank PLC and Conister Bank facilities. This is a great show of confidence in our business model. I want to thank our loyal staff, customers and partners for their continued support over the last year.

We continue to pilot lending into new markets where we can compete on the basis of our experienced staff, underwriting processes and supporting systems. Whilst insurance premium funding will remain our core activity, we are keen to seek out new markets to grow our revenue.

The board remains confident of our ability to grow our business as the impact of the pandemic fades, and we are pleased to propose that the annual dividend is held at 3p.

Steven Hicks
Chairman

25 October 2021

Chief executive's review

Our business model proved resilient during the global financial crisis in 2008 and again proved resilient in the Covid-19 Crisis ("the Crisis"), which was even deeper and more-wide ranging than the 2008 crisis. We supported all our staff and ensured that not a single employee was put on furlough. We supported all our clients, who suffered no interruption to their liquidity requirements during the Crisis. We supported all our borrowers, including those with payment difficulties throughout the Crisis. We are proud to say that we have come through the Crisis with all our staff, clients and customers and our business is in a strong position to service and benefit from the post Covid-19 market.

We have had to work hard to ensure that there was a constant and cost-effective supply of liquidity throughout the Crisis for our business. We re-financed Barclays Bank PLC, with funding from Toyota Financial Services PLC and Conister Bank with National Westminster Bank PLC. Against a very difficult backdrop, we were able to execute re-financing in the Crisis, which is more flexible and cost effective than our historic facilities. This is a great achievement by our finance team, puts us in an excellent position for the future and we thank them for their great efforts to obtain these new facilities.

As expected, we traded through the Crisis with a lower level of lending than in the year ending July 20. Despite the market, we still managed to lend over £60m and maintained our lending in the insurance sector, whilst seeing falls in lending in professional fee funding and site fee funding. Our sales team is focused on the recovery of lost lending and will work hard to achieve this as the market returns to normal levels.

As well as our core markets, we continue to test adjacent markets to our current products. Through our site fee lending product, we have now launched a Hire Purchase product, which enables customers to acquire static caravans. We are delighted to confirm that we are now lending in this market and are well placed to grow our market share due to our existing relationships with Park Operators. Through our entry into new markets, we continue to demonstrate our pro-active approach to business, our prudence, by only lending into markets that share the credit characteristics of our historic lending and our continual pursuit of growing our business for the benefit of our staff and shareholders.

We continue to develop our own bespoke IT system, Lend XP. As well as supporting our own business, Lend XP is now used by all of our finance company clients. Lend XP enables us to integrate effectively and efficiently with 3rd party IT systems and has continued to increase our operational efficiency and our ability to conduct business with introducers, for whom IT integration is a pre-condition to doing business. IT development clearly has a cost and we therefore continue to invest in this fundamental part of our business. This is a key part of our philosophy of spending and investing money prudently and only in the best interests of our business and our stakeholders. In house IT enables us to efficiently launch products into new markets without significant infra-structure costs. This year our IT has enabled us to lend into the Hire Purchase market quickly and on a cost-effective basis.

As reported last year we have made a FinTech investment into an Open Banking platform, which enables us to analyse a customer's bank statements on a real time basis. The open-banking solution will offer benefits to Orchard before it enters new markets as the real-time solution will ensure that credit offered to borrowers is supported by effective underwriting. Our Open Banking platform is now live and has materially improved our ability to quickly and effectively underwrite borrowers. We are already using open banking to underwrite borrowers for our new HP static caravan product.

We continue to be supported by our experienced and loyal staff. Notwithstanding the current market turmoil, 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 have worked from home during the current crisis and thank them for ensuring that our customers have received the benefit of uninterrupted and excellent service during this difficult period.

We would again 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, the downward trend in our core lending markets due to Covid-19 was expected. We have a strong and robust platform, which is well supported by cost-effective and flexible liquidity lines, which will support our future lending aspirations and growth.

We paid a dividend of 2p per share in December 2020 and an interim of 1p per share in April 2021. I am happy to announce that the board has proposed a final dividend of 2p per share to be paid in December 2021, subject to shareholder approval.

Ravi Takhar
Chief executive officer

25 October 2021

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 is paramount in the decision making process.

We have six strategic drivers behind our objective of increasing profitability:

- 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 fit our lending criteria - safe lending and sensible returns.

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.

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 has been positive.

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

Model

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

Funding
- £15.0m Toyota Financial Services general facility
- £7.5m Toyota Financial Services restricted facility
- £5.0m Natwest facility
- £14.2m own net current financial assets

Our business model

The group's main business in the past was to provide 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. This remains the core of our lending. However, this year we have begun to make longer term loans, up to seven years for asset finance. 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(d)2.6(b) on page 41.

Despite the fact that we now have longer term lending, the nature of our products is so alike in terms of risk, reward and processes that any segregation would not give meaningful information to users of the financial statements. Our underwriting and debt management procedures are so similar that we have not disaggregated 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.

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. Indeed, we have turned down potential borrowers because they did not fulfil our strict requirements.

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

Protected lending

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

Stable funding

- external audit
- regular reporting

The group has borrowing facilities up to up to a maximum of £20m for general lending. In addition Orchard Finance has a facility of up to £7.5m to be used exclusively for lending in respect of products from the provider of those funds.

Of the general facility, £9.83m was unused at the year end, Of the restricted facility, £5.42m was unused.

The balance of lending is provided from group resources. At 31 July 2021 the group had net current financial assets (receivables plus cash in hand less current liabilities) amounting to £14.15m.

The group's average cost of finance was 6.03% of funds borrowed in the financial year to 31 July 2021 (4.86% on the same basis in the year to 31 July 2020). Cost of funds includes arrangement and legal fees payable for access to funding and fees for non-use of the facility. There is some distortion this year as costs were incurred for a facility which was not used by the year end. If only interest were included in cost of finance the percentages would be 3.03% for 2021 and 3.63% for 2020.

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.

KRIs

- credit risk
- liquidity risk
- interest rate 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 remains similar to last year as a result of the continuing COVID-19 issue. Although we have passed the major initial economic impact of the pandemic, we are still unsure as to what will happen to the economy (for example, unemployment) in the near future..
Risk appetite	In the current climate our aim is to limit reported credit losses to below 0.2% 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 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 not changed. We refinanced this year during a turndown in the economy at a lower headline rate indicating that risk is certainly no greater than in the past.
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 2022 for Bexhill and June 2022 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 £23.98m at 31 July 2021 (excluding borrowings restricted to Toyota products). Our operating costs for the year were £2.52m (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	In principle, risk has changed insofar as we now have longer term fixed rate lending. However, at present this business represents a small proportion of our lending (6.52% of our 2021 lending). Any rate changes on our other lending would have a very little effect.
Risk appetite	Our risk appetite is 25% above the interest rate that we are paying when a loan is made, without being able to pass this on to our customers.
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.

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 and by regular interaction with our bankers;
- 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 30 September 2021, the latest date of review, the largest nominal exposure was £3.82m to one finance company representing 12.48% of our loans (before expected credit loss provisions). The highest exposure to a non-finance company was £2.43m and consisted of advances comprising many smaller loans (the average amount for each loan was £178). The reality, therefore, is that our exposure is low. At 30 September 2021 total outstanding loans were £30.60m (at 31 July 2020 £27.52m) (before expected credit loss provisions), of which the highest individual loan (not a block loan to a premium finance company) was £26.80k. This was for asset finance and represented less than 0.1% of total outstanding loans. This is likely to remain the situation in the future.

We have experienced late payments in the past. The majority of these are through our customers changing banking details. Prior to the year to July 2020, we made a charge for late payments. This reduced our expected credit losses. Last year and this we have not made these charges. We intend to do so again in the next financial year.

During this year, because of COVID-19, some of our borrowers requested payment holidays and we have accommodated these. Where they are properly agreed with a borrower, these payment holidays do not necessarily result in a significant increase in the credit risk associated with those loans. The “days past due” for these loans is based on the revised, agreed schedule. That is not to say that there may be other factors which might impact on credit risk but these are looked at separately as part of our wider review of the credit quality of our lending.

We review debts for impairment and make provision where necessary. As part of this process, we have released £131k during the year to 31 July 2021, net of reversal of previous provisions and items written off against those provisions (£130k was charged in the year to 31 July 2020). The provision this year is £72k carried forward at 31 July 2021 (£217k at 31 July 2020). Part of the reason for this reversal is that, where we are not paying out cash until months later, these have been excluded from need to make provision as there can be no credit loss on these. Note 2.6 on page 40 outlines the approach to credit impairments.

There is no doubt that the level of potential bad debt had been adversely affected by COVID-19 for most of the year, The biggest consequence of COVID-19 had been cancellations of loans taken out to pay for discretionary spending. This did not lead to financial losses but reduced lending (and therefore income) below the level we had projected in the year before last. The latter part of the year has seen lending starting to increase again.

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 on page 45.

The business environment

COVID-19 was identified as a pandemic in March 2020 by the World Health Organisation and our Government took action to control its spread in this country which resulted in the closing of many businesses in that month. We suffered in the period up to 31 July 2020. Our financial year began in the same vein. There was an easing of lockdown in July 2020 but this quickly led to further out-breaks of the disease resulting in a full lockdown by January 2021. This has effectively remained through most of the rest of the group's 2020/21 financial year. However, Orchard has seen increases in lending towards the end of the financial year and our forecasts indicate that this is likely to continue. This will, of course, be dependent on the economy remaining open.

One outcome of the restrictions was that Government debt replaced non-mortgage, personal debt. A research publication by the Commons Library published in July 21, quotes figures from the Bank of England showing that unsecured debt fell in each month between March 2020 and May 2021.

This, again, impacted our lending in that individuals who might in the past have financed insurance premiums etc. were not borrowing to do so.

We now have a trade agreement with the EU, although there is uncertainty attaching to the Northern Ireland Protocol. The board is of the opinion that the direct effect of this on Orchard will not be significant in the short to medium term. There are too many unknown factors to assess the situation in the longer term. The main issues are still likely to revolve around the value of the pound against other traded currencies, which will impact on spending.

Development and performance of the business

Overview

The financial year began for us in the same vein as the year before had ended, with reductions in lending in every month when compared to the equivalent month in the previous year.

This situation continued until March 2021 after which lending began to rise again on the same basis. We still believe that most of our premium finance growth will come from the direct insurance side rather than from broker premium funding companies, although these companies still remain our largest market. The demand for professional fee finance has continued to slow.

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 13.

To summarise: it remains our intention to increase our sales in existing markets, expand into adjacent markets, maintain good cost control commensurate with our plans and secure further sources of funding.

Financial indicators

The function of the business is to lend money safely. The ability to find borrowers is therefore key to the business. We have not only added to our introducing partner base but have begun again to sell more through this base. This continues to work well (albeit that economic conditions have become more challenging this year).

Our margin is an important area. Some of our borrowing is fixed to bank base rate and some to 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 indicates that the influence on our business would be negligible and it is for this reason that our risk appetite is to accept rate increase of up to 25% higher than we are paying at the time the loan is made to a customer (see Interest rate risk on page 7). Rates for new lending can, however, be altered to reflect any changes. There is, however, greater risk with our longer term products that rate increases would erode margins.

Other operating costs in this business are relatively stable. We have increases resulting from an increased sales function, staff costs and enhancements to our IT systems but other overheads have been reduced. The net result is an overall increase of 3.28% (excluding provision for expected credit losses).

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.

Lending, revenue and profit are all lower than last year. During 2020 COVID impacted our business for approximately four months. This year the impact was for eight months. Given the circumstances, the directors are satisfied with the performance of the group.

As would be expected, this decrease in lending has led to a decrease in profitability.

Financial KPIs

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

	2021	2020	2019	2018	2017
KPIs					
Lending volume	£61.02m	£65.53m	£72.99m	£68.73m	£63.35m
Average interest earning assets[1]	£28.59m	£29.72m	£31.54m	£29.68m	£25.11m
Total revenue	£4.60m	£5.28m	£5.48m	£5.17m	£4.55m
Average external funding	£9.28m	£12.82m	£14.35m	£13.16m	£11.49m
Cost of external funds	£0.56m	£0.62m	£0.70m	£0.63m	£0.49m
Cost of funds/funds ratio	6.03%	4.84%	4.88%	4.79%	4.26%
Own resources (net current financial assets)	£14.15m	£15.50m	£14.82m	£13.94m	£13.03m
Operating costs	£2.52m	£2.44m	£2.20m	£1.92m	£2.01m
Return on average equity	5.35%	8.31%	11.24%	11.10%	10.51%
Other performance indicators					
Net interest income	£3.22m	£3.94m	£4.15m	£3.86m	£3.49m
Profit before tax	£1.05m	£1.55m	£2.02m	£1.89m	£1.64m
Profit after tax	£0.84m	£1.27m	£1.63m	£1.51m	£1.34m
EPS (pence)[2]	3.91	5.96	7.66	7.08	6.25
DPS (pence)3	3.00	3.00	3.00	3.00	3.00
Return on capital employed	4.33%	6.74%	7.24%	6.77%	6.69%

1. Average interest earning assets consist of the average of the opening and closing loan book after taking account of the impairment provision.
2. There are no factors which would dilute earnings therefore fully diluted earnings per share are identical.
3. Dividends per share are based on interim dividends paid in the year and proposed final dividend for the year.

Net total income (as shown on page 29) was lower than the previous year, mainly as a result of reduced lending. Operating costs overall are up by £80k. Included in operating costs is commission paid on direct insurance business and this business has increased this year leading to higher commission costs of approximately £83k than in 2020. Additionally, staff costs were £89k higher. Other operating costs have seen reductions of £92k. In all, the board are happy with the operating costs in the business.

Non-financial indicators

Non-financial KPIs
- staffing
- partner retention
- innovation
- IT systems
- quality lending
- strong governance

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-director 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.

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 dropping.

Innovation

A key non-financial strategy is innovation (see Strategy and objectives on page 5). 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. We completed the initial development of our system and it is now the only system we use. 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.

Good governance

The role of the board is set out in the Corporate governance report on pages 21 to 23. 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. It 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, even taking account of the effects of COVID-19. However, it is important to appreciate that the further away in time the estimate, the less reliable it is. Our forecasts assume a base rate of 0.10% 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 short period of time (as mentioned in the section on interest rate risk on page 7) and with relatively little impact on our margins.

As a result of our estimate of the impact of the post COVID-19 economy, we continue to be cautious in our forecasting. The key assumptions and bases used in the forecasts are now:

- Loans through our partners will grow to circa £77m in 2023/24 from this year's lending figures;
- Liquidity will be available to fund those loans;
- Margins on lending will remain relatively stable throughout the period averaging at 6.08%;
- 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

It is the intention of the board to continue and grow our core markets. In addition, we tested a small amount of longer term asset lending (static caravans as we mentioned last year) and this seems to be working well. It is our intention to expand this but only if our underwriting procedures indicate that it is advantageous for us to do so. The lending will be fully secured by the introducers. As mentioned before, given the longer term nature, a more vigorous approach is taken to lending in this area.

We shall, of course, continue to look at other markets which fit our risk and return profile. The board has agreed to a pilot test of bridging finance. This will be short term (less than a year) and, as usual, subject to our rigorous underwriting procedures.

The group will continue to look at alternative sources of finance as liquidity 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 15).

The group operates out of an office in Luton. Most of our employees are based in the local area. We therefore contribute to the economy of the local community and keep our travel carbon footprint relatively low. We provide health club membership and childcare vouchers for any staff who wish it.

Staff make up

- Main board: 4 all male
- Subsidiary boards: 1 male; 2 female
- Other: 9 male; 4 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 two subsidiaries consist of one male and two females each. Males make up 68.42% of the employees in total (68.18% 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 7);
- 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
- what impact it will have on our partners and other customers (as mentioned under Environmental, social responsibility, community, human rights issues and gender diversity on page 14;
- what impact it will have on our partners and other customers (as mentioned under Non-financial indicators on page 12). Proper customer care, particularly in avoiding unfair outcomes, is of paramount 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 meet with major investors at least twice a year (albeit by Zoom in the last 18 months) to discuss the group's progress and overall plans, obtaining valuable comments on how we are perceived. 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 have increased our investment in Open B Gateway Limited, a small private company, 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 14.

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. During the year it was decided to withdraw the application for the banking licence.
In deciding on the pilot for bridging finance during the year as noted on page 13, the board took account of the requirements of 172(1).

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. The de minimis exemption is for companies whose usage is below 40MWh in the reporting period. According to CLS Chartered Consultancy this is the equivalent of around nine houses worth of electricity or four houses worth of gas. The group operates out of a small office which operates only on electricity and has had no more than two staff members working there during the year. Fuel for cars is provided for some staff but the total amount of fuel used is no more than 8k litres.

Approved by the directors and signed by order of the board

Liam McShane,
Company secretary

25 October 2021

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 2021.

Results and dividends

The group profit for the year after taxation was £0.84m (2020 £1.27m). 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 (2020 £641k) - note 12 on page 49. The board is pleased to propose a final dividend of 2 pence per share to be paid on 17 December 2021 to shareholders on the register on 10 December 2021, with an ex-dividend date of 9 December 2021. The final dividend is subject to shareholder approval at the company's upcoming annual general meeting on 9 December 2021.

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 15.

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 18 and 19. 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 (2020 £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 7 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 14.

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.

Auditor

A resolution to reappoint RSM UK Audit LLP as auditor for the ensuing year will be proposed at the forthcoming annual general meeting.

Approved by the directors and signed by order of the board

Liam McShane,
Company secretary

25 October 2021

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 once. 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 of £50,000 for the CEO. It is the committee's intention to implement a CEO bonus scheme for future years aligning payment with business performance and long term strategic objectives.

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 2021 and 31 July 2020 in the shares of the company were as follows:

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)		
S Hicks	-	-
L McShane	-	-
K Malde	-	-

2020	Number of ordinary shares held	Percentage of issued ordinary share capital
R Takhar	11,458,333	53.66%
M Sismey-Durrant (appointed 12 December 2019)	-	-
G Jennison (resigned 12 December 2019)	-	-
L McShane	-	-
J Shearman (resigned 12 December 2019)	-	-
K Malde (appointed 1 September 2019)	-	-
S Hicks (appointed 12 December 2019)		

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. Details of the audit committee attendance is shown on page 22.
All directors are expected to devote such time as is necessary for the proper performance of their duties.

Directors' remuneration

2021	Fees, salary and short term bonuses £000	Taxable benefits £000	Total £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

2020	Fees, salary and short term bonuses £000	Taxable benefits £000	Total £000
Executive directors			
R Takhar	250	1	251
L McShane	40	-	40
Non-executive directors			
M Sismey-Durrant (appointed 12 December 2019, resigned 7 October 2020)	25	-	25
G Jennison (resigned 12 December 2019)	12	-	12
J Shearman (resigned 12 December 2019)	10	-	10
K Malde (appointed 1 September 2019)	25	-	25
S Hicks (appointed 12 December 2019)	20	-	20
Total directors' remuneration	382	1	383

The above information relates to the parent.

The biographies of the directors are shown on page 20.

Steve Hicks
Remuneration committee chairman

25 October 2021

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 5 and 6. In summary, Orchard Funding Group plc borrows from its bankers and uses this together with its own reserves, to lend to its customers. 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 as part of best practice. This is discussed further below.

Governance during the last year

The governance and control framework has been further enhanced in the last year. We have undertaken a governance gap analysis and as a result have implemented a number of actions and we have overseen further improvements in the quality of information presented to the board by the executive. 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 20.

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.

Relations with shareholders

The CEO and/or CFO meet with the company's institutional and other major shareholders twice a year and explain what is happening with the group, getting valuable feedback on how our investors view our plans. Through the last 18 months this has been by Zoom. 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 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 the calculations and disclosures of expected credit losses as the significant risk in relation to our business during the planning process.

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 times in the year. Both members were present for each 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 of paramount importance. 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 7 to 9.

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 12 and 14 of the Group strategic report.

Steven Hicks
Chairman

25 October 2021

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 2021 which comprise the Consolidated income statement, 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 their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the Companies Act 2006; and
- 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 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.

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.

We note the strength of the balance sheet at 31 July 2021, with net current assets of £14.3m. These cover the current overheads being other direct and operating costs of £3.1m over four times.

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.

Summary of our audit approach

Key audit matters	Group • None Parent Company • None
Materiality	Group • Overall materiality: £78,500 (2020: £92,500) • Performance materiality: £58,800 (2020: 69,400) Parent Company • Overall materiality: £45,000 (2020: £47,000) • Performance materiality: £33,700 (2020: 35,200)
Scope	Our audit procedures covered 100% of revenue, total assets and profit before tax.

Key audit matters

We have determined that there are no key audit matters to communicate in our report.

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	£78,500 (2020: £92,500)	£45,000 (2020: £47,000)
Basis for determining overall materiality	5% of three-year average profit before tax	0.4% of total assets
Rationale for benchmark applied	The group's lending volumes, revenues and profits have reduced as a result of the impact of the Covid-19 pandemic, following several years of consistent growth. As such, we considered the 2020 results to be reduced by an exceptional distorting factor, which has continued into 2021. Therefore, an average of the past three years' profits before tax was considered to provide a more appropriate benchmark.	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	£58,800 (2020: £69,400)	£33,700 (2020: £35,200)
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality

Reporting of misstatements to the Audit Committee	Misstatements in excess of £3,920 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £2,250 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 four 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	4	100%	100%	100%

None of the audits were undertaken by component auditors.

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 16, 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 having obtained an understanding of the effectiveness of the control environment.

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

25 October 2021

Consolidated income statement

	Notes	2021 £000	2020 £000
Continuing operations			
Interest receivable and similar income	5	3,783	4,558
Interest payable and similar charges	6	(559)	(624)
Net interest income		3,224	3,934
Other trading income	5	817	722
Other direct costs	6	(603)	(533)
Net other income		214	189
Net total income		3,438	4,123
Other operating costs	6	(2,516)	(2,436)
Net impairment gains/(losses) on financial assets	6	131	(130)
Net gain on financial assets at fair value through consolidated income	6	-	-
Operating profit	9	1,053	1,557
Interest receivable	8	-	6
Interest payable	8	(3)	(2)
Profit before tax		1,050	1,561
Tax	10	(211)	(288)
Profit for the year from continuing operations attributable to the owners of the parent		839	1,273
Earnings per share attributable to the owners of the parent during the year (pence)			
Basic and diluted	13	3.91	5.96

The notes on pages 38 to 60 are an integral part of these consolidated financial statements

Consolidated statement of other comprehensive income

	Notes	2021 £000	2020 £000
Profit for the year from continuing operations attributable to the owners of the parent		839	1,273
Items that will not be reclassified to profit or loss:			
Changes in the fair value of equity investments at fair value through other comprehensive income:			
Changes in fair value of investments		-	-
Total comprehensive income for the year from continuing operations attributable to the owners of the parent		839	1,273

The notes on pages 38 to 60 are an integral part of these consolidated financial statements

Consolidated statement of financial position - Assets

	Notes	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	14	23	39
Right of use assets	14	56	96
Intangible assets	15	4	16
Deferred tax asset	21	-	6
Investment at fair value through profit and loss	16	81	6
Loans to customers	17	2,257	-
Other receivables	17	-	7
		2,421	170
Current assets			
Loans to customers	17	27,616	27,300
Other receivables and prepayments	17	233	120
Cash and cash equivalents:			
Bank balances	18	2,170	2,300
		30,019	29,720
Total assets		32,440	29,890

The notes on pages 38 to 60 are an integral part of these consolidated financial statements

Consolidated statement of financial position – Liabilities and equity

	Notes	2021 £000	2020 £000
Liabilities			
Current liabilities			
Trade and other payables	22	4,182	2,939
Borrowings	20	11,439	11,004
Tax payable		138	273
		15,759	14,216
Non-current liabilities			
Borrowings	20	878	72
Deferred tax liabilities	21	3	-
		881	72
Total liabilities		16,640	14,288
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		6,003	5,805
Total equity		15,800	15,602
Total equity and liabilities		32,440	29,890

The financial statements on pages 29 to 60 were approved, and authorised for issue, by the board of directors on 25 October 2021and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 38 to 60 are an integral part of these consolidated financial statements

Company statement of financial position

	Notes	2021 £000	2020 £000
Assets			
Non-current assets			
Investments in subsidiaries	16	2,807	2,807
Investment at fair value through profit and loss	16	81	6
		2,888	2,813
Current assets			
Other receivables and prepayments		9,913	10,369
		9,913	10,369
Total assets		12,801	13,182
Liabilities and equity			
Current liabilities			
Trade and other payables		115	66
Total liabilities		115	66
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		1,088	1,518
Total equity		12,686	13,116
Total equity and liabilities		12,801	13,182

The company's profit and total comprehensive income for the year was £211k (2020 £695k)
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 60 were approved, and authorised for issue, by the board of directors on 25 October 2021 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 38 to 60 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 2019	214	5,173	8,692	891	14,970
Profit and total comprehensive income	-	1,273	-	-	1,273
Transactions with owners:					
Dividends paid	-	(641)	-	-	(641)
Balance at 31 July 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

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 35). 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 38 to 60 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 2019	214	1,464	8,692	2,692	13,062
Total comprehensive income for the period	-	695	-	-	695
Transactions with owners:					
Dividends paid	-	(641)	-	-	(641)
Balance at 31 July 2020	214	1,518	8,692	2,692	13,116
Profit and total comprehensive income	-	211	-	-	211
Transactions with owners:					
Dividends paid	-	(641)	-	-	(641)
Balance at 31 July 2021	214	1,088	8,692	2,692	12,686

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 38 to 60 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

	2021 £000	2020 £000
Cash flows from operating activities:		
Operating profit	1,053	1,557
Depreciation and amortisation	71	86
	1,124	1,643
(Increase)/decrease in loans to customers, other receivables and prepayments	(2,679)	4,882
Increase/(decrease) in trade and other payables	1,243	(76)
	(312)	6,449
Tax paid	(337)	(387)
Net cash (absorbed)/generated by operating activities	(649)	6,062
Cash flows from investing activities		
Interest received	-	6
Purchases of property, plant and equipment	(3)	(29)
Purchase of investment	(75)	-
Proceeds of sale of assets	-	9
Net cash absorbed by investing activities	(78)	(14)
Cash flows from financing activities		
Dividends paid	(641)	(641)
Net receipts from borrowings	12,245	1,000
Net borrowings repaid	(10,977)	(6,207)
Lease repayments	(30)	(39)
Net cash generated/(absorbed) by financing activities	597	(5,887)
Net (decrease)/increase in cash and cash equivalents	(130)	161
Cash and cash equivalents at the beginning of the year	2,300	2,139
Cash and cash equivalents at the end of year	2,170	2,300

The notes on pages 38 to 60 are an integral part of these consolidated financial statements

Company statement of cash flows

	2021 £000	2020 £000
Cash flows from operating activities:		
Profit before tax	211	695
Dividend received	(900)	(1,500)
	(689)	(805)
Increase in other receivables and prepayments	(15)	(25)
Increase/(decrease) in trade and other payables	49	(28)
Funding by subsidiaries	730	858
Net cash generated by operating activities	75	-
Cash flows from investing activities		
Purchase of investment	(75)	-
Net cash absorbed by investing activities	(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 38 to 60 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 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 5 to 15.

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.

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 £17.62m 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 page 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.

(b) 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 different scenarios, to arrive at a weighted probability of default.

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 only 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.

Since the COVID-19 crisis, we have given payment holidays to our customers. These payment holidays are not seen as significantly affecting the credit risk of our loans. Therefore, where these are properly agreed with a borrower, they are not treated as arrears. Nor, in the absence of other factors, do they have any significant impact on the credit quality of the loans.

A full description of our risk management processes is shown in the Group strategic report on pages 7 to 9.

(c) 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.

(d) 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 (b) 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 (b) 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.

As already mentioned, COVID-19 has had an impact in terms of payment holidays. It has also had an effect in terms of when insurers repay premiums on cancelled policies. These repayments have been severely delayed this year. Where the broker is awaiting repayment from the insurer, and there are no circumstances other than this which would indicate default, these repayments are not treated as credit impaired debts and they are included in stage 1.

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

(e) 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, 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.

Impairment

Impairment reviews are carried out using the ECL approach outlined in (b) 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 6.

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 2.8.

2.9 Employee benefits

Two 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 14.2.

(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
Motor vehicles	25.00% reducing balance

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.

3.2 Estimate of fair value in relation to investments

The estimate of fair values is based on the principles shown in note 2.6. In assessing the value of our investments Level 3 inputs are used which are, by nature, subjective. Details of our assessment are shown in note 16.2. The value of these investments might be different if an alternative view was taken.

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 7 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. This has been substantially mitigated by the regular renewal in the past of our borrowing facilities with our providers of funds. Our new funders have given facilities at a lower rate than previously, indicating that they are happy with our business model. They have not intimated that they are intending to withdraw the facilities. At 31 July 2021 there was £9.83m still available to draw for general lending and £5.43m restricted to certain products (see Our business model on page 7).

(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. This is mitigated by regular contact with our bankers and regular reviews of the financial situation in the economy.

4.2 Maximum exposure to credit risk

(a) Investments

The maximum exposure to credit risk on the investments which are being carried at a fair value of £81k, 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 £29.87m. Credit risk is minimised by a strict underwriting policy, and the additional factors set out in note 17.

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 2021 and 31 July 2020.

	2021	2020
	£000	£000
Operating profit	1,053	1,557
Depreciation and amortisation	71	86
EBITDA	1,124	1,643
Capital employed:		
Capital and reserves (including current year)	15,800	15,602
Bank borrowings (net of cash held)	10,075	8,677
Other borrowings	72	99
Total capital and borrowings	25,947	24,378
ROCE	4.33%	6.74%

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:

	2021 £000	2020 £000
Revenue		
Interest revenue	3,783	4,558
Other revenue	817	722
	4,600	5,280
Timing of revenue recognition:		
At a point in time – direct debit charges	573	505
At a point in time – non utilisation fees	189	357
Over time – loan administrative fees	101	33
At a point in time – default and settlement fees	-	81
Over time – licence fees	143	103
Over time – interest revenue outside the scope of IFRS 15	3,594	4,201
	4,600	5,280

6. Expenses by nature

	2021 £000	2020 £000
Interest payable in direct costs	281	466
Bank fees in direct costs	870	646
Other direct costs	11	45
Employee costs (including directors)	1,267	1,178
Advertising and selling costs	518	443
Professional and legal fees	194	229
Impairment (gains)/losses (note 17)	(131)	130
IT costs	152	149
Cost of listing	84	85
Depreciation and amortisation	71	86
Interest payable on right-of-use assets	3	2
Other net expenses	230	262
	3,550	3,719

7. Employees and directors

7.1 Employee costs

	2021		2020	
	Group £000	Company £000	Group £000	Company £000
Wages and salaries (including directors)	1,130	499	1,054	536
Social security costs	125	58	112	60
Pension costs – defined contribution plans	12	2	12	3
	1,267	559	1,178	599

The average number of persons employed by the group was:

	2021		2020	
	Group £000	Company £000	Group £000	Company £000
Directors	4	4	5	5
Administration	16	1	17	2
	20	5	22	7

7.2 Directors' remuneration

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

2020	Fees and salary £000	Taxable benefits £000	Total £000	Employer's NIC £000	Total £000
Total directors' remuneration	382	1	383	43	426

R Takhar was the highest paid director during the year earning £301k including taxable benefits and short-term bonus (2020 251k). Details are shown in the Remuneration report on page 19.
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 £281k (2020 £466k).

The group receives a small amount of interest from its bank balances. This year it amounted to £Nil (2020 £6k).
Interest payable is in respect of right-of-use assets and amounted to £3k (2020 £2k).

9. Operating profit

This is stated after charging:

	2021 £000	2020 £000
Depreciation of owned property, plant and equipment	19	25
Depreciation of right of use assets	40	26
Loss on disposal of right of use assets – motor vehicles	-	9
Amortisation of intangible assets	12	26
Interest payable on liabilities in respect of right-of-use assets	3	2
Auditor's remuneration:		
Audit fees – parent company and consolidation	41	40
Audit fees – subsidiaries	48	36

10. Tax expense

10.1 Current year tax charge:

	2021 £000	2020 £000
Current tax expense	202	299
Adjustment re previous year tax expense	12	(10)
Deferred tax expense relating to the origination and reversal of temporary differences	(3)	(1)
	211	288

10.2 Tax reconciliation

The tax assessed for the year differs from the main corporation tax rate in the UK -19% for 2021 and 2020. The differences are explained below.

	2021 £000	2020 £000
Profit before tax for the financial year	1,050	1,561
Applicable rate – 19.00% (2020 19.00%)	19.00%	19.00%
Tax at the applicable rate	199	297
Effects of:		
Expenses not deductible for tax	-	1
Adjustment re previous year tax expense	12	(10)
Tax charge for the year	211	288

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 £211k (2020 profit £695k).

12. Dividends

	2021 £000	2020 £000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 July 2020 of 2p (2019 2p) per share	427	427
Interim dividend for the year ended 31 July 2021 of 1p (2020 1p) per share	214	214
	641	641
Proposed final dividend for the year ended 2021 of 2p (2020 2p) per share	427	427

13. Earnings per share

Earnings per share is based on the profit for the year of £0.84m (2020 £1.27m) and the weighted average number of the ordinary shares in issue during the year of 21.35m(2020 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 2019	60	58	-	118
Transfer from right-of-use assets	-	-	12	12
Additions	2	27	-	29
At 31 July 2020	62	85	12	159
Additions	-	3	-	3
At 31 July 2021	62	88	12	162
Depreciation				
At 1 August 2019	37	52	-	89
Transfer from right-of-use assets	-	-	6	6
Charged to other operating costs in the consolidated statement of income	14	10	1	25
At 31 July 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
Net book value at 31 July 2021	5	14	4	23
Net book value at 31 July 2020	11	23	5	39

14.2 Right of use assets

The following assets are right of use assets

	Short leasehold premises £000	Motor vehicles £000	Total £000
Cost			
At 1 August 2019	65	42	107
Transfer to plant, property and equipment	-	(12)	(12)
Increase from reassessment of the lease term	88	-	88
Disposals	-	(30)	(30)
At 31 July 2020 and 31 July 2021	153	-	153
Depreciation			
At 1 August 2019	31	18	49
Transfer to ownership	-	(6)	(6)
Charged to other operating costs in the consolidated statement of income	26	-	26
Eliminated on disposal	-	(12)	(12)
At 31 July 2020	57	-	57
Charged to other operating costs in the consolidated statement of income	40	-	40
At 31 July 2021	97	-	97
Net book value at 31 July 2021	56	-	56
Net book value at 31 July 2020	96	-	96

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 2019	151
Additions	-
At 31 July 2020 and 31 July 2021	151
Amortisation	
At 1 August 2019	109
Charged to other operating costs in the consolidated statement of income	26
At 31 July 2020	135
Charged to other operating costs in the consolidated statement of income	12
At 31 July 2021	147
Net book value at 31 July 2021	4
Net book value at 31 July 2020	16

16. Investments

16.1 Subsidiaries

	Shares in subsidiaries £000
Cost and net book value	
At 31 July 2020 and 31 July 2021	2,807

Details of the subsidiaries are:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares held
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%

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.

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 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 2020 (the latest set of published accounts) was £30k. The next set is not due for filing at Companies House until 31 August 2022. 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. This was £30k and the group's share was 20% of this. For reasons identified earlier in this section, the board therefore considers the fair value of this investment to be £6k. Should the company perform in the future, 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

Two 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.

We cannot exercise significant influence. 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 we are not entitled to financial information other than that available to shareholders.

For these reasons the board considers a trade investment to be the appropriate classification. During the year an additional investment of £75k was made to that company to enable the continued development of its Open Banking WebApp.
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 is £75k, equal to the amount invested.

16.3 Investment at fair value through other comprehensive income

Two years ago an investment was made in Zebra Finance Limited, an unlisted company registered in England and Wales. We reported last year that the company had entered a voluntary arrangement. On 4 September 2020 it passed a resolution to wind up and a liquidator was appointed. This investment has therefore been treated as disposed of.

17. Loans to customers and other receivables

	2021		2020	
	Group	Company	Group	Company
	£000	£000	£000	£000
Non-current				
Financial assets at amortised cost				
Loans to customers:				
Gross	2,259	-	-	-
Impairment provision	(2)	-	-	-
	2,257	-	-	-
Other receivables	-	-	7	-
	2,257	-	7	-
Current				
Financial assets at amortised cost				
Loans to customers:				
Gross	27,686		27,517	-
Impairment provision	(70)		(217)	-
	27,616		27,300	-
Financial assets at amortised cost				
Intercompany receivables	-	9,888	-	10,362
Other receivables	124	-	104	-
	124	9,888	104	10,362
	27,740	9,888	27,404	10,362
Prepayments	109	25	16	7
	27,849	9,913	27,420	10,369

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:

- 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:

	2021			2020		
	Gross	Impairment allowance	Net	Gross	Impairment allowance	Net
	£000	£000	£000	£000	£000	£000
Amount receivable – stage 1	29,882	(29)	29,853	27,186	(34)	27,152
Amount receivable – stage 2	18	-	18	120	(1)	119
Amount receivable – stage 3	45	(43)	2	211	(182)	29
	29,945	(72)	29,873	27,517	(217)	27,300

Amounts falling due within one year:

	2021			2020		
	Gross £000	Impairment allowance £000	Net £000	Gross £000	Impairment allowance £000	Net £000
Amount receivable – stage 1	27,624	(27)	27,597	27,186	(34)	27,152
Amount receivable – stage 2	17	-	17	120	(1)	119
Amount receivable – stage 3	45	(43)	2	211	(182)	29
	27,686	(70)	27,616	27,517	(217)	27,300

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

	2021			2020		
	Gross £000	Impairment allowance £000	Net £000	Gross £000	Impairment allowance £000	Net £000
Amount receivable – stage 1	2,228	(2)	2,226	-	-	-
Amount receivable – stage 2	-	-	-	-	-	-
Amount receivable – stage 3	-	-	-	-	-	-
	2,228	(2)	2,226	-	-	-

Amounts falling due after more than five years:

	2021			2020		
	Gross £000	Impairment allowance £000	Net £000	Gross £000	Impairment allowance £000	Net £000
Amount receivable – stage 1	31	-	31	-	-	-
Amount receivable – stage 2	-	-	-	-	-	-
Amount receivable – stage 3	-	-	-	-	-	-
	31	-	31	-	-	-

98.67% of customer receivables are subject to recourse to the introducing partner in the event of default by the borrower.

	2021 Group £000	2020 Group £000
Impairment provision at 1 August	217	422
(Decrease)/increase in provision in the year	(131)	130
Receivables written off during the year	(14)	(335)
Impairment provision at 31 July	72	217

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

	2021 Group £000	2020 Group £000
Amounts held at banks	2,170	2,300

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 2021 and 31 July 2020

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

20. Borrowings

	2021 £000	2020 £000
Non-current:		
Borrowings	834	-
Borrowings arising from right-of-use assets	44	72
	878	72
Current:		
Borrowings	11,411	10,977
Borrowings arising from right-of-use assets	28	27
	11,439	11,004

The parent company has no external borrowings.

20.1 Terms and debt repayment schedule

The group refinanced its borrowings during the year. This resulted in Bexhill repaying £9.48m to its previous funder and Orchard Funding repaying £1.5m to its previous funder. The total amount of £10.98m is shown as being repaid in the Consolidated statement of cashflows on page 36.

The Bexhill facility is renewable in April 2022, Orchard Funding in June 2022 and November 2022 for Orchard Finance. There is no indication that these facilities will not be renewed.

Borrowings by Bexhill of £10.17m are secured by a fixed and floating charge over all the assets of Bexhill, bear interest at an average rate of 2.92% excluding associated costs (2020 3.49% on the same basis) and are repayable within one year of the advance. The maximum drawdown on the facility is currently £15.00m (2020 £17.00m) of which £4.83m was undrawn at the year-end (2020 £7.52m).

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 5.28% pa excluding associated costs (2020 5.11% on the same basis) and are repayable within one year of the advance. The maximum drawdown facility is currently £5.00m (2020 £2.00m) of which £5.00m was undrawn at the year-end (2020 £0.50m).

Orchard Finance has access to a maximum drawdown borrowing facility of £7.50m (2020 £Nil) of which £5.43m was undrawn at the year end. This facility can only be used for products of the lender, bears no interest, is secured by a fixed and floating charge over all the assets of the company and is repayable as monies are received by Orchard Finance from loans made by it.

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.

The minimum payments under lease liabilities are as follows:

	2021 Group £000	2020 Group £000
Within 1 year	30	30
Later than 1 year but no later than 5	45	76
	75	106
Future finance charges	(3)	(7)
	72	99

The present value of lease liabilities are as follows:

	2021 Group £000	2020 Group £000
Within 1 year	28	27
Later than 1 year but no later than 5	44	72
	72	99

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

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 2019 £000	Non-cash movements £000	Cash flows £000	At 31 July 2020 £000	Cash flows £000	At 31 July 2021 £000
Non-current:						
Other loans	-	-	-	-	834	834
Borrowings arising from right-of-use assets – leases	15	88	(31)	72	(28)	44
	15	88	(31)	72	806	878
Current:						
Bank loans	16,184	-	(5,207)	10,977	434	11,411
Borrowings arising from right-of-use assets - leases	34	-	(7)	27	1	28
	16,218	-	(5,214)	11,004	435	11,439
Total liabilities from financing activities	16,233	88	(5,245)	11,076	1,241	12,317
Interest on right-of-use assets included in liabilities			(1)		(3)	
Cashflows from financing activities			(5,246)		1,238	
Comprising:						
Net receipts from borrowings			1,000		12,245	
Borrowings repaid			(6,207)		(10,977)	
Lease repayments			(39)		(30)	
			(5,246)		1,238	

20.3 Non-cash financing activities

The group extended the term of its lease in May 2020 which was a modification of the existing lease. This led to a non-cash financing transaction of £88k in the year to 31 July 2020.

21. Deferred tax

21.1 Deferred tax assets

	2021 Group £000	2020 Group £000
The balance comprises temporary differences attributable to:		
Difference between tax allowable and accounting expenses for right-of-use assets	-	6
	-	6

21.2 Deferred tax liabilities

The balance comprises temporary differences attributable to:

	2021 Group £000	2020 Group £000
Accelerated capital allowances	3	-
	3	-

21.3 Movement on deferred tax balances

Deferred tax assets	
At 1 August 2019	10
(Charged)/credited to Consolidated income statement	(4)
At 31 July 2020	6
(Charged)/credited to Consolidated income statement	(6)
At 31 July 2021	-
Deferred tax liabilities	
At 1 August 2019	5
(Charged)/credited to Consolidated income statement	(5)
At 31 July 2020	-
(Charged)/credited to Consolidated income statement	3
At 31 July 2021	3

22. Trade and other payables

Current liabilities	2021		2020	
	Group £000	Company £000	Group £000	Company £000
Trade payables	3,274	-	2,487	-
Other payables	32	-	26	-
Other tax and social security costs	31	15	36	20
Accruals and deferred income	845	100	390	46
	4,182	115	2,939	66

Trade payables are unsecured and are usually paid within 30 days of recognition.

Included within accruals and deferred income is deferred income of £104k (2020: £nil) 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 0.

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:

	2021		2020	
	Group £000	Company £000	Group £000	Company £000
Non-current assets				
Financial assets at fair value through consolidated income statement:				
Investments	81	81	6	6
Financial assets at amortised cost:				
Investments	-	2,807	-	2,807
Loans to customers	2,257	-	-	-
Other non-current receivables	-	-	7	-
Current assets				
Financial assets at amortised cost:				
Loans to customers	27,616	-	27,300	-
Other receivables: current	124	9,888	104	10,362
Cash and cash equivalents:				
Bank balances and cash in hand	2,170	-	2,300	-
	32,248	12,775	29,717	13,175

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

	2021		2020	
	Group £000	Company £000	Group £000	Company £000
Financial liabilities at amortised cost:				
Interest bearing loans and borrowings:				
Borrowings payable: non-current	878	-	72	-
Borrowings payable: current	11,439	-	11,004	-
Trade and other payables	4,151	100	2,903	46
	16,468	100	13,979	46

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 7 to 9 and note 0.

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 £15k from Bexhill (2020 £581k). Bexhill made payments on behalf of the parent company amounting to £460k (2020 £792k) and paid dividends to the parent company amounting to £600k (2020 £900k). At the year-end Bexhill owed the parent company £1,042k (2020 £917k). The loan is unsecured, interest free and repayable on demand.
Bexhill paid expenses on behalf of Orchard Funding amounting to £3k (2020 £Nil). At the year-end Orchard Funding owed Bexhill £3k (2020 £Nil).
Orchard Funding – Orchard Funding was paid £115k (2020 £367k) by the parent company. Orchard Funding made payments on behalf of the parent amounting to £1,014k (2020 £471k) and paid dividends to the parent company amounting to £300k (2020 £600k). At the year-end Orchard Funding owed the parent company £8,849k (2020 £9,448k). The loan is unsecured, interest free and repayable on demand.
Orchard Funding's transactions with Bexhill are shown above.

Orchard Finance – Orchard Finance owed Orchard Funding £4k at the end of the year (2020 £4k). It was owed £3k by the parent (2020 £3k). There were no transactions during the year with any group companies.

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 (2020 £343,750).

McShane Wright - during the year the firm of McShane Wright provided the group with accountancy and associated services. The charge made for these was £30,278 (2020 £28,147). Of this £28,080 (2020 £28,080) is shown as part of directors' remuneration in note 7.2 and £2,198 (2020 £67) is shown under administrative expenses. At the year-end it was owed £7,200 (2020 £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.

Company and advisers information

Registered office
1st Floor,
721 Capability Green
Luton
Bedfordshire
LU1 3LU

Solicitors
Michelmores LLP
Woodwater House
Pynes Hill
Exeter
EX2 5WR

Registered number
09618919 (England and Wales)

Nominated adviser
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EC2Y 9LY

Principal bankers
Barclays Bank plc
1 Churchill Place
London
E14 5HP

Broker
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EC2Y 9LY

Independent auditor
RSM UK Audit LLP
25 Farringdon Street
London
EC4A 4AB

Registrar
Neville Registrars
Neville House
Steelpark Road
Halesowen
B62 8HD

Reference to online information
Website
www.orchardfundinggroupplc.com