Orchard Funding Group PLC

("Orchard Funding Group" or the "company" or the "group")

Half Year Results

For the six months ended 31 January 2021

Orchard Funding Group, the finance group which specialises in insurance premium finance and the professions funding market, is pleased to announce its unaudited results for the six months ended 31 January 2021.

Highlights - in the six months to 31 January 2021, compared to the six months to 31 January 2020:

All amounts are in £m unless otherwise stated	6 months to 31 January 2021	6 months to 31 January 2020	% increase/ (decrease)
Lending volume	30.04	37.85	(20.64%)
Average interest earning assets	27.61	33.07	(16.51%)
Total revenue	2.31	2.86	(19.41%)
Net interest income	1.64	2.10	(21.90%)
Profit before tax ("PBT")	0.61	1.00	(39.00%)
Profit after tax ("PAT")	0.47	0.80	(41.25%)
EPS (pence)	2.19	3.75	(41.60%)
Operating costs	1.27	1.22	4.10%
Average external funding	10.43	15.05	(30.70%)
Cost of external funds	0.22	0.33	(33.33%)
Cost of funds/funds ratio (%)	4.45%	4.54%	(2.08%)
Own resources (net current financial assets)	15.47	15.15	2.11%

Barclays Bank has agreed to maintain our facility at £17m and Conister Bank at £2m, confirming the confidence that they have in the group. In addition, Toyota Financial Services (UK) PLC has provided the Group with a limited facility to fund Toyota insurance products only.

The board is again recommending an interim dividend of 1 pence per share (31 January 2020: 1 pence).

More detail on the financial highlights is given in the CFO's summary.

Ravi Takhar, Chief Executive Officer of the company, stated:

"Covid-19 continues to reduce demand for borrowing across our markets. We have the benefit of short-term lending products, which in the main fund essential services and therefore our existing book has proven to be resilient despite the unprecedented credit conditions. We look forward to coming out of lock-down and resuming normalised lending in our core markets, whilst growing our lending in our new markets."

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Chairman's statement

I joined the group as Chairman just as we had come out of the first lockdown caused by the COVID-19 pandemic. We were aware of the risk of a second wave of the pandemic and sadly it transpired resulting in tiered lockdowns across the country. This has caused a further economic shock and impacted on the business environment in which we operate impacting on our business. Through this we have not forgotten all those who have lost their lives and those who work so hard every day to keep us safe.

We have seen reduced demand for our lending products, particularly in leisure, school fees and static caravan site fees. Lending volumes are down 20.64% compared to the equivalent period in 2020 with a consequential fall in Total Revenue, Profit Before Tax and Profit After Tax. We function with a lean operational cost base and have not considered reducing these as to do so may leave our business unable to operate effectively. Operational costs are up by just over 4% on the six months to 31 January 2020. More financial detail is given in the CFO's summary.

I should very much like to thank our staff for their support through these trying times. Despite the fact that most have been working from home, this has had negligible impact on our customers. They have continued to receive the same high level of service that they have become used to in dealing with Orchard.

The Chancellor's budget indicated that the economy is still in need of support and he has focused on ensuring business stability and securing a recovery. This approach should lead to a much softer landing for the economy and Orchard will be in a position to benefit from that.

We have a strong capital position and adequate resources (both internal and external) to see us through this pandemic and keep us on a sound financial footing. The Board is confident that we are well placed to take advantage of growth in the economy when it comes. We shall continue to pursue our strategic priorities by developing the business model organically, continuing our entry into new lending markets and pursuing equally attractive acquisition opportunities, should such opportunities lead to something which would enhance the business and build shareholder value.

Steven Hicks
Chairman

Chief Financial Officer's summary

Unprecedented economic conditions have continued through this six month period, with ongoing uncertainty surrounding the future financial impact that may arise from the COVID-19 pandemic. The Government has announced its roadmap for coming out of the current lockdown. It now seems highly likely that we shall come to the end of the latest lockdown completely within the next four months, with partial easing beginning for certain businesses from 12 April. It is the Government's cautious hope that there will be no further lockdowns.

Lending volume, average interest earning assets, total revenue and PBT were all down on the equivalent period in 2020 (by 20.64%, 16.51%, 19.41% and 39.00% respectively). This was not unexpected given the situation over the last year and our investors understand this.

Notwithstanding the above, our core lending in the direct insurance market has actually risen slightly with falls in all other areas, particularly in those which would be expected given the pandemic (leisure, school fees and static caravan site fees). We are confident that as the lockdown is lifted this type of business will start to increase again.

As our operational cost base is already lean, we have not considered reducing operating costs. We operate in regulated markets and reduction of operating costs may leave our business exposed and unable to operate effectively. As always, however, the situation will be kept under review.

Throughout the last six months our attitude has been to give support - to our workforce, our partners and our customers. This is the best way of ensuring that we maintain the goodwill of those groups as well as the wider community.

The safety and wellbeing of our team, including their mental health, is of the utmost importance to us. With the exception of two senior staff members, all employees have been working from home and we have not called upon the Coronavirus Job Retention Scheme as no-one has been furloughed. We maintain regular contact with our staff and ensure that if anyone is feeling any sort of pressure from home-working, they report it to us. Should this happen we would endeavour to assist them with advice and other support. Our systems are robust enough to be able to manage this home-working in a seamless manner.

We have supported our partners by reducing the need for physical contact. This has been done through our enhanced systems which still allow for face-to-face contact for those who want it via technology such as Microsoft Teams. Our partners are happy to make use of our technology as it ensures a speedy and straightforward response to their requirements.

It has also been a period in which some of our customers have needed our help. We have done this by both allowing payment holidays and waiving charges for late payment where applicable. In the six months to 31 January 2020 we charged £27k for late payments. In the last six months these have been £nil.

We are still in a strong financial position despite the downturn. At 31 January 2021 we had net current financial assets of £15.47m (31 January 2020 £15.15m) a fact which gives strong confidence to our investors and other stakeholders of our ability to meet our financial commitments for the foreseeable future. In addition, we had £9.13m of unused borrowing facility. Together, this shows a strong capital, funding and liquidity position.

Our impairment provisions are based on the carrying value of our financial assets. The provision takes account of our estimate of any increase needed because of COVID-19. The provision at 31 January 2021 was £109k (31 January 2020 £473k). During the six months to 31 July 2020 £315k of debt which had already been provided was found to be irrecoverable and written off against the provision,

Our underwriting processes remain effective in this environment and our risk management, robust. The principal risks that we face, are credit risk, liquidity risk, interest rate risk, IT disruption risk and conduct risk. A full explanation of each of them together with their impact and mitigation are detailed in the annual report to 31 July 2020. The lockdown since November 2020 has had very little impact on how we view and mitigate risk.

As stated in the full year financial statements to 31 July 2020, the plan for the current year was to test a limited amount of longer term lending and we have begun this process. In doing so we have applied the same strict underwriting procedures as we have for other lending.

Key Performance Indicators (KPIs)

KPIs for the group are the means by which the board monitors the efficiency of the business. These are set so that fluctuations outside a certain tolerance would trigger an examination of our operations to establish why they have occurred and, if necessary, take any remedial action deemed necessary. The last six months have clearly necessitated such a review. Being fully aware of the economic situation, the evaluation by the board has been to assess whether there is any need for remedial action to be taken. The conclusion was that there is none needed. The causes of the downturn are well documented and it is important that we remain in a position to take advantage quickly of the return to some normality of business.

Our KPIs revolve around lending and the cost of lending. Our model remains to apply a sound underwriting process and multiple layers of credit protection wherever possible. Lending, however, is not risk free.

The group's core business is still insurance premium funding and funding for professionals but we were continuing to grow our other short term lending markets until the pandemic caused these to reduce. Indeed, we have still been looking at other markets and during the last six months we have begun funding insurance products for Toyota, the Japanese car manufacturer. This is a full recourse product and the risk of loss to the group is extremely remote. We still continue to look at complimentary markets which fit with our model.

All these parts are managed on a similar basis, carry similar risks and rewards and need to comply with similar regulations. They are therefore combined for reporting purposes.

The table below gives a breakdown of group KPIs. This also includes those items not considered KPIs but which give a better understanding of the figures.

Return on average equity is based on PAT divided by the average of equity at the end of the previous reporting period and that of the current period. This measure is seen as more useful than simply looking at equity at the end of the period, particularly when there are large fluctuations in equity as has been the case since April 2020. Neither return on equity nor return on capital employed are annualised as to do so would require estimates for future results. Their purpose is to get a comparison with the equivalent period in the previous year.

Average external funding is based on the amount borrowed for the exact number of days for which the advance was made.

Key performance indicators

All amounts are £m unless otherwise stated	6 months to 31 January 2021	6 months to 31 January 2020	Year to 31 July 2020
Lending volume	30.04	37.85	65.53
Average interest earning assets[1]	27.61	33.07	29.72
Total revenue	2.31	2.86	5.28
Net interest margin (% actual) [2]	5.94%	6.35%	13.22%
Average external funding	10.43	15.05	12.82
Cost of external funds	0.22	0.33	0.62
Cost of funds/funds ratio	4.45%	4.54%	4.84%
Own resources (net current financial assets)	15.47	15.15	15.50
Operating costs	1.27	1.22	2.44
Return on average equity (% actual) [2]	3.01%	5.28%	8.31%

Financial summary - other performance indicators

	6 months to 31 January 2021	6 months to 31 January 2020	Year to 31 July 2020
Net interest income[3]	1.64	2.10	3.93
Profit before tax	0.61	1.00	0.62
Profit after tax	0.47	0.80	0.05
EPS (pence)[4]	2.19	3.75	15.50
DPS (pence)[5]	1	1	3
Return on capital employed (% actual)[2]	2.97%	4.18%	6.73%

1. Average interest earning assets consist of the average of the opening and closing loan book after taking account of the impairment provision.
2. These ratios are based on actual amounts for the six months rather than on an annualised basis.
3. Net interest income was part of what was described in the past as gross profit and now contains direct charges which were previously classified as administrative expenses. A reconciliation is provided in note 3.
4. There are no factors which would dilute earnings therefore fully diluted earnings per share are identical.
5. Dividends per share are based on the interim dividend to be declared for the six months to 31 January 2021 and 31 January 2020. Dividends per share for the year to 31 July 2020 are based on the interim dividends paid in the year and the proposed final dividend in respect of the year to 31 July 2020.

To go into detail on each item would not give any meaningful information. Activity is down because of COVID-19 and the figures reflect this.

Other operating costs, however, have risen. As stated earlier, direct insurance is the only area of our lending which has increased in volume. We pay commission on direct insurance products and therefore commission has increased.

In addition, IT costs increased with further development to the system to cater for the changing needs of our customers. Staff costs have also increased by 2.3% over the six months to 31 January 2020 as a result of taking on additional staff.

Other costs have fallen.

We also have the continuing process of assessing financial assets for expected credit losses. In establishing the amount of provision, account has been taken of the pandemic. In previous periods provision was made for certain loans where any recoverable amounts were not fully taken into account. Where it is clear that an amount is fully recoverable and there can be no credit loss the provision is now based on the loan net of these amounts. Together with a recovery of debt already provided for and a fall in the required provision in respect of other lending, this has led to a credit to profit in the income statement .

At 31 January 2021 we were employing £9.36m of our facility of £17.00m from Barclays Bank (at 31 January 2020, £12.13 of £17.00m). We were also utilising £0.50m of our £2.00m facility from Conister Bank (31 January 2020, £2.00m from £2.00m). We also have a facility from Toyota Financial Services (UK) PLC to be used specifically to fund Toyota insurance products.

Despite the challenges which have faced the economy in the last six months, the board is pleased to maintain and declare an interim dividend of 1 pence per share to be paid on 25 June 2021 to shareholders on the register at 11 June 2021, with an associated ex-dividend date of 10 June 2021.

Liam McShane
Chief Financial Officer

Consolidated statement of comprehensive income

	Notes	6 Months to 31 January 2021 £000	6 Months to 31 January 2020 £000	Year to 31 July 2020 £000
Continuing operations				
Interest receivable and similar income	2	1,883	2,444	4,558
Interest payable and similar charges		(243)	(346)	(624)
Net interest income		1,640	2,098	3,934
Other trading income	2	425	419	722
Other direct costs		(300)	(250)	(533)
Net other income		125	169	189
Net total income		1,765	2,267	4,123
Other operating costs		(1,267)	(1,216)	(2,436)
Net impairment gains/(losses) on financial assets		109	(52)	(130)
Operating profit		607	999	1,557
Interest receivable		-	4	6
Interest payable		(2)	(1)	(2)
Profit before tax		605	1,002	1,561
Tax	4	(134)	(202)	(288)
Profit for the period from continuing operations attributable to the owners of the parent		471	800	1,273
Other comprehensive income		-	-	-
Total comprehensive income for the period from continuing operations attributable to the owners of the parent		471	800	1,273
Earnings per share attributable to the owners of the parent during the period (pence)				
Basic and diluted	5	2.19	3.75	5.96

The format of the consolidated income statement differs from the format applied last year. Details of the restatement are shown in note 3.

Consolidated statement of financial position

	At 31 January 2021	At 31 January 2020	At 31 July 2020
	£000	**£000**	**£000**
Assets			
Non-current assets			
Property, plant and equipment	30	36	39
Right of use assets	76	29	96
Intangible assets	11	26	16
Deferred tax asset	-	1	6
Investment at fair value through profit and loss consolidated income	6	6	6
Loans to customers	22	-	-
Other receivables	4	10	7
	149	108	170
Current assets			
Loans to customers	27,898	33,997	27,300
Other receivables and prepayments	199	199	120
Cash and cash equivalents:			
Bank balances and cash in hand	4,146	4,444	2,300
	32,243	38,640	29,720
Total assets	32,392	38,748	29,890
Liabilities and equity			
Current liabilities			
Trade and other payables	6,512	8,684	2,939
Borrowings	10,112	14,152	11,004
Tax payable	60	564	273
	16,684	23,400	14,216
Non-current liabilities			
Borrowings	58	-	72
Deferred tax	4	5	-
	62	5	72
Total liabilities	16,746	23,405	14,288
Equity attributable to the owners of the parent			
Called up share capital	214	214	214
Share premium	8,692	8,692	8,692
Merger reserve	891	891	891
Retained earnings	5,849	5,546	5,805
Total equity	15,646	15,343	15,602

Total equity and liabilities	32,392	38,748	29,890

Consolidated statement of changes in equity

	Called up Share capital £000	**Retained earnings £000**	**Share premium £000**	**Merger reserve £000**	**Total Equity £000**
Balance at 1 August 2019	214	5,173	8,692	891	14,970
Changes in equity					
Profit and total comprehensive income	-	800	-	-	800
Transactions with owners:					
Dividends paid	-	(427)	-	-	(427)
Balance at 31 January 2020	214	5,546	8,692	891	15,343
Changes in equity					
Profit and total comprehensive income	-	473	-	-	473
Transactions with owners:					
Dividends paid	-	(214)	-	-	(214)
Balance at 31 July 2020	214	5,805	8,692	891	15,602
Changes in equity					
Profit and total comprehensive income	-	471	-	-	471
Transactions with owners:					
Dividends paid	-	(427)	-	-	(427)
Balance at 31 January 2021	214	5,849	8,692	891	15,646

The merger reserve arose through the formation of the group on 23 June 2015 using the consolidation method which treats the merged companies as if they had been combined throughout the current and comparative accounting periods. The accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the company for the acquisition of the shares of the subsidiaries and each subsidiary's own share capital.
The share premium account arose on the issue of shares on the IPO on 1 July 2015 at a premium of 95p per share. Costs directly attributable to the issue of shares have been deducted from the account.

Consolidated statement of cash flows

	6 Months to 31 January 2021	6 Months to 31 January 2020	Year to 31 July 2020
	£000	£000	£000
Cash flows from operating activities:			
Operating profit	607	999	1,557
Adjustment for depreciation and amortisation	36	44	86
	643	1,043	1,643
(Increase)/decrease in trade and other receivables	(696)	(1,895)	4,882
Increase/(decrease) in trade and other payables	3,573	5,670	(76)
	3,520	4,818	6,449
Tax paid	(339)	-	(387)
Net cash generated by operating activities	3,181	4,818	6,062
Cash flows from investing activities			
Interest received	-	4	6
Purchases of property, plant and equipment	(1)	(17)	(29)
Sales of property, plant and equipment	-	9	9
Net cash absorbed by investing activities	(1)	(4)	(14)
Cash flows from financing activities			
Dividends paid	(427)	(427)	(641)
Net proceeds from borrowings	224	1,500	1,000
Borrowings repaid	(1,116)	(3,558)	(6,207)
Lease repayments	(15)	(24)	(39)
Net cash absorbed by financing activities	(1,334)	(2,509)	(5,887)
Net increase in cash and cash equivalents	1,846	2,305	161
Cash and cash equivalents at the beginning of the period	2,300	2,139	2,139
Cash and cash equivalents at the end of period	4,146	4,444	2,300

Cash and cash equivalents consists of bank balances.

Notes to the financial statements

1. General information

Orchard Funding Group PLC ("the company") and its subsidiaries (together "the group") provide funding and funding support systems for insurance premiums, professional and equivalent fees and other leisure activities. The group operates in the United Kingdom.

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

The condensed consolidated interim financial information for the six months ended 31 January 2021 has been prepared in accordance with the presentation, recognition and measurement requirements of applicable International Financial Reporting Standards adopted by the European Union ('IFRS') except that the group has not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK groups listed on AIM, in the preparation of the condensed consolidated interim financial information.

The financial information does not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the group for the year ended 31 July 2020 which are prepared in accordance with IFRS.

The accounting policies used in the preparation of condensed consolidated interim financial information for the six months ended 31 January 2021 are in accordance with the presentation, recognition and measurement criteria of IFRS and are consistent with those which are expected to be adopted in the annual statutory financial statements for the year ending 31 July 2021. A number of IFRSs and Interpretations have been endorsed by the EU that will apply for the first time in the period to 31 July 2021. These are either not relevant to the group's activities or require accounting which is consistent with the group's current accounting policies.

Under the expected credit loss (ECL) model required in IFRS 9, there has been a recovery of previously provided for debt credited to consolidated income amounting to £109k (31 January 2020 charge of £52k). This is because in the past the provision was based on the gross carrying amount of certain loans to customers which did not take account of amounts which were fully recoverable. This has been amended for this reporting period. No adjustment is required in either the six months to 31 January 2020 or the year to 31 July 2020. In assessing potential provisions, the group has adopted the simplified approach which requires the entity to recognise a loss allowance based on lifetime ECLs at each reporting date, right from origination. Part of this process has been to examine the impact of the coronavirus epidemic and part of the provision is in respect of this.

The group's 2020 annual report provides full details of significant judgements and estimates used in the application of the group's accounting policies. There have been no significant changes to these judgements and estimates during the period.

The financial information included in this document is unaudited and does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the financial year ended 31 July 2020 are the group's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

2. Segmental reporting

The group operates wholly within the United Kingdom, therefore there is no meaningful information that could be given on a geographical basis.

The group still lends into insurance premium funding, funding for professionals, school fee and leisure lending.

Our lending meets the criteria for aggregation as the underwriting process, management of the loans, distribution channels, risks and rewards are all similar. The customer base does differ (insurance brokers, professional firms, schools and leisure) but our lending is still subject to strict underwriting processes.

Notes to the financial statements

Although in the six months to 31 January 2020 we allocated costs between finance and central functions, central costs were those costs which were incurred by the parent. The board has reviewed this method of reporting and has concluded that separating out costs in a subjective way does not add benefit to the users and may be detrimental. Therefore, in the year to 31 July 2020 we dispensed with this arbitrary analysis. As there is no meaningful information that could be given on a segmental basis, revenue by type is shown below.

The business of Orchard is not a seasonal business and therefore there will be no disproportionate impact of the pandemic on any single part of the year.

Revenue

	6 Months to 31 January 2021	6 Months to 31 January 2020	Year to 31 July 2020
	£000	£000	£000
Revenue			
Interest revenue using the effective interest rate method	1,883	2,444	4,558
Other revenue	425	419	722
	2,308	2,863	5,280
Timing of revenue recognition:			
At a point in time - direct debit charges	352	225	505
At a point in time - non utilisation fees and loan administrative fees	101	131	390
At a point in time - default and settlement fees	1	83	81
Over time - licence fees	73	70	103
Over time - interest revenue outside the scope of IFRS 15	1,781	2,354	4,201
	2,308	2,863	5,280

3. 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:

Notes to the financial statements

Prior period description	Current period description	Notes	As originally stated £000	Adjustments £000	As restated £000
Continuing operations					
Interest revenue	Interest receivable and similar income	1	2,382	62	2,444
Other revenue	Other trading income	1	481	(62)	419
			2,863	-	2,863
Finance costs	Interest payable and similar charges	2	(278)	(68)	(346)
Other operational costs	Other direct costs	2	(30)	(220)	(250)
Gross profit	**Net total income**		2,555	(288)	2,267
Administrative expenses	Other operating costs	2	(1,504)	288	(1,216)
Net impairment losses on financial and contract assets	Net impairment losses on financial assets		(52)	-	(52)
Net gain on financial assets at fair value through consolidated income	Net gain on financial assets at fair value through consolidated income		-	-	-
Operating profit			999	-	999
Interest receivable on bank balances	Interest receivable		4	-	4
Interest payable	Interest payable		(1)	-	(1)
Profit before tax	**Profit before tax**		1,002	-	1,002
Tax	Tax		(202)	-	(202)
Profit for the year	**Profit for the year**		800	-	800

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

Note 2 - In previous periods 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 £68k and £220k. The total of £228k has been removed from what would have been administrative expenses (now other operating costs). Bank account management fees of £10k are included in other operating costs.

Notes to the financial statements

4. Taxation

The tax assessed for the period differs from the main corporation tax rates in the UK (19% for the half years to 31 January 2021 and 2020 and for the full year to 31 July 2020) because of the effect of items disallowed for tax and accelerated capital allowances.

5. Earnings per share

Earnings per share are based on the total comprehensive income shown above, for each relevant period, and the weighted average number of ordinary shares in issue during each period. For all three periods, this was 21,354,167. There are no options or other factors which would dilute these, therefore the fully diluted earnings per share is identical.