# 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.

> "Orchard Funding has greatly benefited our practice as an aid to cash flow management. It gives us certainty and flexibility….."

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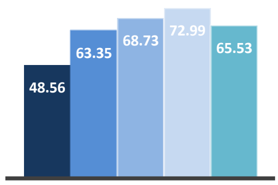
# Group financial highlights

Over the last five years Orchard has grown its lending year on year until this year when COVID-19 impacted. Despite the fact that lending in our core markets is down, we have managed to lend in new markets and carefully managed costs so that we have still outperformed market expectations in terms of profitability. We have to thank our staff, funders, partners and shareholders for supporting us through this difficult period. We are sure that this support will bring us all benefits in the future.

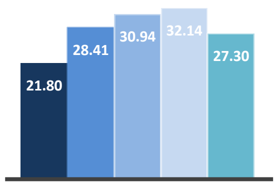
## Five year summaries

Key (all £m)
2016
2017
2018
2019
2020



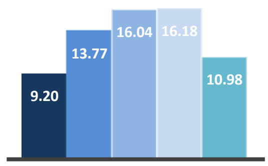

LENDING

Lending down from £72.99m in 2019 to £65.53m in 2020 (10.22%)



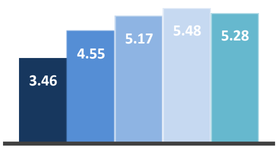

LOAN BOOK

Loan book (post ECL provision) down from £32.14m in 2019 to £27.30m in 2020 (15.06%)



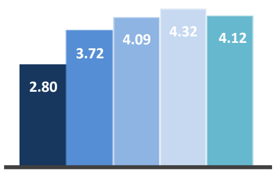

FUNDING

Funding down from £16.18m in 2019 to £10.98m in 2020 (32.17%)



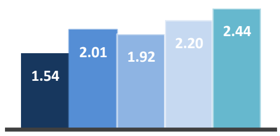

GROSS TOTAL INCOME

Gross total income down from £5.48m in 2019 to £5.28m in 2020 (3.67%)



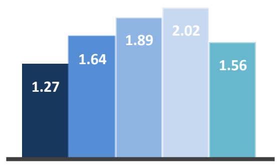

NET TOTAL INCOME

Net total income down from £4.32m in 2019 to £4.12m in 2020 (4.63%)




OTHER OPERATING COSTS

Other operating costs up from £2.20m in 2019 to £2.44m in 2020 (10.83%)




OPERATING PROFIT

Operating profit down from £2.02m in 2019 to £1.56m in 2020 (22.92%)

Gross total income consists of interest receivable together with other trading income.
Net total income is gross total income after direct costs. In the past bank fees were included as an overhead. The board considers it more appropriate to include the element which relates directly to income (e.g. facility and legal fees associated with borrowings to lend on to customers) as a direct cost. The financial highlights last year included gross profit which was the equivalent of net total income shown above with an adjustment for direct bank fees. Operating expenses in the financial highlights last year included all bank fees. This year the element relating to lending has been excluded as noted in the previous sentence.

# Chairman's statement

This is my first statement as Chairman of Orchard Funding Group plc and, because of COVID-19, it has been a very challenging year, not just for Orchard but for businesses throughout the world. While the financial cost has been staggering, our thoughts are with those who have lost their lives as a result of this terrible disease and those who risk theirs on an almost daily basis to help protect the rest of us.

We began the year well and, comparing the first six months of this year with that of 2019, we were up on lending volumes by 4.04%, gross revenue by 3.25% and net income by 4.49%. Then COVID-19 impacted. The result has been that our lending is down to pre-2018 levels, although both gross and net income are approximately 4% down on the previous year. The country officially went into recession in the second quarter of the year although there has been growth since. The macro background remains as uncertain for Orchard as it does for the rest of the world.

As you will see from my biography on page 19, I have had a 40 year career in Financial Services and have extensive governance, risk management and compliance experience enabling me to make a positive contribution to Orchard's governance and risk management framework. We continue to take a proactive, risk-based attitude to lending, in particular ensuring that our approach is continually evaluated in the light of changing circumstances and strengthened where necessary. Our primary methodology is to have risk prevention where possible and mitigation where not. This is particularly important in these turbulent times, when no-one is sure how deep or how long the recession will be.

Expecting lending to fall during this financial year as a result of COVID-19, we issued a trading update in June to that effect. However, we also indicated that our earnings after tax would be higher than the market was expecting and this has been the case. Notwithstanding that, our earnings have fallen since the previous year and the resultant EPS decreased from 7.66p to 5.96p, a reduction of 22.18%. While it would be wrong to say that the board is happy with this, given the circumstances which has led to this situation, the outturn is better than could have been the case.

We continue to invest in staff and systems. The board sees such investment as key to growth. During the lockdown, all but one member of staff worked from home and most of our customers were completely unaware of this. This is a wonderful tribute to our people and our systems and is confirmation (if it were needed) that we are justified in our spending in these areas. I thank our staff sincerely and cannot praise them enough.

The group's main focus of operations remains the insurance premium finance market. The move last year into school fees and static caravan fees was showing signs of serious growth – until COVID-19. Many schools were closed and people were unable to use their holiday homes. Likewise, leisure lending (mainly sports clubs) was similarly affected. These are areas which we believe will resume again although they will be impacted by local enhanced lockdown restrictions.

There continues to be strong competition in some areas of our business with pressure being put upon rates. The largest players in the accountancy fee funding market continue aggressively to protect their market positions. The same can be said of the insurance premium finance market. That said, we believe that we are in a strong position to continue to grow our lending volumes at acceptable rates and at the right level of risk.

Our banking licence application has now been withdrawn for a number of reasons. These are set out in the Group strategic report on page 5.

Our enhanced IT system became fully operational this year and our partners have expressed delight at its improved functionality. This will continue to be developed over the coming years.

The level and growth of dividends announced by any company is a balance between retention for future investment and rewarding shareholders for the confidence they have shown in the business. Our model is business growth and our plans in this respect require cash to be retained. This requirement is intensified by the uncertainties surrounding both COVID-19 and, later in the year, Brexit. The board feels it prudent to propose that the annual dividend (including the interim dividend) is held at 3p.

Given the present circumstances, the board is satisfied with the progress of the group during this year. We look to the future with confidence.

Steven Hicks
Chairman

26 October 2020

# Chief executive's review

This financial year was one that is unprecedented in our 20-year history of lending. Our business model proved resilient during the global financial crisis in 2008 and is again proving resilient in a global crisis, which is even deeper and more wide ranging than the 2008 crisis.

We have traded through the current crisis with a lower level of lending in our core markets of insurance and accountancy fee funding and at the same time, in part, offset this lower level of lending and proved our resilience by lending into new markets with similar credit characteristics to our core lending markets.

Our new markets mark an exciting and excellent opportunity for the business in the future. For example, from a standing start we provided over £5million of lending in the static caravan pitch fee market in the financial year. All of our lending was fully supported by guarantees from financially strong park operators. We added over 100 golf clubs to our client list and again benefited from golf club guarantees in respect of our lending to golf club members. We also added over 30 schools to our client list and conducted over £1.7 million of lending to help parents fund their children's private school fees. Through our entry into new markets, we have demonstrated 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.

This year we have also continued with the development of 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. As mentioned last year, 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. This development clearly has a cost and we therefore invested in higher spending on IT than over the previous year. 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. Our IT development was also intended to enable us to offer new lending products. This we have achieved and has led to a very exciting development in our business. Through our own IT system, we have been able to lend into the new lending markets referred to above in a quick and cost-effective manner.

We still believe that IT will be the most significant factor in the financial services sector over the coming years. We took the initiative on this point by not only continuing to develop our own IT system but, as we disclosed last year entering into a venture where we hold 30% in a new open banking software company. This entity has now obtained FCA approval to trade. We are very excited about this investment for a number of reasons. Regulatory rules require affordability assessments to be conducted in respect of each borrower. We believe the only way to conduct effective affordability assessments is through a review of a borrower's bank statements. This is usually impractical for short-term point of sale financing and can only be achieved through sophisticated IT solutions. Orchard's open-banking venture will provide this ability in real time and form a key part of Orchard's underwriting process. This solution will be invaluable to Orchard but will also be an attractive service to other lenders, who have already expressed interest in conducting trials on Orchard's open-banking solution. 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.

We continue to be supported by our experienced and loyal staff. Notwithstanding the current market turmoil, we have grown staff numbers 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 Barclays Bank PLC and Conister Bank PLC for our current liquidity lines. We have adequate liquidity for our near-term lending aspirations. As shareholders are aware, we were working to obtain a banking licence for Orchard's business in a cost-effective manner. The current position is that the application has been withdrawn for the reasons set out in the Group strategic report on page 5, but will be resurrected when the time is right.

We have further bolstered our senior management team with the addition of Steven Hicks, our Chairman and Ketan Malde our independent non-executive director. As you will see from their profiles on page 1919 both Steven and Ketan bring a wealth of experience to the group from the banking sector.

In summary, the downward trend in our core lending markets due to COVID-19 has in part been offset by our exciting entry into new lending markets, which has enabled us to deliver higher than expected earnings in a difficult financial period and provides realistic and proven avenues for us to grow into the future. We have also continued the development of our own IT system, which has enabled us to be flexible and quick to take advantage of new lending opportunities. We will continue to benefit from this advantage with some exciting new initiatives we are currently working on.

We paid a dividend of 2p per share in December 2019 and an interim of 1p per share in April 2020. I am happy to announce that the board has proposed a final dividend of 2p per share to be paid in December 2020, subject to shareholder approval.

Ravi Takhar
Chief executive officer

26 October 2020

# Group strategic report

## Strategy and objectives

The group's principal objective has not changed and is still to increase our profitability in a prudent, sustainable manner, having due regard for the interests of all stakeholders (employees, shareholders, partners, other customers, creditors, regulators, the local and wider community and other parts of government). The interests of one class of stakeholder may, in some instances, conflict with those of another (for example, it would be better for shareholders to receive higher dividends at the cost of employees having lower wages). The board is responsible for ensuring that all stakeholders are treated fairly and it bears this in mind during 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, correct pricing and robust underwriting procedures;
- to increase lending in a responsible manner;
- to preserve our sources of liquidity;
- to innovate;
- to continually improve our IT systems;
- to support our excellent sales team in their work.

**Strategy**

Increase profitability
- prudent
- sustainable

Benefits
- employees
- shareholders
- other stakeholders

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

The directors still believe in our two pronged approach to lending – to increase the number of our 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.

Our banking licence application was submitted on 30 April 2020. Since then, the major effect that COVID-19 has had on all businesses has been apparent. We reached the point where, to progress the licence, a substantial amount of time and investment was needed to ensure the success of the application. The board determined that in this uncertain economic environment, all efforts should be focused on the core activities of our business and that the banking licence application process should be put on hold. The application was therefore withdrawn on 19 October 2020 and will be revisited when there is some return to normality in the market.

As far as innovation is concerned, we constantly strive to examine markets and product lines which we can service based on our philosophy of safe lending and sensible returns. Those markets in which we began investing last year have begun to produce results. It is only the COVID-19 issue which has somewhat subdued these this year.

Our IT system is now predominantly 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, as well as giving us much more control over, and thereby reducing 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. 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 on both our core markets and those which assist in achieving our principal objective.

**Model**

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

Funding
- £17.0m Barclays facility
- £2.0m Conister facility
- £15.5m own net current assets

## Our business model

The group provides 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. Our business model is a "hold to collect" model in which assets are held to maturity to collect cash flows of principal and interest, rather than holding assets for sale. More detail on this is given in note 2.4 on page 38.

The nature of our products is so similar 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. Much 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.

**Protected lending**

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

**Stable funding**

- external audit
- regular reporting

Bexhill borrows up to 75% of the amount advanced to each of its clients (up to a maximum of £17m) from its bankers, Barclays Bank plc. There are lending covenants which Bexhill has always upheld, Barclays conducts regular reviews on Bexhill and supplements these with an audit of its covenants with the bank every six months. These are carried out by auditors appointed by the bank. Orchard has a borrowing facility of £2m with Conister Bank. Conister requires information on lending to be sent on a regular basis.

£9.48m of the Barclays facility was in use at the year end and £1.50m of the Conister facility. The balance of lending is provided by the subsidiaries from their resources. At 31 July 2020 the group had net current financial assets (receivables plus cash in hand less current liabilities) amounting to £15.50m. Both subsidiaries have operated within a disciplined lending environment since they began trading.

The group's average cost of finance was approximately 4.86% of funds borrowed in the financial year to 31 July 2020 (4.75% on the same basis in the year to 31 July 2019). Cost of finance includes arrangement and legal fees payable for access to funding and fees for non-use of the facility. Non-use fees have been higher this year because the reduction in lending led to a lower borrowing requirement. Barclays borrowing is based on LIBOR which, on average, has fallen over the previous year, while the Conister rate has increased. In previous years only interest has been used to calculate borrowing costs and, on that basis, the group's average cost of finance this year would have been 3.63% (2019 3.74%).

# 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 in the short term (all repayable within a year) 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 profit. A £100k loss on a loan asset is £100k straight off profit before tax. |
| **Year-on-year change in risk** | Risk has increased this year as a result of COVID-19. People are unsure how the economy will be performing after government support measures stop. Widespread unemployment may lead to defaults on loans. |
| **Risk appetite** | In the current climate and with the advent of the expected credit loss model, our aim is to limit reported credit losses to below 2% of income generating assets. |
| **Mitigation of risk** | 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 18 gives further details of mitigation of credit risk. |

**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. COVID-19 has had no impact. Our bankers have indicated their wish to continue funding. |
| **Risk appetite** | We aim to have 5% more funds than would be sufficient to enable our plans to be met. |
| **Mitigation of risk** | Our principal bankers have supported us since 2002 and have maintained our funding at £17m throughout the year. They have renewed our facility for another year and have indicated, so far as they are able, that they have no wish to withdraw that support. We also have additional banking facilities from Conister Bank plc amounting to £2m to support our loan book. Excess available credit plus our net current financial assets amounted to £23.57m at 31 July 2020. |

**Interest rate risk**

| | |
|---|---|
| **Explanation of the risk** | The risk that we lend at one rate and borrow at a rate higher than anticipated. |
| **Impact on the group** | Reduced margins mean reduced profit. |
| **Year-on-year change in risk** | Risk has not changed. Even with the decrease in rates during this year, the risk remains as in previous years. |
| **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 bankers and routinely reviews the financial situation in the economy. 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. |

| Systems risk | |
|---|---|
| **Explanation of the risk** | Disruption to or failure of our IT systems.<br>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.<br>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** | Risk has increased this year with a new system going fully live. The system has proved robust so far and better than the Anchor system but there is some "bedding down" to find any problems.<br>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.<br>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.<br>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. |

| Conduct risk | |
|---|---|
| **Explanation of the risk** | Any action that leads to unfair customer outcomes.<br>Any action that has an adverse effect on market stability or effective competition.<br>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 being carried out. |
| **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.<br>Controls are in place to prevent internal fraud with day to day supervision by the CEO.<br>Regular monitoring of introducing partners is conducted including a review of sources of loan repayments. |

The group's overall risk management programme focuses on reducing the effect of these risks on its financial performance. A risk appetite is established for the key risk areas. This is the level at which risk is accepted by the group before action needs to be taken. 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 on an exception basis. The board identifies, evaluates and mitigates financial risks and has written policies for all major risk areas. 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 funding lines from our bankers;
- interest rate risk is mitigated by the fact that 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 introducer finance companies or to clients of our introducing partners. Although there is some significant lending to individual finance companies, the individual debts making up these loans are collected by Orchard and assigned to Orchard. At 31 July 2020, the latest date of review, the largest nominal exposure was £4.89m representing 17.51% of our loans (before expected credit loss provisions). This consisted of advances made through one broker and comprising many smaller loans. The reality, therefore, is that our exposure is low. At 31 July 2020 total outstanding loans were £27.52m (2019 £32.56m) (before expected credit loss provisions), of which the highest individual loan (not a block loan to a premium finance company) was less than £100k, representing under 0.37% of the outstanding amounts. This was the realistic level of our highest exposure at that date and was the situation throughout this and previous years. It is not expected to change in the foreseeable future.

We have experienced late payments in the past. The majority of these are through our customers changing banking details. Where there are other issues which cause late payment, we investigate these.

During this year, because of COVID-19, some of our borrowers have 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. This approach accords with guidance from the Prudential Regulatory Authority (PRA)[1].

We review debts for impairment and make provision where necessary. As part of this process, we have provided for £0.13m during the year to 31 July 2020, net of reversal of previous provisions and items written off against those provisions (£0.11m in the year to 31 July 2019). The provision this year is £0.22m carried forward at 31 July 2020 (£0.42m at 31 July 2019). Note 2.4 on page 37 outlines the approach to credit impairments.

There is no doubt that the level of potential bad debt has been adversely affected by COVID-19, although Orchard has not suffered, thus far, as much as many other businesses. The biggest consequence of COVID-19 has been cancellations of loans taken out to pay for discretionary spending. This has not led to losses but has reduced lending (and therefore income) below the level we had forecast last year.

The main uncertainties in these financial statements are those connected with the level of expected credit losses. These require management judgement in the absence of objective evidence. They are detailed in note 3 on page 43.

[1] Letter dated 4 June 2020 to bank CEOs from Sam Woods, Deputy Governor and CEO of the PRA

## The business environment

The world has been changed this year by COVID-19. It was identified as a pandemic in March 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 March. This action has had ramifications in every area of commerce and led to the Bank of England (BoE) forecasting in May that the UK economy could contract by 17% by the end of the year. On Wednesday 12 August it was announced that the UK officially went into recession in the second quarter of the year, with the largest quarterly GDP fall since records began at 20.4%[2]. However, in July GDP was around 18½% above its trough in April and around 11½% below its 2019 Q4 level. For 2020 Q3 as a whole, BoE staff expected GDP to be around 7% below its 2019 Q4 level[3].

The Government announced a further relaxation of the lockdown regulations in July, indicating an ambition on their part to move the economy again in a safe manner. Since then the situation has changed, leading to a three tier system being adopted to try and halt the spread of COVID-19. The board is still confident, however, that lending will increase in the future although in the short-term it will be impacted by local lockdown restrictions. This increase should come despite unemployment being high at present. Our budgets and forecasts are predicated on growth in discretionary spending re-commencing. Overall, we believe that economic activity will begin to pick up, albeit slowly.

There is, still, the ongoing uncertainty attaching to a trade agreement with the European Union after December 2020. The board, however, does not believe that the direct effect of this on Orchard will be significant in the short to medium term. There are too many unknown factors to assess the situation in the longer term. Potential issues are likely to revolve around the value of the pound against other traded currencies, which will impact on spending. In any event, the current COVID-19 problem is currently considerably more of an issue.

## Development and performance of the business

### Overview

We saw growth in lending in line with expectations up until mid-March this year. Then the Government announced a period of lockdown and lending fell. The effect of this on Orchard was twofold: first, demand for new lending slowed down substantially; secondly, loans which had been made earlier in the year were cancelled or discounted because people were unable to make use of the related services. In June this year Orchard issued a trading update to ensure that investors were kept up to date with how the group was affected.

Prior to mid-March lending into leisure, school fees and static caravan pitch fees was 17.47% of our total lending. This compared with 2.08% for the whole of the year to 31 July 2019. These have been sound markets. 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.

Although profits have fallen this year, they are still higher than the market was expecting. Certain costs, including those which should have been incurred in connection with the banking licence, had been postponed. The application for this has now been withdrawn for the reasons set out on page 5.

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.

The board has agreed to conduct a limited pilot of longer term lending into the static caravan market. Details are shown in future developments on page 13.

To summarise: it is 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 continued with our extensive marketing scheme. This continues to work well (albeit that economic conditions have become more challenging this year).

Our margin is an important area. Bexhill UK Limited lends at a particular rate for a period of up to one year. Each month borrowings from Barclays Bank plc are refinanced at 2.90% above LIBOR. As LIBOR changes, refinancing costs can move up or down with a corresponding movement on margins, effectively eroding or augmenting our margin. Given the short term nature of our lending any likely changes would make a small impression on margins. Our own

[2] GDP first quarterly estimate, UK: April to June 2020
[3] Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 16 September 2020

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.

Overheads in this business are relatively stable. We have increases resulting from an increased sales function, investment in the banking licence and enhancements to our IT systems. Other overheads have not altered significantly.

**Financial KPIs**

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

**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. Despite a competitive market, lending was 5.63% up to the end of February 2020 against lending during the equivalent period in 2019. The effect of COVID-19 was quite dramatic. 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 as well as a decreased borrowing requirement.

The format of the Consolidated income statement has been amended to better reflect the group's activities as a lending company, to bring reporting in line with other financial entities and give better comparisons for investors and other users of the financial statements. Additionally, the performance indicators used in the past were updated for the same reason. Those below differ from those shown last year.

Until last year return on equity was used. This year we have used return on average equity as we believe this gives a more accurate picture of profitability. In the past we also used the level of external funding at the year end. This year we have used an average to better reflect how borrowings are used. Likewise, cost of external funds only included interest paid. This year it includes bank charges which relate directly to income from lending (arrangement fees etc.). Own resources in the past consisted of net assets which included fixed assets, prepayments and long-term liabilities. This year own resources are current financial assets less all current liabilities. This is seen as a better measure of funds to trade with. All years have been restated to reflect these changes.

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| **KPIs** | | | | | |
| Lending volume | £65.53m | £72.99m | £68.73m | £63.35m | £48.56m |
| Average interest earning assets[1] | £29.72m | £31.54m | £29.68m | £25.11m | £19.79m |
| Total revenue | £5.28m | £5.48m | £5.17m | £4.55m | £3.46m |
| Average external funding | £12.82m | £14.35m | £13.16m | £11.49m | £8.11m |
| Cost of external funds | £0.62m | £0.70m | £0.63m | £0.49m | £0.43m |
| Cost of funds/funds ratio | 4.84% | 4.88% | 4.79% | 4.26% | 5.30% |
| Own resources (net current financial assets) | £15.50m | £14.82m | £13.94m | £13.03m | £12.21m |
| Operating costs | £2.44m | £2.20m | £1.92m | £2.01m | £1.54m |
| Return on average equity | 8.31% | 11.24% | 11.10% | 10.51% | 8.34% |
| **Other performance indicators** | | | | | |
| Net interest income | £3.94m | £4.15m | £3.86m | £3.49m | £2.63m |
| Profit before tax | £1.55m | £2.02m | £1.89m | £1.64m | £1.27m |
| Profit after tax | £1.27m | £1.63m | £1.51m | £1.34m | £1.00m |
| EPS (pence) [2] | 5.96 | 7.66 | 7.08 | 6.25 | 4.70 |
| DPS (pence)3 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| Return on capital employed | 6.74% | 7.24% | 6.77% | 6.69% | 6.40% |

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.

## Non-financial indicators

### Staffing

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

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

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

Orchard is a small group with 17 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.

**Non-financial KPIs**

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

### Partner retention

Partner retention is another significant area in our business. This couples well with another non-financial indicator, brand preference. As our partner base grows, so does awareness of who we are and what we do. We review our partner base regularly to establish whether they are increasing or decreasing the amount of business they do with us. Action is taken if business from one source is 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. Our customers have seen the advantages of the new system, 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 20 to 22. Among its objectives is to protect and enhance long-term value for all stakeholders. It sets the overall strategy for the group and supervises executive management. 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 three-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. The forecasts last year were prepared on the basis that bank base rate would rise by 0.25% pa over the next three years, based on an indication by the then Governor of the BoE, Mark Carney. Since then the BoE has reduced rates to 0.10%. Given the continuing, inherent uncertainty surrounding COVID-19, it is considerably more difficult to assess the future economically. Our forecasts therefore assume a base rate of 0.10% until July 2023. There may be some pressure on rates later on but it is unlikely that they will increase in the next two years.

The nature 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 the impact of COVID-19, we have revised our forecasts downwards.
The key assumptions and bases used in the forecasts are now:

- Loans through our partners will grow to circa £80m in 2022/23;
- Liquidity will be available to fund those loans;
- Margins will remain relatively stable throughout the period;
- 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 three years from the date of signing of these financial statements, taking account of the potential impact that COVID-19 may have on the results. 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 (amounting to approximately £16.2m 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.

**Future developments**

It is the intention of the board to continue in our core markets but to test a small amount of longer term lending.

The board has therefore agreed to conduct a limited pilot of longer term lending into the static caravan market. This market gives us a risk adjusted return commensurate with our core lending. As usual, protection for our stakeholders is of paramount importance to us and we shall apply the same strict underwriting procedures as we do in other markets. In addition, the lending will be fully secured and there will be recourse to a third party which has substantial assets. The pilot lending will be for an amount of no more than £500k and will be for a period of no more than seven years

## 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.

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

**Staff make up**
- Main board: 5 all male
- Dept heads: 2 male; 2 female
- Other: 8 male; 5 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 68.18% of the employees in total (68.00% in 2019).

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 Environmental, social responsibility, community, human rights issues and gender diversity on page 13;
- 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 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, last year it took an investment in Accolade Education Finance Limited, a small private company, so that they could have the benefit of a well-established finance company as a shareholder. This gave them access to Orchard's experience in the lending market;
- it behaves as a good neighbour, helping the local community where it is able and employing people from the locality – which also assists in reducing our carbon footprint;
- in its dealings with government, particularly the revenue authorities, it is completely open, paying what it owes on time;
- it has had no instances from the FCA of non-compliance with regulations;
- Environmental, social responsibility, community, human rights issues and gender diversity are discussed on page 13.

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

Approved by the directors and signed by order of the board

Liam McShane,
Company secretary

26 October 2020

# 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 2020.

## Results and dividends

The group profit for the year after taxation was £1.27m (2019 £1.63m). This is shown on page 27. 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 (2019 £641k) - note 13 on page 49. The board is pleased to propose a final dividend of 2 pence per share to be paid on 18 December 2020 to shareholders on the register on 11 December 2020, with an ex-dividend date of 10 December 2020. The final dividend is subject to shareholder approval at the company's upcoming annual general meeting on 9 December 2020.

## Future developments

Future developments and a fuller business review are contained in the Chief executive's review and the group strategic report on pages 2 to 14.

## Directors and their interests

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

## Directors' responsibilities

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The group financial statements are required by law and IFRS adopted by the EU 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 IFRSs adopted by the EU;
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.

## Financial instruments

Detailed information on the group's financial instruments is stated in notes 2.4 and 2.5.

The group's objectives and policies for managing risk are shown under Principal risks and uncertainties on pages 7 to 8

## Employees and environmental issues

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

## Statement as to disclosure of information to auditor

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all of the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

## 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

26 October 2020

# Remuneration report

Remuneration policy is set by the chairman of the remuneration committee, Steven Hicks (Jonathan Shearman until 12 December 2019) together with Ketan Malde. Until 12 December 2019 the chairman of the group was Gary Jennison and from 12 December 2019 until 7 October 2020 it was Mark Sismey-Durrant, who was at that date replaced by Steven Hicks. The company secretary assists the committee. During the year the remuneration committee did not meet. The nominations committee met once. Matters normally reserved for consideration by the remuneration 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.

**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 2020 and 31 July 2019 in the shares of the company were as follows:

| **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, resigned 7 October 2020) | - | - |
| 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) | - | - |

| **2019** | Number of ordinary shares held | Percentage of issued ordinary share capital |
|---|---|---|
| R Takhar | 11,458,333 | 53.66% |
| G Jennison | - | - |
| L McShane | - | - |
| J Shearman | - | - |
| I Koumi (resigned 4 December 2018) | - | - |

**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. Details of the audit committee attendance is shown on page 21.
All directors are expected to devote such time as is necessary for the proper performance of their duties.

## Directors' remuneration

| 2020 | Fees and salary £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 |

| 2019 | Fees and salary £000 | Taxable benefits £000 | Total £000 |
|---|---|---|---|
| **Executive directors** | | | |
| R Takhar | 250 | 1 | 251 |
| L McShane | 39 | - | 39 |
| **Non-executive directors** | | | |
| G Jennison | 35 | - | 35 |
| J Shearman | 30 | - | 30 |
| I Koumi (resigned 31 December 2018) | 10 | - | 10 |
| **Total directors' remuneration** | 364 | 1 | 365 |

The above information relates to the parent.

K Malde was appointed on 1 September 2019. He offered himself for election at the AGM held on 12 December 2019 and was duly elected.
M Sismey-Durrant and S Hicks joined the board on 12 December 2019.
M Sismey-Durrant resigned as a director on 7 October 2020.
The biographies of the directors are shown on page 19.

Steve Hicks
Remuneration committee chairman

26 October 2020

# 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 (appointed 7 October 2020)**

Mr Steven Hicks has more than 40 years' experience in Retail and Commercial Banking, with 12 years at board level 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 a member of the audit committee, Chairman of the remuneration committee and, with effect from the 7th October, he is Chairman of the board. He is also an Independent Non-executive Director and Chair of The Board Risk Committee at the State Bank of India (UK) 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 (appointed 1 September 2019)**

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 page 5. 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. Despite the withdrawal of the banking licence application, the board will continue with the evolution in control, monitoring and risk management. This is discussed further below.

## Governance during the last year

This process is ongoing and in the last twelve months has seen, amongst others, the following governance developments:

- Further development of the regulatory environment, including risk assessment, IT development and staff training.
- Further development and formalisation of the risk matrix and risk register.
- Continuing review of staff job descriptions to match key accountabilities and duties to roles.

The above are ongoing. The board will continue to develop its governance processes in the coming year.

## Directors

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

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

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

## 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. 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

Until 31 August 2019. membership of the audit committee comprised Gary Jennison and Jonathan Shearman (two of the non-executive directors). On 1 September 2019 Ketan Malde became chairman of the audit committee and on 12 December 2019 Steven Hicks became its second member. 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 two significant risks during the planning process – the impact of COVID-19 and the calculations and disclosure of expected credit losses.

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.

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

Effective risk management is key to what we do. In addition to the strict underwriting procedures mentioned earlier, 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 8.

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

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

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

## Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. An assessment and explanation of why the board consider the going concern basis to be appropriate is discussed on pages 12 and 13 of the Group strategic report.

Steven Hicks
Chairman

26 October 2020

# 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 2020 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 a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 SME 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

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | **Group**<br>• None<br>**Parent company**<br>• None |

| | |
|---|---|
| **Materiality** | **Group**<br>• Overall materiality: £92,500 (2019: £151,500)<br>• Performance materiality: £69,400<br>**Parent Company**<br>• Overall materiality: £47,000 (2019: £110,000)<br>• Performance materiality: £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** | £92,500 (2019: £151,500) | £47,000 (2019: £110,000) |
| **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. 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** | £69,400 | £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 £4,620 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds. | Misstatements in excess of £2,350 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 three 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** | 3 | 100% | 100% | 100% |

None of the above audits were undertaken by component auditors.

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. 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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinions on other matters prescribed by the Companies Act 2006**

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

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

**Matters on which we are required to report by exception**

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

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

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

**Responsibilities of directors**

As explained more fully in the directors' responsibilities statement set out on page 15, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

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

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.

GEOFF WIGHTWICK (Senior Statutory Auditor)
For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
Portland,
25 High Street
Crawley
West Sussex
RH10 1BG

26 October 2020

# Consolidated income statement

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Interest receivable and similar income | 6 | 4,558 | 4,856 |
| Interest payable and similar charges | 7 | (624) | (704) |
| Net interest income | | 3,934 | 4,152 |
| Other trading income | 6 | 722 | 625 |
| Other direct costs | 7 | (533) | (455) |
| Net other income | | 189 | 170 |
| **Net total income** | | 4,123 | 4,322 |
| Other operating costs | 7 | (2,436) | (2,197) |
| Net impairment losses on financial assets | 7 | (130) | (111) |
| Net gain on financial assets at fair value through consolidated income | 7 | - | 6 |
| **Operating profit** | 10 | 1,557 | 2,020 |
| Interest receivable | 9 | 6 | 5 |
| Interest payable | 9 | (2) | (4) |
| **Profit before tax** | | 1,561 | 2,021 |
| Tax | 11 | (288) | (387) |
| **Profit for the year from continuing operations attributable to the owners of the parent** | | 1,273 | 1,634 |
| **Earnings per share attributable to the owners of the parent during the year (pence)** | | | |
| Basic and diluted | 14 | 5.96 | 7.66 |

The format of the consolidated income statement differs from the format applied last year. Details of the restatement are shown in note 4.

The notes on pages 36 to 60 are an integral part of these consolidated financial statements

# Consolidated statement of other comprehensive income

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Profit for the year from continuing operations attributable to the owners of the parent** | | 1,273 | 1,634 |
| | | | |
| **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 | | - | (56) |
| **Total comprehensive income for the year from continuing operations attributable to the owners of the parent** | | 1,273 | 1,578 |

An equity investment was acquired in June 2019. The group has made an irrevocable election to adjust changes in fair values through other comprehensive income. The investment has been reduced to its estimated fair value of £nil. See note 17.

The notes on pages 36 to 60 are an integral part of these consolidated financial statements

# Consolidated statement of financial position - Assets

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 39 | 29 |
| Right of use assets | 15 | 96 | 58 |
| Intangible assets | 16 | 16 | 42 |
| Deferred tax asset | 22 | 6 | 10 |
| Investment | 17 | - | - |
| Investment at fair value through profit and loss | 17 | 6 | 6 |
| Investment at fair value through other comprehensive income | 17 | - | - |
| Other receivables | 18 | 7 | 12 |
| | | 170 | 157 |
| **Current assets** | | | |
| Loans to customers | 18 | 27,300 | 32,141 |
| Other receivable and prepayments | 18 | 120 | 156 |
| Cash and cash equivalents: | | | |
| Bank balances | 19 | 2,300 | 2,139 |
| | | 29,720 | 34,436 |
| **Total assets** | | 29,890 | 34,593 |

The notes on pages 36 to 60 are an integral part of these consolidated financial statements

# Consolidated statement of financial position – Liabilities and equity

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 23 | 2,939 | 3,015 |
| Borrowings | 21 | 11,004 | 16,218 |
| Tax payable | | 273 | 370 |
| | | 14,216 | 19,603 |
| **Non-current liabilities** | | | |
| Borrowings | 21 | 72 | 15 |
| Deferred tax liabilities | 22 | - | 5 |
| | | 72 | 20 |
| **Total liabilities** | | 14,288 | 19,623 |
| **Equity attributable to the owners of the parent** | | | |
| Called up share capital | 20 | 214 | 214 |
| Share premium | | 8,692 | 8,692 |
| Merger reserve | | 891 | 891 |
| Retained earnings | | 5,805 | 5,173 |
| **Total equity** | | 15,602 | 14,970 |
| **Total equity and liabilities** | | 29,890 | 34,593 |

The financial statements on pages 27 to 60 were approved, and authorised for issue, by the board of directors on 26 October 2020 and were signed on its behalf by:

R Takhar
Chief executive officer

# Company statement of financial position

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | 17 | | |
| Investments | 17 | 2,807 | 2,807 |
| Investment at fair value through profit and loss | 17 | 6 | 6 |
| Investment at fair value through other comprehensive income | 17 | - | - |
| | | 2,813 | 2,813 |
| **Current assets** | | | |
| Other receivables and prepayments | 18 | 10,369 | 10,344 |
| | | 10,369 | 10,344 |
| **Total assets** | | 13,182 | 13,157 |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 23 | 66 | 94 |
| **Non-current liabilities** | | | |
| Deferred tax | | - | 1 |
| **Total liabilities** | | 66 | 95 |
| **Equity attributable to the owners of the parent** | | | |
| Called up share capital | 20 | 214 | 214 |
| Share premium | | 8,692 | 8,692 |
| Merger reserve | | 2,692 | 2,692 |
| Retained earnings | | 1,518 | 1,464 |
| **Total equity** | | 13,116 | 13,062 |
| **Total equity and liabilities** | | 13,182 | 13,157 |

The company's profit and total comprehensive income for the year was £695k (2019 £1,476k)
The company has not presented a separate retained earnings accounts as permitted by section 408 of the Companies Act 2006

The financial statements on pages 27 to 60 were approved, and authorised for issue, by the board of directors on 26 October 2020 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 36 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 2018 | 214 | 4,240 | 8,692 | 891 | 14,037 |
| Change in accounting policy | - | (4) | - | - | (4) |
| **Restated total equity at the beginning of the financial year** | 214 | 4,236 | 8,692 | 891 | 14,033 |
| **Changes in equity** | | | | | |
| Profit for the period | - | 1,634 | - | - | 1,634 |
| Movement in equity investments at fair value through other comprehensive income | - | (56) | - | - | (56) |
| **Transactions with owners:** | | | | | |
| Dividends paid | - | (641) | - | - | (641) |
| **Balance at 31 July 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 |

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 33). 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 36 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 2018 | 214 | 629 | 8,692 | 2,692 | 12,227 |
| **Changes in equity** | | | | | |
| Profit for the period | - | 1,532 | - | - | 1,532 |
| Movement in equity investments at fair value through other comprehensive income | - | (56) | - | - | (56) |
| **Total comprehensive income for the period** | - | 1,476 | - | - | 1,476 |
| **Transactions with owners:** | | | | | |
| Dividends paid | - | (641) | - | - | (641) |
| **Balance at 31 July 2019** | 214 | 1,464 | 8,692 | 2,692 | 13,062 |
| Profit and total comprehensive income | - | 695 | - | - | 695 |
| **Transactions with owners:** | | | | | |
| Dividends paid | - | (641) | - | - | (641) |
| **Balance at 31 July 2020** | 214 | 1,518 | 8,692 | 2,692 | 13,116 |

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

# Consolidated statement of cash flows

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Operating profit | 1,557 | 2,020 |
| Depreciation and amortisation | 86 | 83 |
| | 1,643 | 2,103 |
| Decrease/(increase) in loans to customers, other receivables and prepayments | 4,882 | (1,211) |
| (Decrease)/increase in trade and other payables | (76) | 970 |
| | 6,449 | 1,862 |
| Tax paid | (387) | (364) |
| **Net cash generated by operating activities** | 6,062 | 1,498 |
| **Cash flows from investing activities** | | |
| Interest received | 6 | - |
| Purchases of property, plant and equipment | (29) | (16) |
| Purchase of intangible fixed assets | - | (36) |
| Purchase of investment at fair value through other comprehensive income | - | (56) |
| Proceeds of sale of assets | 9 | - |
| **Net cash absorbed by investing activities** | (14) | (108) |
| **Cash flows from financing activities** | | |
| Dividends paid | (641) | (641) |
| Net receipts from borrowings | 1,000 | 684 |
| Borrowings repaid | (6,207) | (541) |
| Lease repayments | (39) | (39) |
| **Net cash absorbed by financing activities** | (5,887) | (537) |
| **Net increase in cash and cash equivalents** | 161 | 853 |
| Cash and cash equivalents at the beginning of the year | 2,139 | 1,286 |
| **Cash and cash equivalents at the end of year** | 2,300 | 2,139 |

The notes on pages 36 to 60 are an integral part of these consolidated financial statements

# Company statement of cash flows

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Profit before tax | 695 | 1,532 |
| Dividend received | (1,500) | (2,200) |
| | (805) | (668) |
| Increase in other receivables and prepayments | (25) | (4) |
| (Decrease)/increase in trade and other payables | (28) | 43 |
| Funding by subsidiaries | 858 | 685 |
| **Net cash generated by operating activities** | - | 56 |
| **Cash flows from investing activities** | | |
| Purchase of investment at fair value through other comprehensive income | - | (56) |
| **Net cash absorbed by investing activities** | - | (56) |
| **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 36 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 Alternative Investment Market of the London Stock Exchange, incorporated in England and Wales and domiciled in the United Kingdom. The address of its registered office is 1st Floor, 721 Capability Green, Luton, Bedfordshire LU1 3LU.

The principal activities of the group and the nature of its operations are set out in the strategic report on pages 5 to 14.

## 2. Summary of significant accounting policies

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

### 2.1 Basis of preparation

The consolidated financial statements of Orchard Funding Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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 in conformity with IFRS 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 Consolidation

**(a) Subsidiaries**

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

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

**(b) Associates**

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

**(c) Equity method**

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

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

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

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.4(b).

**2.3 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 just under three 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 £16.2m 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.

**2.4 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 2.12 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. All these loans are repayable within 12 months and therefore 12 month ECLs are used.

- 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, many lenders have given payment holidays to their customers. Orchard is no different. 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 8.

**(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 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.

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

**Impairment**

Impairment reviews are carried out using the ECL approach outlined in (b) above. This approach applies equally to balances between companies in the group but for reasons indicated in note 18 no impairment provision is necessary.

## 2.5 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 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 (bank 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 2.6.

## 2.6 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 Consolidate 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 7.

The charge for depreciation for right of use assets is reported in other operating costs in the Consolidated income statement, is shown in note 10.

The basis of the depreciation charge is shown in note 2.10.

### 2.7 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.

**2.8 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.

**2.9 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.

**2.10 Property, plant and equipment**

**(a) Cost**

Property, plant and equipment which are owned by the group are stated at historical cost less depreciation and impairment. Historical cost consists of expenditure that is directly attributable to the acquisition of the items.

Property, plant and equipment which are held as right-of-use assets are dealt with under note 2.6.

**(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 |

**2.11 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.

**2.12 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.

**2.13 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.

**2.14 Financial reporting standards adopted during the year ended 31 July 2020**

The following standards have been adopted during the current year:

(a) IFRIC 23 Uncertainty over Income Tax Treatments Financial Instruments - provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires the group to determine whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution, and to determine if it is probable that the tax authorities will accept the uncertain tax treatment. If it is not probable that the uncertain tax treatment will be accepted, the tax uncertainty is measured based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty. This measurement is required to be based on the assumption that each of the tax authorities will examine amounts they have a right to examine and have full knowledge of all related information when making those examinations.

The group has made no transactions, nor has it any assets or liabilities which it believes give rise to uncertain tax treatments.

(b) IFRS 16 Leases – although mandatory for the year ended 31 July 2020, this standard was early adopted by the group last year. Details are shown under note 2.6.

**2.15 Financial reporting standards in issue but not yet effective**

There are a number of new standards that will apply for the first time to the financial statements for the year ended 31 July 2021 but which are not yet effective. These 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.

**2.16 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.

### 4. Revised format of the Consolidated income statement

The format of the Consolidated income statement has been amended to better reflect the group's activities as a lending company, to bring reporting in line with other financial entities and give better comparisons for investors and other users of the financial statements. In the past the statement showed interest and other revenue from which were deducted finance and other operational costs to arrive at a gross profit figure. Costs directly associated with interest income are now deducted from it to arrive at a net interest income figure. Costs directly associated with other income are deducted from that to arrive at a net other income figure. In addition, bank charges which relate directly to interest or other income are included as part of those respective direct costs. Previously they were included as part of administrative expenses. The reconciliation between the two measures for 2019 is shown below:

| Prior year description | Current year description | Note | As originally stated £000 | Adjustments £000 | As restated £000 |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Interest revenue | Interest receivable and similar income | 1 | 4,671 | 185 | 4,856 |
| Other revenue | Other trading income | 1 | 810 | (185) | 625 |
| | | | 5,481 | - | 5,481 |
| Finance costs | Interest payable and similar charges | 2 | (558) | (146) | (704) |
| Other operational costs | Other direct costs | 2 | (72) | (383) | (455) |
| **Gross profit** | **Net total income** | | 4,851 | (529) | 4,322 |
| Administrative expenses | Other operating costs | 2 | (2,726) | 529 | (2,197) |
| Net impairment losses on financial and contract assets | Net impairment losses on financial assets | | (111) | - | (111) |
| Net gain on financial assets at fair value through consolidated income | Net gain on financial assets at fair value through consolidated income | | 6 | - | 6 |
| **Operating profit** | | | 2,020 | - | 2,020 |
| Interest receivable on bank balances | Interest receivable | | 5 | - | 5 |
| Interest payable | Interest payable | | (4) | - | (4) |
| **Profit before tax** | | | 2,021 | | 2,021 |
| Tax | | | (387) | - | (387) |
| **Profit for the year** | **Profit for the year** | | 1,634 | - | 1,634 |

**Note 1 -** In previous years, non-use fees were treated as other income. The board considers that these properly belong as part of interest receivable and similar income in line with other financial entities.

**Note 2 -** In previous years all bank fees were treated as an administrative expense. The board considers that those fees which relate to borrowing funds to lend on to customers (arrangement fees including associated legal costs) should properly be treated as interest payable and similar charges.

In addition, certain fees were incurred which were recharged to customers and these have been moved to other direct costs. The respective amounts were £146k and £383k. The total of £529k has been removed from what would have been administrative expenses (now other operating costs). Bank account management fees of £17k are included in other operating costs.

## 5. Financial risk management

### 5.1 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 8. 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 of our banking facilities with Barclays and Conister Bank. At 31 July 2020 there was £8.02m still available to draw.

(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.

### 5.2 Maximum exposure to credit risk

**(a) Investments**

The maximum exposure to credit risk on the trade investment which is being carried at a fair value of £nil is £nil. The other investment is being carried at a fair value of £6k and this is the maximum exposure.

**(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 2.4

The maximum exposure to credit risk on trade receivables was £27.97m. Credit risk is minimised by a strict underwriting policy, and the additional factors set out in note 18.

### 5.3 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 2020 and 31 July 2019.

| | **2020** | **2019** |
|---|---|---|
| | **£000** | **£000** |
| Operating profit | 1,557 | 2,020 |
| Depreciation and amortisation | 86 | 83 |
| **EBITDA** | 1,643 | 2,103 |
| **Capital employed:** | | |
| Capital and reserves (including current year) | 15,602 | 14,970 |
| Bank borrowings (net of cash held) | 8,677 | 14,045 |
| Other borrowings | 99 | 49 |
| **Total capital and borrowings** | 24,378 | 29,064 |
| **ROCE** | 6.74% | 7.24% |

## 6. 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 (up to one year). No income is receivable in more than one year.
There has been a change in revenue allocations from 2019 and before to those shown in 2020. Details are in note 4.
The group has no single major customer. All income is from financing. Revenue can be analysed as follows:

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| **Revenue** | | |
| Interest revenue using the effective interest rate method | 4,558 | 4,856 |
| Other revenue | 722 | 625 |
| | 5,280 | 5,481 |
| **Timing of revenue recognition:** | | |
| At a point in time – direct debit charges | 505 | 360 |
| At a point in time – non utilisation fees and loan administrative fees | 390 | 306 |
| At a point in time – default and settlement fees | 81 | 47 |
| Over time – licence fees | 103 | 144 |
| Over time – interest revenue outside the scope of IFRS 15 | 4,201 | 4,624 |
| | 5,280 | 5,481 |

## 7. Expenses by nature

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Interest payable in direct costs | 466 | 558 |
| Bank fees in direct costs | 646 | 529 |
| Other direct costs | 45 | 72 |
| Employee costs (including directors) | 1,178 | 1,100 |
| Advertising and selling costs | 443 | 413 |
| Professional and legal fees | 229 | 198 |
| Impairment losses (note 18) | 130 | 111 |
| IT costs | 149 | 91 |
| Cost of listing | 85 | 87 |
| Depreciation and amortisation | 86 | 80 |
| Interest payable on right-of-use assets | 2 | 4 |
| Other net expenses | 262 | 223 |
| Fair value gains on investments | - | (6) |
| | 3,719 | 3,460 |

In the previous year bank fees were all included in administrative expenses. This year some have been transferred to direct costs as detailed in note 4.

## 8. Employees and directors

### 8.1 Employee costs

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| | £000 | £000 | £000 | £000 |
| Wages and salaries (including directors) | 1,054 | 536 | 985 | 440 |
| Social security costs | 112 | 60 | 108 | 49 |
| Pension costs – defined contribution plans | 12 | 3 | 7 | - |
| | 1,178 | 599 | 1,100 | 489 |

The average number of persons employed by the group was:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| | £000 | £000 | £000 | £000 |
| Directors | 5 | 5 | 4 | 4 |
| Administration | 17 | 2 | 15 | 2 |
| | 22 | 7 | 19 | 6 |

### 8.2 Directors' remuneration

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

| 2019 | Fees and salary | Taxable benefits | Total | Employer's NIC | Total |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Total directors' remuneration** | 364 | 1 | 365 | 49 | 414 |

R Takhar was the highest paid director during the year earning £251k including taxable benefits (2019 251k). Details are shown in the Remuneration report on page 18.
Key management personnel are considered to be the directors (executive and non-executive).
No director is accruing benefits under a pension scheme.

## 9. 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 £466k (2019 £558k).

The group receives a small amount of interest from its bank balances. This year it amounted to £6k (2019 £5k).
Interest payable is in respect of right-of-use assets and amounted to £2k (2019 £4k).

## 10. Operating profit

This is stated after charging:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Depreciation of owned property, plant and equipment | 25 | 16 |
| Depreciation of right of use assets | 26 | 30 |
| Loss on disposal of right of use assets – motor vehicles | 9 | - |
| Amortisation of intangible assets | 26 | 36 |
| Interest payable on liabilities in respect of right-of-use assets | 2 | 4 |
| Auditor's remuneration: | | |
| Audit fees – parent company and consolidation | 40 | 23 |
| Audit fees – subsidiaries | 36 | 31 |

## 11. Tax expense

### 11.1 Current year tax charge:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Current tax expense | 299 | 396 |
| Adjustment re previous year tax expense | (10) | - |
| Deferred tax expense relating to the origination and reversal of temporary differences | (1) | (9) |
| | 288 | 387 |

### 11.2 Tax reconciliation

The tax assessed for the year differs from the main corporation tax rates in the UK (19%, 2019 – 19%). The differences are explained below.

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Profit before tax for the financial year | 1,561 | 2,020 |
| Applicable rate – 19.00% (2019 19.00%) | 19.00% | 19.00% |
| Tax at the applicable rate | 297 | 384 |
| Effects of: | | |
| Expenses not deductible for tax | 1 | 2 |
| Adjustment re previous year tax expense | (10) | - |
| Reduced rate of tax on reversing timing differences | - | 1 |
| Tax charge for the period | 288 | 387 |

## 12. 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 £695k (2019 profit £1,476k).

## 13. Dividends

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | |
| Final dividend for the year ended 31 July 2019 of 2p (2018 1.405p) per share | 427 | 427 |
| Interim dividend for the year ended 31 July 2020 of 1p (2019 1p) per share | 214 | 214 |
| | 641 | 641 |
| Proposed final dividend for the year ended 2020 of 2p (2019 2p) per share | 427 | 427 |

## 14. Earnings per share

Earnings per share is based on the profit for the year of £1.27m (2019 £1.63m) and the weighted average number of the ordinary shares in issue during the year of 21.35m(2019 21.35m). There are no options or other factors which would dilute these therefore the fully diluted earnings per share is identical.

## 15. Property, plant and equipment and right of use assets

### 15.1 Property, plant and equipment

| | Office equipment and fixtures £000 | Computer equipment £000 | Motor vehicles £000 | Total £000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 August 2018 | 52 | 52 | - | 104 |
| Additions | 8 | 6 | - | 14 |
| **At 31 July 2019** | 60 | 58 | - | 118 |
| Transfer from right-of-use assets | - | - | 12 | 12 |
| Additions | 2 | 27 | - | 29 |
| **At 31 July 2020** | 62 | 85 | 12 | 159 |
| **Depreciation** | | | | |
| At 1 August 2018 | 26 | 47 | - | 73 |
| Charged to administrative expenses in the consolidated statement of income | 11 | 5 | - | 16 |
| **At 31 July 2019** | 37 | 52 | - | 89 |
| Transfer from right-of-use assets | - | - | 6 | 6 |
| Charged to administrative expenses in the consolidated statement of income | 14 | 10 | 1 | 25 |
| **At 31 July 2020** | 51 | 62 | 7 | 120 |
| **Net book value at 31 July 2020** | 11 | 23 | 5 | 39 |
| **Net book value at 31 July 2019** | 23 | 6 | - | 29 |

### 15.2 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 2018 | 65 | 42 | 107 |
| Additions | - | - | - |
| **At 31 July 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** | 153 | - | 153 |
| | | | |
| **Depreciation** | | | |
| At 1 August 2018 | 5 | 14 | 19 |
| Charged to administrative expenses in the consolidated statement of income | 26 | 4 | 30 |
| **At 31 July 2019** | 31 | 18 | 49 |
| Transfer to ownership | - | (6) | (6) |
| Charged to administrative expenses in the consolidated statement of income | 26 | - | 26 |
| Eliminated on disposal | - | (12) | (12) |
| **At 31 July 2020** | 57 | - | 57 |
| | | | |
| **Net book value at 31 July 2020** | 96 | - | 96 |
| | | | |
| **Net book value at 31 July 2019** | 34 | 24 | 58 |

During the year, the group extended its lease term at the same monthly payment. This has been treated as a modification to the original lease. The increase in the right-of-use asset is shown above and the increase in the liability in note 24. The amount by which each increased was £88k. This is a non-cash transaction as disclosed in note 27.

Details of the liability relating to the above are shown in note 21. Interest charged in the year is shown in note 10.

## 16. Intangible assets

| | Software development costs £000 |
|---|---|
| **Cost** | |
| At 1 August 2018 | 115 |
| Additions | 36 |
| **At 31 July 2019** | 151 |
| Additions | - |
| **At 31 July 2020** | 151 |
| | |
| **Amortisation** | |
| At 1 August 2018 | 73 |
| Charged to administrative expenses in the consolidated statement of income | 36 |
| **At 31 July 2019** | 109 |
| Charged to administrative expenses in the consolidated statement of income | 26 |
| **At 31 July 2020** | 135 |
| | |
| **Net book value at 31 July 2020** | 16 |
| | |
| **Net book value at 31 July 2019** | 42 |

## 17. Investments

### 17.1 Subsidiaries

| | Shares in subsidiaries £000 |
|---|---|
| **Cost and net book value** | |
| **At 31 July 2019 and 31 July 2020** | 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.

**17.2 Investment accounted for at fair value - associate**

Last year the group acquired 300 shares in Open B Gateway Limited, a company which is currently dormant but which will be involved in business software development. The company's year-end is currently 31 March but, as there has been no trading yet, there are no results to incorporate. The shares were purchased at par (£1 per ordinary share) and represent a 30% holding in that company. The registered office is Langdon House, c/o Bevan Buckland LLP, Langdon Road, Swansea SA1 8QY.

Given that there has been no trading yet, the board still considers the fair value to be the cost of £300.

| Name | Country of incorporation and place of business | Nature of business | Proportion of ordinary shares held directly by |
|---|---|---|---|
| Open B Gateway Limited | England and Wales | Business software development | 30% |

**17.3 Investment at fair value through other comprehensive income**

Last year an investment was made in Zebra Finance Limited, an unlisted company registered in England and Wales. The group purchased 35% of the ordinary shares of that company at a price of £56k. An irrevocable election was made on acquisition to have any gains or losses on holding the investment reflected in the Consolidated statement of other comprehensive income. However, since the purchase, certain events occurred within Zebra Finance Limited which called into question the value of the investment. Since the year end the company has entered into a company voluntary arrangement. The fair value is still considered to be £nil (2019 £nil). The reduction in fair value since purchase was reflected in the Consolidated statement of other comprehensive income last year.

**17.4 Investment at fair value through profit and loss**

Last year Accolade Finance Limited transferred shares 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 was done so that they could have the benefit of a well-established finance company as a shareholder, which assisted them in raising finance themselves and gave them access to Orchard's experience in the lending market.

This size of the shareholding would be sufficient to deem Accolade Education Finance Limited an associate as significant influence would normally exist in these circumstances. However, the group does not have any representation on the board of the company; it takes no part in its management; there is not (and no intention to have) any interchange of managerial personnel and there is no intention to have transactions between the parties which are material to either side.

This investment was made for strategic purposes and was as much for the benefit of Accolade Education Finance Limited as the group. For this reason, and those given in the previous paragraph, the board considers classification as a trade investment to be more appropriate.

The amount paid for this asset was £nil and there is no easily obtainable, reliable information on which to base a Level 1 or Level 2 valuation therefore a Level 3 valuation has been used based on net asset value (see note 2.4 for an explanation of each level). The net asset value at 30 November 2018 (the latest set of published accounts) was £54k. The next set is not due for filing at Companies House until 30 November 2020. For the purposes of fair valuing the investment, given that there is a delay in filing the accounts, the group is not entitled to any management information and the lack of any other public information, the net asset value has been reduced by 55%. 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, and the company remains at an early development stage. Given the maximum downside risk is £6k, the directors view the valuation as presenting minimal risk of material misstatement. For reasons identified earlier in this section, the board therefore considers the fair value of this investment to be £6k.

## 18. Loans to customers and other receivables

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| | £000 | £000 | £000 | £000 |
| **Non-current** | | | | |
| **Financial assets at amortised cost** | | | | |
| Other receivables | 7 | - | 12 | - |
| | 7 | - | 12 | - |
| **Current** | | | | |
| **Financial assets at amortised cost** | | | | |
| Loans to customers: | | | | |
| Gross | 27,517 | - | 32,563 | - |
| Impairment provision | (217) | - | (422) | - |
| | 27,300 | - | 32,141 | - |
| **Financial assets at amortised cost** | | | | |
| Intercompany receivables | - | 10,362 | - | 10,338 |
| Other receivables | 104 | - | 134 | - |
| | 104 | 10,362 | 134 | 10,338 |
| | 27,404 | 10,362 | 32,275 | 10,338 |
| **Prepayments** | 16 | 7 | 22 | 6 |
| | 27,420 | 10,369 | 32,297 | 10,344 |

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 2.4.

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; and
- 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 2.4
The figures refer to the group as the company has no loans to customers.

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Gross £000 | Impairment allowance £000 | Net £000 | Gross £000 | Impairment allowance £000 | Net £000 |
| Amount receivable – stage 1 | 27,186 | (34) | 27,152 | 31,941 | - | 31,941 |
| Amount receivable – stage 2 | 120 | (1) | 119 | 200 | - | 200 |
| Amount receivable – stage 3 | 211 | (182) | 29 | 422 | (422) | - |
| | 27,517 | (217) | 27,300 | 32,563 | (422) | 32,141 |

Amounts shown as past due but not impaired are largely covered by the Financial Services Compensation Scheme.

97.26% of customer receivables are subject to recourse to the introducing partner in the event of default by the borrower.

| | 2020 Group £000 | 2019 Group £000 |
|---|---|---|
| Impairment provision at 1 August | 422 | 343 |
| Increase in provision in the year | 130 | 111 |
| Receivables written off during the year as uncollectable | (335) | (32) |
| Impairment provision at 31 July | 217 | 422 |

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:

(a) 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). Loans to customers in the subsidiaries are all repayable within 12 months; and

(b) any risk of loss is considered remote (not expected) and therefore no impairment provision is necessary.

## 19. Cash and cash equivalents

| | 2020 Group £000 | 2019 Group £000 |
|---|---|---|
| Amounts held at banks | 2,300 | 2,139 |

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

## 20. Called up share capital

Allotted, issued and fully paid at 31 July 2020 and 31 July 2019

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

## 21. Borrowings - group

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Secured £000 | Unsecured £000 | Secured £000 | Unsecured £000 |
| **Non-current:** | | | | |
| Borrowings arising from right-of-use assets | - | 72 | 3 | 12 |
| | - | 72 | 3 | 12 |
| **Current:** | | | | |
| Bank loans | 10,977 | - | 16,184 | - |
| Borrowings arising from right-of-use assets | - | 27 | 6 | 28 |
| | 10,977 | 27 | 16,190 | 28 |

The parent company has no external borrowings.

### 21.1 Terms and debt repayment schedule

Barclays Bank borrowings of £9.48m are secured by a fixed and floating charge over all the assets of Bexhill, bear interest at rates of 2.90% above LIBOR plus any associated costs. They are repayable within one year of the advances. The loans are provided on a revolving 12 monthly basis under a facility which was renewed on 29 July 2020. The maximum drawdown on the facility is currently £17.00m of which £7.52m was undrawn at the year-end (2019 £1.32m). The directors consider that the terms of this facility closely match the maturity dates of the group's receivables.

Conister Bank borrowings of £1.50m, are secured over the assets of Orchard Funding, bear interest at an average rate of 5.11% pa and are repayable within one year of the advance. The maximum drawdown facility is currently £2.00m of which £0.50m was undrawn at the year-end (2019 £1.50m).

The minimum payments under lease liabilities are as follows:

| | 2020 Group £000 | 2019 Group £000 |
|---|---|---|
| Within 1 year | 30 | 36 |
| Later than 1 year but no later than 5 | 76 | 15 |
| | 106 | 51 |
| Future finance charges | (7) | (2) |
| | 99 | 49 |

The present value of lease liabilities are as follows:

| | | |
|---|---|---|
| Within 1 year | 27 | 35 |
| Later than 1 year but no later than 5 | 72 | 14 |
| | 99 | 49 |

Lease liabilities other than for the short leasehold premises are secured on the assets that they finance and bear interest at varying rates.

### 21.2 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 2018 £000 | Cash flows £000 | At 31 July 2019 £000 | Non-cash movements £000 | Cash flows £000 | At 31 July 2020 £000 |
|---|---|---|---|---|---|---|
| **Non-current:** | | | | | | |
| Other loans | 41 | (41) | - | - | - | - |
| Borrowings arising from right-of-use assets | 48 | (33) | 15 | 88 | (31) | 72 |
| | 89 | (74) | 15 | 88 | (31) | 72 |
| **Current:** | | | | | | |
| Bank loans | 16,000 | 184 | 16,184 | - | (5,207) | 10,977 |
| Borrowings arising from right-of-use assets: | 36 | (2) | 34 | - | (7) | 27 |
| | 16,036 | 182 | 16,218 | - | (5,214) | 11,004 |
| Total liabilities from financing activities | 16,125 | 108 | 16,233 | 88 | (5,245) | 11,076 |
| Interest on right-of-use assets included in liabilities | | (4) | | | (1) | |
| **Cashflows from financing activities** | | 104 | | | (5,246) | |
| **Comprising:** | | | | | | |
| Net receipts from borrowings | | 684 | | | 1,000 | |
| Borrowings repaid | | (541) | | | (6,207) | |
| Lease repayments | | (39) | | | (39) | |
| | | 104 | | | (5,246) | |

### 21.3 Non-cash financing activities

The group extended the term of its lease in May 2020 which was a modification of the existing lease. This has led to a non-cash financing transaction of £88k. Details are shown in note 2.6.

## 22. Deferred tax

### 22.1 Deferred tax assets

| | 2020 Group £000 | 2019 Group £000 |
|---|---|---|
| The balance comprises temporary differences attributable to: | | |
| Difference between tax allowable and accounting expenses for right-of-use assets | 6 | 1 |
| Loss allowance for financial assets | - | 9 |
| | 6 | 10 |

### 22.2 Deferred tax liabilities

The balance comprises temporary differences attributable to:

| | 2020 Group £000 | 2019 Group £000 |
|---|---|---|
| Accelerated capital allowances | - | 4 |
| Financial assets at fair value through the Consolidated income statement | - | 1 |
| | - | 5 |

### 22.3 Movement on deferred tax balances

| | | |
|---|---|---|
| **Deferred tax assets** | | |
| At 1 August | 10 | - |
| Arising from change in accounting policy | - | 1 |
| **Deferred tax asset at the beginning of the financial year** | 10 | 1 |
| (Charged)/credited to Consolidated income statement | (4) | 9 |
| **At 31 July** | 6 | 10 |
| | | |
| **Deferred tax liabilities** | | |
| At 1 August | 5 | 5 |
| Credited to Consolidated income statement | (5) | - |
| **At 31 July** | - | 5 |

## 23. Trade and other payables

| Current liabilities | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group £000 | Company £000 | Group £000 | Company £000 |
| Trade payables | 2,487 | - | 2,554 | - |
| Other payables | 26 | - | 70 | - |
| Other tax and social security costs | 36 | 20 | 40 | 23 |
| Accrued expenses | 390 | 46 | 351 | 71 |
| | 2,939 | 66 | 3,015 | 94 |

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

## 24. 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 5.

### 24.1 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
- Bank borrowings
- Financing for right-of-use assets

### 24.2 Financial instruments by category

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| | £000 | £000 | £000 | £000 |
| **Non-current assets** | | | | |
| Investments: | | | | |
| - amortised cost | - | 2,807 | - | 2,807 |
| - fair value through consolidated income statement | 6 | 6 | 6 | 6 |
| Trade and other receivables: | | | | |
| Other receivables measured at amortised cost: non-current | 7 | - | 12 | - |
| **Current assets** | | | | |
| Loans to customers | 27,300 | - | 32,141 | - |
| Other receivables: current | 104 | 10,362 | 134 | 10,338 |
| Cash and cash equivalents: | | | | |
| Bank balances and cash in hand | 2,300 | - | 2,139 | - |
| | 29,717 | 13,175 | 34,432 | 13,151 |

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Group | Company | Group | Company |
| | £000 | £000 | £000 | £000 |
| **Financial liabilities at amortised cost:** | | | | |
| Interest bearing loans and borrowings: | | | | |
| Borrowings payable: non-current | 72 | - | 14 | - |
| Borrowings payable: current | 11,004 | - | 16,219 | - |
| Trade and other payables | 2,903 | 46 | 2,975 | 71 |
| | 13,979 | 46 | 19,208 | 71 |

### 24.3 Fair value of financial instruments

The fair values of the financial assets and liabilities are not materially different to their carrying values due to the short-term nature of the current assets and liabilities.

### 24.4 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 8 and note 5.

## 25. Related party transactions

### 25.1 Ultimate controlling party

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

### 25.2 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 £581k from Bexhill (2019 £1,861k). Bexhill made payments on behalf of the parent company amounting to £792k (2019 £440k) and paid dividends to the parent company amounting to £900k (2019 £1,600k). At the year-end Bexhill owed the parent company £917k (2019 £1,390k). The loan is unsecured, interest free and repayable on demand.
Orchard Funding paid expenses on behalf of Bexhill amounting to £nil (2019 £79k respectively). At the year-end Bexhill owed Orchard Funding Limited £nil (2019 £276k).
**Orchard Funding –** Orchard Funding made net payments to the parent company amounting to £103k (2019 the parent made net payments to Orchard Funding of £967k). Orchard Funding paid dividends to the parent company amounting to £600k (2019 £600k). At the year-end Orchard Funding owed the parent company £9,448k (2019 £8,951k). The loan is unsecured, interest free and repayable on demand.
Orchard Funding's transactions with Bexhill are shown above.

**Open B Gateway Limited –** this company is an associate by virtue of the fact that significant influence can be exerted (see note 17). In the previous year all the shares in this company owned by Mr R Takhar (300 shares of £1 each) were transferred to the group at par.

### 25.3 Other entities

The group is related to the following parties with whom it had activity during this or the previous period, all of which is considered to be at arm's length:

| 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 |
| Zebra Finance Limited | A company in which the parent holds a 30% stake. |
| Accolade Education Finance Limited | A company in which the parent holds a 20% stake. |

**Mr R Takhar -** during the year Mr Takhar (including connected shareholdings) received dividends amounting to £343,750 (2019 £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 £28,147 (2019 £27,533). Of this £28,080 (2019 £27,449) is shown as part of directors' remuneration in note 8.2 and £67 (2019 £83) is shown under administrative expenses. At the year-end it was owed £7,200 (2019 £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.

**Accolade Education Finance Limited –** during the previous year, the parent was gifted shares by Accolade Education Finance Limited. The board considers the fair value of these shares to be £6k at 31 July 2020 and 31 July 2019. These shares have been given as security for borrowings by Accolade Education Finance Limited.

## 26. Treatment of borrowings

The group borrows money from its bankers 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.

## 27. Major non-cash transactions.

The group extended the term on its leasehold premises in May 2020. This modification to the lease led to the introduction of an additional right of use asset and lease liability onto the Consolidated statement of financial position. Details are shown in note 2.6.

## 28. Post balance sheet events

An investment was made last year in a company called Zebra Finance Limited. Since this year end the company has entered into a company voluntary arrangement. The fair value was considered to be £nil last year and remains the same this year.
Details are shown in note 17.

# Company and advisers information

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