Orchard Funding Group PLC

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

Half Year Results

For the six months ended 31 January 2022

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 2022.

Highlights - in the six months to 31 January 2022, compared to the six months to 31 January 2021:

All amounts are £m unless otherwise stated	**6 months to 31 January 2022**	**6 months to 31 January 2021**	**% increase/ (decrease)**
Lending volume	38.15	30.04	27.02%
Average interest earning assets	33.45	27.61	21.15%
Total revenue	2.89	2.31	25.26%
Net interest income	2.14	1.64	30.49%
Profit before tax	1.00	0.61	63.93%
Profit after tax	0.81	0.47	72.34%
EPS (pence)[1]	3.78	2.19	72.27%
Operating costs	1.25	1.27	(1.57%)
Average external funding	9.94	10.43	(4.70%)
Cost of external funds	0.22	0.22	-
Cost of funds/funds ratio	4.69%	4.45%	5.47%
Own resources (net current financial assets)	14.29	15.47	(7.63%)

Towards the end of the previous financial year the group refinanced its borrowings. Toyota Financial Services (UK) PLC provided the Group with a facility of £15.00m and Natwest Bank PLC with £5.00m, making a total of £20m to be used for general lending. Of this £11.42m was in use at the end of the period.

The board is again recommending an interim dividend of 1 pence per share (31 January 2021: 1 pence).

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

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

"We have started the first half of the year positively and ahead of our original projections. Our culture continues to be cautious, prudent and long term and this enables us to manage the difficult economic and political times the World finds itself in. We continue to run our own race and support our stakeholders, in particular our staff, bankers and shareholders by providing fair and consistent returns for their investment and faith in our business. We look forward to the next six months cautiously and with some optimism based on our good start to the financial year."

For further information, please contact:

Orchard Funding Group PLC +44 (0)1582 346 248
Ravi Takhar, Chief Executive Officer

Liberum (Nomad and Broker) +44 (0)20 3100 3222
Investment banking
Neil Patel
Lauren Kettle

For Investor Relations please go to: www.orchardfundinggroupplc.com

Chairman’s statement

As Covid restrictions have eased and the general business environment has improved we have seen an increase in demand for our lending products, particularly in our core insurance business. The geopolitical situation, increasing energy prices and inflationary pressures still represent headwinds for our business, however we are cautiously optimistic regarding future business performance.

I am pleased to report improvements in all the key business metrics with lending volume up 27%, total revenue up 25% and PBT up 64% on the equivalent period last year. More financial detail is provided in the CFO summary.

We have a strong capital position and surplus liquidity, and we remain in a strong position to take advantage of opportunities. We continue to develop our business organically whilst piloting entry into new lending markets.

Steven Hicks
Chairman

Chief Financial Officer's summary

This time last year I reported on unprecedented economic conditions which had existed through the six month period to 31 January 2021, concerning uncertainty surrounding the financial impact that might have arisen from the COVID-19 pandemic.

We are, again, in unprecedented economic conditions regarding the situation in Ukraine. So far, and it is still early on, markets have been bearing up reasonably well.

It does look credible and reasonable to hope that the conflict will remain contained in Ukraine and although Russia will feel the full force of global sanctions, there will no doubt be an economic impact elsewhere. There is already higher inflation than we have seen in the last 20 years in the UK and there are likely to be some extra inflationary effects in respect of this conflict. We have also seen higher interest rates since last year.

Our own results in the six months to 31 January 2022 reflect the easing of COVID-19 restrictions and performance has been much better than in the equivalent six months of the previous year. Lending volume, average loan book, turnover and PBT were all up on the equivalent period in 2021 (by 27.02%, 21.15%, 25.26% and 63.93% respectively).

Our lending in most of the markets in which we operate has grown substantially this period, on average at 27.02%. However, funding for professional fees, school fees and working capital have all fallen. As reported in the full year report to 31 July 2021, demand for professional fee funding was slowing and this has continued (down 3.96% on the equivalent period in 2021).

Our lending in the direct insurance market has risen to the point that it has now overtaken lending to broker premium funding companies. Growth here has been significant (59.99% over the six months to 31 January 2022).

Our operational cost base is already lean and we have continued to keep this so. Further information on costs is given later on.

Last year, as a result of COVID-19, our employees began working from home. This worked so well and was so popular among our staff that we have continued to operate in this manner. As always, the safety and wellbeing of our team, including their mental health, is of the utmost importance to us. We are still in 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 have proved robust enough to be able to manage this home-working in a seamless manner.

Throughout the period of the pandemic we allowed payment holidays and waived charges for late payment where applicable.

Charges for late payment have now been re-introduced.

We are in a strong financial position. At 31 January 2022 we had net current financial assets of £14.29m (31January 2021 £15.47m) and £8.58m of unused borrowing facility (31 January 2021 £9.14m). Together, these show a strong capital, funding and liquidity position. The main reason that we have a lower net current financial position is that there are more financial assets the repayment terms of which exceed one year.

Impairment reviews are carried out at each reporting period on all financial assets. The method employed is shown in the audited accounts to 31 July 2021 and is based on expected credit losses (ECLs). Until the last financial year all our lending was within one year. Last year we had loans to customers outstanding at the balance sheet date which were due after more than one year. This is therefore the first reporting period that we have had to review these debts to establish whether they have moved from one ECL stage to another. There have been no changes. At 31 January 2022 the provision was £493k (31 January 2021 £444k).

Our principal risks, as shown in the full year financial statements to 31 July 2021, 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 those financial statements.

Interest rate risk may very well increase during the next six months as a result of the invasion of Ukraine. We have already seen energy prices rise significantly and interest rates rose at the end of 2021 from 0.10% to 0.25%. There were other increases in February and March 2022 taking rates to 0.75%. There may be more to come. As already stated, most of Orchard's lending is short term (one year or less) so we can react fairly quickly to rate changes. We do not believe that credit risk is an issue. The type of products that we finance are mostly necessary purchases (e.g. insurances). Based on our past experience when there were other significant, detrimental impacts on the economy (e.g. the credit crisis from 2008 and the recent pandemic) actual losses have been exceptionally low.

During the six month period to 31 January 2022, we acquired two companies – Cherry Orchard Funding Limited ("COF") and Orchard Bond Finance plc ("OBF").

In the annual financial statements to 31 July 2021, we indicated in the section on future developments that the board had agreed to a pilot test of bridging finance. This was what COF was acquired to do. In addition, we signalled that we were continuing to look at alternative sources of finance to protect our liquidity. OBF is the vehicle through which a retail bond issue was made. On 1 March 2022, this company issued £7.80m of £100 bonds at a rate of 6.25%. Details are shown on the company's website at "https://www.orchardfundinggroupplc.com/orchardnews".

Key Performance Indicators (KPIs)

Our KPIs 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. This half-year our KPIs have exceeded expectations.

Our KPIs are based on lending, the cost of lending and, to some extent, operating costs. We try to ensure that risk is mitigated when lending but, unfortunately, no lending is risk free.

All our lending is 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. There is also a table showing 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. We believe that this measure is seen as more useful than simply looking at equity at the end of the period.
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 2022	6 months to 31 January 2021	Year to 31 July 2021
Lending volume	38.15	30.04	61.02
Average interest earning assets[1]	33.45	27.61	28.59
Total revenue	2.89	2.31	4.60
Average external funding	9.94	10.43	9.28
Cost of external funds	0.22	0.22	0.56
Cost of funds/funds ratio	4.69%	4.45%	6.03%
Own resources (net current financial assets)	14.29	15.47	14.15
Operating costs	1.25	1.27	2.52
Return on average equity	9.94%	5.97%	5.35%

Financial summary – other performance indicators

All amounts are £m unless otherwise stated	6 months to 31 January 2022	6 months to 31 January 2021	Year to 31 July 2021
Net interest income	2.14	1.64	3.22
Net interest margin (%)	12.80%	11.88%	9.30%
Profit before tax	1.00	0.61	1.05
Profit after tax	0.81	0.47	0.84
EPS (pence)[2]	3.78	2.19	3.91
DPS (pence)	2.00	2.00	3.00
Return on capital employed	7.16%	5.86%	4.33%

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.

Although lending volume, average interest earning assets and total revenue are all up by between 20% and 30%, PBT, PAT and EPS are substantially higher. The increases in these areas were to be expected although the upturn in PBT has been a mix of increased income and reduced operating costs.

Staff costs last year reflected costs associated with obtaining the banking licence. With the withdrawal of the licence application, we were able to reduce our costs in this area and we have seen an 11.27% reduction over the equivalent period in the previous year. We have also seen an increase in professional fees in developing the bridging market but, overall, our operating costs have reduced by 1.57%. We operate in regulated markets and there is a certain level of cost base that we have to maintain. As always, however, the situation will be kept under review.

The board is pleased to maintain the dividend at the same rates as this time last year. Therefore it is declaring an interim dividend of 1 pence per share to be paid on 24 June 2022 to shareholders on the register at 10 June 2022, with an associated ex-dividend date of 9 June 2022.

In summary, the next six months will be challenging as a result of international issues, but the board feels that no further provisions or estimates (based on our forecasts) are needed.

Liam McShane
Chief Financial Officer

Consolidated statement of comprehensive income

	Notes	6 Months to 31 January 2022 £000	6 Months to 31 January 2021 £000	Year to 31 July 2021 £000
Continuing operations				
Interest receivable and similar income	2	2,355	1,883	3,783
Interest payable and similar charges		(219)	(243)	(559)
Net interest income		2,136	1,640	3,224
Other trading income	2	536	425	817
Other direct costs		(343)	(300)	(603)
Net other income		193	125	214
Net total income		2,329	1,765	3,438
Other operating costs		(1,245)	(1,267)	(2,516)
Net impairment (losses)/gains on financial assets		(86)	109	131
Operating profit		998	607	1,053
Interest receivable		-	-	-
Interest payable		(1)	(2)	(3)
Profit before tax		997	605	1,050
Tax	4	(190)	(134)	(211)
Profit and total comprehensive income for the period from continuing operations attributable to the owners of the parent		807	471	839
Earnings per share attributable to the owners of the parent during the period (pence)				
Basic and diluted	5	3.78	2.19	3.91

Consolidated statement of financial position

	At 31 January 2022	At 31 January 2021	At 31 July 2021
	£000	£000	£000
Assets			
Non-current assets			
Property, plant and equipment	15	30	23
Right of use assets	36	76	56
Intangible assets	-	11	4
Deferred tax asset	-	-	-
Investment at fair value through profit and loss	81	6	81
Loans to customers	3,124	22	2,257
Other receivables	-	4	-
	3,256	149	2,421
Current assets			
Loans to customers	33,896	27,898	27,616
Other receivables and prepayments	268	199	233
Cash and cash equivalents:			
Bank balances and cash in hand	3,188	4,146	2,170
	37,352	32,243	30,019
Total assets	40,608	32,392	32,440
Liabilities and equity			
Current liabilities			
Trade and other payables	8,893	6,512	4,182
Borrowings	13,822	10,112	11,439
Tax payable	329	60	138
	23,044	16,684	15,759
Non-current liabilities			
Borrowings	1,382	58	878
Deferred tax	2	4	3
	1,384	62	881
Total liabilities	24,428	16,746	16,640
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	6,383	5,849	6,003
Total equity	16,180	15,646	15,800
Total equity and liabilities	40,608	32,392	32,440

Consolidated statement of changes in equity

	Called up Share Capital	Retained earnings	Share premium	Merger reserve	Total Equity
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 August 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
Changes in equity					
Profit and total comprehensive income	-	368	-	-	368
Transactions with owners:					
Dividends paid	-	(214)	-	-	(214)
Balance at 31 July 2021	214	6,003	8,692	891	15,800
Changes in equity					
Profit and total comprehensive income	-	807	-	-	807
Transactions with owners:					
Dividends paid	-	(427)	-	-	(427)
Balance at 31 January 2022	214	6,383	8,692	891	16,180

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 2022	6 Months to 31 January 2021	Year to 31 July 2021
	£000	£000	£000
Cash flows from operating activities:			
Operating profit	998	607	1,053
Adjustment for depreciation and amortisation	32	36	71
	1,030	643	1,124
Increase in trade and other receivables	(7,182)	(646)	(2,679)
Increase in trade and other payables	4,711	3,598	1,243
	(1,441)	3,595	(312)
Income tax paid	-	(339)	(337)
Net cash (absorbed)/generated by operating activities	(1,441)	3,256	(649)
Cash flows from investing activities			
Interest received	-	-	-
Purchases of property, plant and equipment	-	(1)	(3)
Purchase of right of use assets	-	(75)	-
Sales of property, plant and equipment	-	-	(75)
Net cash absorbed by investing activities	-	(76)	(78)
Cash flows from financing activities			
Dividends paid	(427)	(427)	(641)
Net proceeds from borrowings	2,901	224	12,245
Borrowings repaid	-	(1,116)	(10,977)
Lease repayments	(15)	(15)	(30)
Net cash generated/(absorbed) by financing activities	2,459	(1,334)	597
Net increase/(decrease) in cash and cash equivalents	1,018	1,846	(130)
Cash and cash equivalents at the beginning of the period	2,170	2,300	2,300
Cash and cash equivalents at the end of period	3,188	4,146	2,170

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 2022 has been prepared in accordance with the presentation, recognition and measurement requirements of applicable International Accounting Standards in conformity with the requirements of the Companies Act 2006 (‘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 2021 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 2022 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 2022. There are a number of new standards, amendments and interpretations that have been issued but are not effective for these financial statements. They are not expected to impact the financial statements as either they are not relevant to the group’s activities or are consistent with accounting policies already followed by the group.

Under the expected credit loss (ECL) model required in IFRS 9, there has a further £86k charged to consolidated income (31 January 2021 recovery of £109k). The main area of assessment is debt arrears as based on past performance this is the best indicator of default. The main reason for the increase is that gross loans to customers (before impairment provisions) have risen from £28.36m at the end of January 2021 to £37.51m at the end of January 2022. 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 situation in Ukraine.

The group’s 2021 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 2021 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’s activities are providing funding for insurance premiums, professional fees, school fees, leisure activities and asset financing wholly within the UK.

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. Therefore, there is no meaningful information that could be given on a geographical or segmental basis. Revenue by type is shown below.

Notes to the financial statements

Revenue

	6 Months to 31 January 2022	6 Months to 31 January 2021	Year to 31 July 2021
	£000	**£000**	**£000**
Revenue			
Interest revenue using the effective interest rate method	2,355	1,883	3,783
Other revenue	536	425	817
	2,891	2,308	4,600
Timing of revenue recognition:			
At a point in time – direct debit charges	323	352	573
At a point in time – non utilisation fees	399	101	189
Over time - loan administrative fees	143	-	101
At a point in time – default and settlement fees	32	1	-
Over time – licence fees	70	73	143
Over time – interest revenue outside the scope of IFRS 15	1,924	1,781	3,594
	2,891	2,308	4,600

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 2022 and 2021 and for the full year to 31 July 2021) 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.