Orchard Funding Group PLC

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

Half Year Results

For the six months ended 31 January 2023

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 2023.

Highlights - in the six months to 31 January 2023, compared to the six months to 31 January 2022:

All amounts are £m unless otherwise stated	6 months to 31 January 2023	6 months to 31 January 2022	% increase/ (decrease)
Lending volume	46.39	38.15	21.58%
Average interest earning assets	46.53	33.45	39.10%
Total revenue	3.76	2.90	29.66%
Net interest income	2.46	2.14	14.95%
Profit before tax	1.25	1.00	25.00%
Profit after tax	1.01	0.81	24.69%
EPS (pence)[1]	4.71	3.78	24.59%
Operating costs (including impairment provisions)	1.66	1.33	24.81%
Average external funding	11.86	9.94	19.32%
Cost of external funds	0.53	0.16	231.25%
Cost of funds/funds ratio	5.58%	4.69%	19.04%
Own resources (net current financial assets)	15.58	14.29	9.03%

In March 2022 the group issued a retail bond, raising £3.90m less issue costs of £0.21m. In addition, the group has borrowing facilities of £25.00m of which £16.42m was in use at the period end.

The board is again recommending an interim dividend of 1 pence per share (31 January 2022: 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. Whilst our income continues to grow as a result of increased lending, our costs of borrowing are increasing significantly as a result of bank base rate increases. Our culture continues to be cautious, prudent and long term and this enables us to manage the difficult economic and political times we are facing. We continue to support all our stakeholders, in particular our staff, bankers and shareholders by providing fair and consistent returns for their investment. We look forward to the next six months cautiously and with some optimism based on our good start to the financial year."

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Chairman's statement

I am very pleased to note that we have continued the positive trend in financial performance with all the key metrics showing an improvement on the equivalent period last year whilst we continue to deliver for all of our stakeholders, in particular, our customers, colleagues and shareholders. The drivers of this growth continue to be our core insurance premium funding market.

The economic outlook is showing some signs of improvement. The impact of the autumn 'mini budget' has softened and confidence has improved following indications that the risk of a recession is easing and inflation is expected to reduce over the year. Against this backdrop, our margins will remain under pressure, however we remain cautiously optimistic, and ready to support our customers and partners through any difficulties as far as possible.

Steven Hicks
Chairman

Chief Financial Officer's summary

Since my report last year, markets appear to have accounted for the pressures which arose from the invasion of Ukraine. We, have, however seen 11 consecutive increases in interest rates from the beginning of December 2021 up to the end of March 2023, arising from the Bank of England's ("BOE") need to control inflation. We are led to believe, from the BOE and the Government, that inflation should fall to below 3.00% by the end of the year.

Our own results in the six months to 31 January 2023 reflect the interest rate rise, with our gross and net interest margins slightly lower compared to the equivalent six months in the previous year. Both gross interest income and other income are higher (27.54% and 38.89% respectively), than the six months to 31 January 2022. Coupled with close control of costs, this has led to a profit before tax of £1.25m for the period compared with £1.00m for the equivalent half-year in 2022.

Our lending in most of the markets in which we operate has grown substantially this period, on average at 20.29% on a like-for-like basis compared to the six months to 31 January 2022. Against this, demand for professional fee funding continues to fall as has site and school fees. This has not been unexpected as we are using resources where they generate the best overall results.

Our operating cost base continues to be controlled although we have been affected by inflation. Operating costs are up from £1.33m in the half-year to 31 January 2022 to £1.66m in the period to 31 January 2023 – a rise of 24.81%. This figure does include an expected credit loss provision and an impairment provision for the investment in an associate. In the year to 31 January 2022, impairment provisions were not included in the performance indicator of operating costs. It is felt that since these form part of operating profit they should form part of operating costs.

Although we are no longer subject to the restrictions imposed during the pandemic, our staff have continued to operate from a hybrid home working model which is working well for them and our partners. Our systems have proved effective in managing this home-working in a seamless manner without any loss in efficiency.

We are in a strong financial position. At 31 January 2023 we had net current financial assets of £15.58m (31 January 2022 £14.29m) and £8.58m of unused borrowing facility (31 January 2022 £8.58m). Net current financial assets consist of net current assets excluding prepayments. Together, these show a strong capital, funding and liquidity position.

Impairment reviews are carried out at each reporting period on all financial assets. The method employed for assets arising from lending is shown in the audited accounts to 31 July 2022 and is based on expected credit losses (ECLs). As part of this exercise we review debts to establish whether they have moved from one ECL stage to another. There have been no material movements from one stage to another in our interest earning assets during the period. At 31 January 2023 the provision was £464k (31 January 2022 £493k). Other assets (fixed assets and investments) are also subject to impairment reviews. As part of this process the investment in Open B Gateway Limited has been appraised and has been written down to £Nil.

An investment was made in Open B Gateway Limited in 2019 when 300 £1 ordinary shares were acquired at par representing a 30% holding in that company. In 2021 a further investment of £75k was made to enable that company to develop its Open Banking WebApp. In valuing these investments a valuation based on Level 3 inputs had been applied. Level 3 inputs are defined as those which are unobservable for an investment. In October 2022 the group's CEO, Ravi Takhar, became a director of that company. The registered office was also changed to that of Orchard Funding Group plc. As the group now exercises significant influence, this investment has been treated as an associate since October 2022. Ordinarily, the group would take the associate's share of profits or losses from October and consolidate this with its own, adjusting the cost of the investment accordingly. However, the latest accounts available from that company dated 31 March 2022 show net assets of £1.45k and losses for the accounting period ending on that date. The board is therefore of the opinion that the value of the investment should be restated at £Nil.

Our principal risks, as shown in the full year financial statements to 31 July 2022, are credit risk, liquidity risk, interest rate risk, IT disruption risk and conduct risk. Since the issue of the retail bond in March 2022, risks associated with both its non-use and failure to repay are also included. A full explanation of each of them together with their impact and mitigation are detailed in those financial statements.

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 these fluctuations 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 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 2023	6 months to 31 January 2022	Year to 31 July 2022
Lending volume	46.39	38.15	79.96
Average interest earning assets[1]	46.53	33.45	36.81
Total revenue	3.76	2.90	6.19
Average external funding	11.86	9.94	15.77
Cost of external funds	0.53	0.16	0.55
Cost of funds/funds ratio	5.58%	4.69%	3.57%
Own resources (net current financial assets)	15.58	14.29	15.96
Operating costs (including impairment provisions)[2]	1.66	1.33	2.97
Return on average equity	11.64%	9.94%	9.36%

Financial summary – other performance indicators

All amounts are £m unless otherwise stated	6 months to 31 January 2023	6 months to 31 January 2022	Year to 31 July 2022
Net interest income	2.46	2.14	4.41
Net interest margin (%)	10.57%	12.80%	11.98%
Profit before tax	1.25	1.00	1.88
Profit after tax	1.01	0.81	1.52
EPS (pence)[3]	4.71	3.78	7.11
DPS (pence)	2.00	2.00	3.00
Return on capital employed	5.85%	7.16%	5.19%

1. Average interest earning assets consist of the average of the opening and closing loan book after taking account of the impairment provision.
2. In the equivalent period of the previous year operating costs were shown net of impairment provisions. These are now included as they form part of costs to arrive at operating profit.
3. There are no factors which would dilute earnings therefore fully diluted earnings per share are identical.

Lending volume, average interest earning assets and total revenue are all up by between 20% and 40%. PBT, PAT and EPS are all up by in excess of 24%. The increases in these areas were to be expected although the upturn in PBT has been a mix of increased income and operating costs increasing at a lower rate..

Operating costs have increased by 24.81% in total. Within these costs, however, there are some increases in excess of that figure. Commission is a function of turnover and marketing and commission costs have increased by 18.73% from £251k in the six months to 31 January 2022 to £298k in the six months to 31 January 2023. Likewise, the provision for audit fees has increased by 52.38%. Against this, depreciation and impairment losses on financial assets have fallen by 43.75% and 81.40% respectively, the former because many of the assets have been fully depreciated and the latter because provision for older debts has already been made in the past and arrears are under control. Impairment provisions are kept under regular review.

Cost of external funding has risen substantially when compared to the equivalent six months in 2022. First, in the year to 31 July 2022 the group made a retail bond issue. The price for this money was 6.25% plus expenses. Secondly, there have been 11 base rate rises since the beginning of December 2021 with rates rising from 0.10% to 3.50% as at 31st January 2023 and further increases to the current 4.25%.

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 23 June 2023 to shareholders on the register at 9 June 2023, with an associated ex-dividend date of 8 June 2023.

In summary, the next six months will remain a challenge mainly because the ongoing international issues, but the board feels that no further provisions or estimates (based on our forecasts) are needed at this time.

Liam McShane
Chief Financial Officer

Consolidated statement of comprehensive income

	Notes	6 Months to 31 January 2023 £000	6 Months to 31 January 2022 £000	Year to 31 July 2022 £000
Continuing operations				
Interest receivable and similar income	2	3,011	2,355	5,003
Interest payable and similar charges		(546)	(219)	(587)
Net interest income		2,465	2,136	4,416
Other trading income	2	752	536	1,187
Other direct costs		(311)	(343)	(756)
Net other income		441	193	431
Net total income		2,906	2,329	4,847
Other operating costs		(1,572)	(1,245)	(2,905)
Net impairment (losses)/gains on financial assets		(16)	(86)	(63)
Impairment loss on investment in associate		(75)	-	-
Operating profit		1,243	998	1,879
Interest receivable		4	-	1
Interest payable		(1)	(1)	(2)
Profit before tax		1,246	997	1,878
Tax	4	(240)	(190)	(360)
Profit and total comprehensive income for the period from continuing operations attributable to the owners of the parent		1,006	807	1,518
Earnings per share attributable to the owners of the parent during the period (pence)				
Basic and diluted	5	4.71	3.78	7.11

Consolidated statement of financial position

	At 31 January 2023	At 31 January 2022	At 31 July 2022
	£000	£000	£000
Assets			
Non-current assets			
Property, plant and equipment	16	15	13
Right of use assets	5	36	16
Intangible assets	12	-	7
Investment at fair value through profit and loss	6	81	81
Loans to customers	6,650	3,124	6,594
	6,689	3,256	6,711
Current assets			
Loans to customers	42,669	33,896	37,143
Other receivables and prepayments	199	268	189
Cash and cash equivalents:			
Bank balances and cash in hand	1,997	3,188	4,796
	44,865	37,352	42,128
Total assets	51,554	40,608	48,839
Liabilities and equity			
Current liabilities			
Trade and other payables	6,648	8,893	6,337
Borrowings	22,000	13,822	19,468
Tax payable	573	329	299
	29,221	23,044	26,104
Non-current liabilities			
Borrowings	5,076	1,382	6,057
Deferred tax	1	2	1
	5,077	1,384	6,058
Total liabilities	34,298	24,428	32,162
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	7,459	6,383	6,880
Total equity	17,256	16,180	16,677
Total equity and liabilities	51,554	40,608	48,839

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 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
Changes in equity					
Profit and total comprehensive income	-	711	-	-	711
Transactions with owners:					
Dividends paid	-	(214)	-	-	(214)
Balance at 31 July 2022	214	6,880	8,692	891	16,677
Changes in equity					
Profit and total comprehensive income	-	1,006	-	-	1,006
Transactions with owners:					
Dividends paid	-	(427)	-	-	(427)
Balance at 31 January 2023	214	7,459	8,692	891	17,256

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 2023	6 Months to 31 January 2022	Year to 31 July 2022
	£000	£000	£000
Cash flows from operating activities:			
Operating profit	1,243	998	1,879
Adjustment for depreciation and amortisation	18	32	63
Impairment loss on investment in associate	75		
	1,336	1,030	1,942
Increase in trade and other receivables	(5,592)	(7,182)	(13,820)
Increase in trade and other payables	310	4,711	2,155
	(3,946)	(1,441)	(9,723)
Income tax paid	34	-	(201)
Net cash absorbed by operating activities	(3,912)	(1,441)	(9,924)
Cash flows from investing activities			
Interest received	4	-	1
Purchases of property, plant and equipment	(7)	-	(4)
Purchase of right of use assets	(7)	-	(12)
Net cash absorbed by investing activities	(10)	-	(15)
Cash flows from financing activities			
Dividends paid	(427)	(427)	(641)
Net proceeds from borrowings	1,565	2,901	13,236
Borrowings repaid	-	-	-
Lease repayments	(15)	(15)	(30)
Net cash generated/(absorbed) by financing activities	1,123	2,459	12,565
Net increase/(decrease) in cash and cash equivalents	(2,799)	1,018	2,626
Cash and cash equivalents at the beginning of the period	4,796	2,170	2,170
Cash and cash equivalents at the end of period	1,997	3,188	4,796

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 2023 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 2022 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 2023 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 2023. 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 been a further £16k charged to consolidated income (31 January 2022 £86k). The main focus of the assessment is debt arrears as, although based on past performance, they are the best indicator of potential default. The increase is not a large as would be commensurate with the increase in the loan book but a lot of the potential bad debt had already been provided for, arrears are under control and there are no other factors which would indicate potential credit losses. 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 ongoing international situation.

The group's 2022 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 2022 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 2023	6 Months to 31 January 2022	Year to 31 July 2022
	£000	**£000**	**£000**
Revenue			
Interest revenue using the effective interest rate method	3,011	2,355	5,003
Other revenue	752	536	1,187
	3,763	2,891	6,190
Timing of revenue recognition:			
At a point in time – direct debit charges	387	323	672
At a point in time – non utilisation fees	412	399	794
Over time - loan administrative fees	294	143	374
At a point in time – default and settlement fees	46	32	46
Over time – licence fees	71	70	141
Over time – interest revenue outside the scope of IFRS 15	2,553	1,924	4,163
	3,763	2,891	6,190

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 2023 and 2022 and for the full year to 31 July 2022) 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.