Orchard Funding Group PLC

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

Half Year Results for the Six Months ended 31 January 2024, Trading Update & Review of the Capital Allocation Policy and the Continued Admission to Trading on AIM

Half Year Results

Orchard Funding Group, the finance group which specialises in insurance premium finance and the professions funding market, announces its unaudited results for the six months ended 31 January 2024.

Highlights - in the six months to 31 January 2024, compared to the six months to 31 January 2023:

All amounts are £m unless otherwise stated	**6 months to 31 January 2024**	**6 months to 31 January 2023**	**% increase/ (decrease)**
Lending volume	58.41	46.39	25.92%
Average interest earning assets	62.03	46.53	33.31%
Total revenue	4.65	3.76	23.47%
Net interest income	2.73	2.48	10.00%
Profit before tax	1.08	1.25	-13.60%
Profit after tax	0.81	1.01	-19.80%
EPS (pence)	3.78	4.71	-19.75%
Operating costs (excluding impairment provisions)	1.87	1.57	19.11%
Impairment provisions	0.49	0.02	2350.00%
Average external funding	11.79	10.01	17.78%
Cost of external funds	0.93	0.53	75.47%
Cost of funds/funds ratio	7.90%	5.58%	41.62%
Own resources (net financial assets)	19.18	18.73	2.38%

A more detailed breakdown of the Highlights is contained within the Chief Financial Officer's summary below.

Trading Update

The company also updates its' shareholders on the following matters:

- it has completed the investigation of the fraud affecting the company and concluded that the fraud was isolated, does not impact any of the remaining assets and a similar type of fraud is unlikely to occur in the future.
- management does not believe the GAP finance market will recover to its historic levels and the fall in lending in that market will need to be recovered through lending in other markets by the company. It should be noted that this impacts the volume of new business only, and the Company will continue to receive revenue from the existing written business over the remainder of its three year term.

Review of the Capital Allocation Policy and the Continued Admission to Trading on AIM

The company notes that the current share price is at a material discount to its most recently audited net asset value of £17.75m, equating to 83 pence per ordinary share and, as a result, the board has decided to conduct a review of its current capital allocation policy and the benefits of the continued admission of its ordinary shares to trading on AIM. This review will include considerations as to:

- a return of capital to shareholders, including by way of a potential on-market buy-back of its ordinary shares or potential tender offer ("**Capital Return**");
- whether the benefits of maintaining the company's admission to AIM are outweighed by the legal and regulatory requirements and associated costs and in light of the material discount, the company's inability to attract sufficient interest from institutional and other investors and low levels of liquidity in trading of the company's ordinary shares; and
- a combination of the above with a proposed cancellation of the company's admission to trading on AIM ("**Cancellation**") coupled with the Capital Return to enable a partial liquidity event for shareholders who would be unable or unwilling to hold Ordinary Shares in the company should it seek to execute a Cancellation.

If a Capital Return or Cancellation is determined to be appropriate, the company will seek to ensure a partial exit for minority shareholders. The company will not put any resolutions resulting from the review of its capital allocation policy to shareholders unless it believes there is a reasonable chance of such resolutions being passed.

The board has decided to postpone the decision regarding a payment of an interim dividend, whilst it conducts the review of its capital allocation policy.

The board has been notified that Ravi Takhar, the Chief Executive Officer, intends to acquire shares in the company, subject to compliance with the company's share dealing policy.

Professional advisers have been appointed to advise the company on its review, and further updates will be provided as and when appropriate.

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

" The company successfully increased its lending and revenues over the first half of the year. Due to a number of matters which have been reported to shareholders we will face significant headwinds in the second half of the year and we will work to recover the impact on our earnings from these factors.

As a result of the continued and escalating costs of listing having a significant impact on our earnings, the poor trading of our stock, the lack of liquidity of the stock and the inability of the company to raise new capital, we believe a full review of the benefits of continuing to maintain our admission on AIM should be undertaken. We will continue to focus on the insurance premium finance and are fully aware of the FCA focus on our key market. We thank our stakeholders, clients and staff for their continued support and hard work on behalf of our company."

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The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation (EU) No. 596/2014 as amended by The Market Abuse (Amendment) (EU Exit) Regulations 2019. Upon the publication of this announcement via the Regulatory Information Service, this inside information is now considered to be in the public domain.

Chairman's statement

We have already shared that our business will be impacted by the loss of GAP Insurance volumes, and as a result of an external fraud. These were both material and disappointing events. Despite this, I am pleased to note we had a good first six months, with strong growth in lending volume and total revenue compared to the same period last year. Profitability has been impacted by the external fraud, but net of this shows an improvement on the same period last year.

The group has paid a consistent level of dividend since floating on AIM. The board has decided to postpone the decision regarding a payment of an interim dividend as we conduct a review of the capital allocation policy and the benefits of the continued admission of the company's ordinary shares to trading on AIM. This decision will allow us maximum flexibility in these deliberations.

Steven Hicks
Chairman

Chief Financial Officer’s summary

There is still a great deal of turbulence in the markets, primarily due to the two main conflicts at present – Ukraine and Gaza. Inflation is still running quite high but has fallen for the first time in months to 3.4% in February. Interest rates also appear to have stabilised although the Bank of England have not yet cut rates or indicated a loosening of monetary policy.

Against this backdrop, we performed well in H1 2024. Post period end we were affected by two material events. First, in the light of the FCA’s examination of the selling of GAP insurance products, several providers are leaving the market. While the margins on this side of our business are not as high as our other markets, it represented a substantial part of business written (approx. 12.5% in the six months to January 2024). This is a three year term product and the impact on total revenue will be seen over the next three years as the loans are repaid. There has been no impact in this half-year.

Secondly, we suffered an instance of fraud. This was caused by a fraudulent introducer creating fraudulent credit agreements. The board initially set aside a provision of £500k, as notified on 1 March 2024. Subsequent analysis indicated that the actual potential loss is £398k and the provision has been adjusted accordingly. The board has conducted a thorough review of its wider lending book and introducer network to satisfy itself that no fraud risk exists elsewhere in its current loan book, alongside a review of its systems and controls and to ensure that the risk that the group suffers a similar fraud in the future is minimised.

For the six months to 31 January 2024, PBT fell by 13.60%, PAT by 19.80% and EPS by 19.75%. The full year outturn will be impacted to reflect the loss of GAP business. The average increase in lending (adjusted for the fraud) is 25.92% higher than the six months to 31 January 2023.

Operating costs excluding impairment losses are 19.11% higher than the equivalent period last year (£1.87m in 2024 compared to £1.57m in 2023),while the impairment provision has risen by 2,350.00% for the reason stated in the third paragraph above.

Staff have continued to operate from home which continues to work 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.

Despite the loss occasioned by the fraud, we are still in a strong financial position. At 31 January 2024 we had net current assets of £18.62m (31 January 2023 £15.64m) and £7.29m of unused unrestricted borrowing facility (31 January 2023 £8.58m). 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 2023 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 2024 the provision was £789k (31 January 2023 £464k). Other assets (fixed assets and investments) are also subject to impairment reviews but none is needed this period.

The investment in Open B Gateway Limited was mentioned last year and the investment was fully impaired as shown in the Consolidated statement of comprehensive income as Impairment loss on investment in associate in 2023. Nothing has happened regarding this investment which would indicate that it should be restated therefore the board remains of the opinion that the value of the investment should still be £Nil.

Our principal risks, as shown in the full year financial statements to 31 July 2023, 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.

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 and are annualised	**6 months to 31 January 2024**	**6 months to 31 January 2023**	**Year to 31 July 2023**
Lending volume	58.41	46.39	99.87
Average interest earning assets[1]	62.03	46.53	51.36
Total revenue	4.65	3.76	7.87
Average external funding[2]	11.79	10.01	20.32
Cost of external funds	0.93	0.53	1.35
Cost of funds/funds ratio[3]	7.90%	5.58%	6.64%
Own resources (net financial assets)	19.18	18.73	19.20
Operating costs (including impairment provisions)[2]	1.87	1.57	3.30
Impairment charges	0.49	0.02	0.06
Net interest margin (%)[4]	8.80%	10.66%	9.48%
Return on average equity[5]	8.83%	11.56%	9.94%

Financial summary – other performance indicators

All amounts are £m unless otherwise stated and are annualised	**6 months to 31 January 2024**	**6 months to 31 January 2023**	**Year to 31 July 2023**
Net interest income	2.73	2.48	4.87
Profit before tax	1.08	1.25	2.17
Profit after tax	0.81	1.01	1.71
Gross interest margin[6]	11.80%	12.94%	12.11%
EPS (pence)[7]	3.78	4.71	8.03
DPS (pence)[8]	2	2	3
Return on capital employed annualised[9]	3.84%	5.83%	4.42%

1. Average interest earning assets consist of the average of the opening and closing loan book after taking account of the impairment provision.
2. Average external funding comprises amounts borrowed on a daily basis net of repayments.
3. Cost of funds/funds ratio is the cost of external funds divided by average external funding.
4. Net interest margin is net interest income divided by the average loan book.
5. ROAE consists of profit after tax divided by average equity. Average equity is the average of opening and closing equity.
6. Gross interest margin is gross interest income divided by the average loan book.

7. There are no factors which would dilute earnings therefore fully diluted earnings per share are identical. EPS is based on the half-year results divided by shares in issue.
8. Dividends per share are based on interim dividends paid in the year and proposed final dividend for the year.
9. ROCE consists of earnings before interest, tax, depreciation and amortisation divided by capital employed. Capital employed comprises capital and reserves together with borrowings, less cash held.

Lending volume was up by 25.92%, average interest earning assets by 33.31% and total revenue by 23.47%. By contrast, as a result of the fraud impairment, PBT fell by 13.60%, PAT by 19.80% and EPS by 19.75%. The increases in lending and revenue were to be expected. Without the loss from the fraud PBT would have been £1.48m – up 18.70% on the equivalent period last year.

Operating costs have increased by 48.43% over the equivalent period last year, including impairment losses. Without these the increase was 19.11%. Within these costs, however, there are some increases in excess of that figure. Premises costs have increased by 130.77% from £13k in the six months to 31 January 2023 to £30k in this period. This was because of the move to new premises during the period. Likewise, the provision for audit fees has increased by 104.69%.

During the period the company purchased a property for use as an office. The lease on the previous premises expired during this time and it was thought prudent to acquire premises suited to our needs. The cost for this property was £446k.

Cost of external funding has risen substantially when compared to the equivalent six months in 2023. This was expected as rates rose to combat inflation. As a result, our cost of funds ratio increased from 5.58% on an annualised basis in the period to 31 January 2023 to 7.90%. These figures include not just headline interest but costs associated with obtaining the finance. The Board believes that rates have now stabilised although it appears unlikely that they will fall for some time.

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

The board is currently conducting a review into how and where we spend our capital as well as exploring the benefits of continued listing on AIM. With this in mind, it has been decided to postpone the declaration of an interim dividend to permit more flexibility in making these decisions.

Liam McShane
Chief Financial Officer

Consolidated statement of comprehensive income

	Notes	6 Months to 31 January 2024 £000	6 Months to 31 January 2023 £000	Year to 31 July 2023 £000
Continuing operations				
Interest receivable and similar income	2	3,659	3,011	6,215
Interest payable and similar charges		(932)	(546)	(1,349)
Net interest income		2,727	2,465	4,866
Other trading income	2	987	752	1,649
Other direct costs		(276)	(311)	(911)
Net other income		711	441	738
Net total income		3,438	2,906	5,604
Other operating costs		(1,875)	(1,572)	(3,302)
Net impairment (losses)/gains on financial assets		(485)	(16)	(64)
Impairment loss on investment in associate		-	(75)	(75)
Operating profit		1,078	1,243	2,163
Interest receivable		3	4	9
Interest payable		-	(1)	(1)
Profit before tax		1,081	1,246	2,171
Tax	3	(275)	(240)	(458)
Profit and total comprehensive income for the period from continuing operations attributable to the owners of the parent		806	1,006	1,713
Earnings per share attributable to the owners of the parent during the period (pence)				
Basic and diluted	4	3.78	4.71	8.03

Consolidated statement of financial position

	At 31 January 2024	At 31 January 2023	At 31 July 2023
	£000	£000	£000
Assets			
Non-current assets			
Property, plant and equipment	450	16	7
Right of use assets	-	5	6
Intangible assets	68	12	41
Investment at fair value through profit and loss	6	6	6
Loans to customers	9,481	6,650	7,967
	10,005	6,689	8,027
Current assets			
Loans to customers	55,586	42,669	51,021
Other receivables and prepayments	205	199	279
Cash and cash equivalents:			
Bank balances and cash in hand	345	1,997	2,550
	56,136	44,865	53,850
Total assets	66,141	51,554	61,877
Liabilities and equity			
Current liabilities			
Trade and other payables	9,064	6,648	8,955
Borrowings	28,077	22,000	26,079
Tax payable	724	573	449
	37,865	29,221	35,483
Non-current liabilities			
Borrowings	10,146	5,076	8,643
Deferred tax	2	1	2
	10,148	5,077	8,645
Total liabilities	48,013	34,298	44,128
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	8,331	7,459	7,952
Total equity	18,128	17,256	17,749
Total equity and liabilities	66,141	51,554	61,877

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 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
Changes in equity					
Profit and total comprehensive income	-	707	-	-	707
Transactions with owners:					
Dividends paid	-	(214)	-	-	(214)
Balance at 31 July 2023	214	7,952	8,692	891	17,749
Changes in equity					
Profit and total comprehensive income	-	806	-	-	806
Transactions with owners:					
Dividends paid	-	(427)	-	-	(427)
Balance at 31 January 2024	214	8,331	8,692	891	18,128

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 2024	6 Months to 31 January 2023	Year to 31 July 2023
	£000	£000	£000
Cash flows from operating activities:			
Operating profit	1,078	1,243	2,163
Adjustment for depreciation and amortisation	14	18	45
Impairment loss on investment in associate	-	75	75
	1,092	1,336	2,283
Increase in trade and other receivables	(5,987)	(5,571)	(15,256)
Increase in trade and other payables	109	310	2,618
	(4,786)	(3,925)	(10,355)
Income tax paid	-	34	(307)
Net cash absorbed by operating activities	(4,786)	(3,891)	(10,662)
Cash flows from investing activities			
Interest received	3	4	9
Purchases of property, plant and equipment	(448)	(7)	(8)
Deposit paid on freehold property	-	-	(43)
Purchase of intangible assets	(30)	(7)	(57)
Sale of property, plant and equipment	-	-	2
Net cash absorbed by investing activities	(475)	(10)	(97)
Cash flows from financing activities			
Dividends paid	(427)	(427)	(641)
Proceeds from borrowings	3,498	1,544	9,184
Borrowings repaid	-	-	-
Lease repayments	(15)	(15)	(30)
Net cash generated/(absorbed) by financing activities	3,056	1,102	8,513
Net increase/(decrease) in cash and cash equivalents	(2,205)	(2,799)	(2,246)
Cash and cash equivalents at the beginning of the period	2,550	4,796	4,796
Cash and cash equivalents at the end of period	345	1,997	2,550

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 222 Armstrong Road, Luton, Bedfordshire LU2 0FY.

The condensed consolidated interim financial information for the six months ended 31 January 2024 has been prepared in accordance with the presentation, recognition and measurement requirements of applicable UK adopted International Accounting Standards (‘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 2023 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 2024 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 £485k charged to consolidated income (31 January 2023 £16k). This includes a provision for the fraud amounting to £398k. 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 2023 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 2023 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.

Most of our lending meets the criteria for aggregation as the underwriting process, management of the loans, distribution channels, risks and rewards are all similar.

The group does, however, report to the board of directors in terms of two segments – lending for Toyota products which carry no credit risk and have a lower return, and other lending. The first table is the total and the second Toyota products.

Notes to the financial statements

Revenue

	6 Months to 31 January 2024	6 Months to 31 January 2023	Year to 31 July 2023
Total revenue	**£000**	**£000**	**£000**
Timing of revenue recognition:			
Over time – interest revenue outside the scope of IFRS 15	3,133	2,553	5,328
At a point in time – non utilisation fees	457	412	769
At a point in time – default and settlement fees	69	46	118
Interest receivable and similar income	**3,659**	**3,011**	**6,215**
At a point in time – direct debit charges	330	387	787
Over time - loan administrative fees	583	294	717
Over time – licence fees	74	71	145
Other trading income	**987**	**752**	**1,649**
Total revenue	**4,646**	**3,763**	**7,864**

Expenses by nature			
Interest payable and similar charges			
Interest payable	918	525	1,270
Bank fees	14	21	79
	932	**546**	**1,349**
Other direct costs			
Bank fees	276	311	911
	987	**752**	**1,649**
Other operating costs			
Employee costs	924	818	1,659
Advertising and selling costs	379	298	672
Professional and legal fees	219	189	401
IT costs	97	82	176
Cost of listing	32	36	80
Depreciation and amortisation	14	18	45
Other net expenses	210	131	269
	1,875	**1,572**	**3,302**
Impairment charges	**485**	**91**	**139**

Toyota revenue (included in total revenue above)			
Timing of revenue recognition:			
Over time - loan administrative fees	598	142	341
Other trading income	**598**	**142**	**341**

Toyota expenses by nature (included in expenses by nature above)			
Other direct costs			
Bank fees	**276**	**311**	**911**

3. Taxation

The tax assessed for the period differs from the main corporation tax rates in the UK (25% for the half year to 31 January 2024, 19% for the half year to 31 January 2023 and 21.01% for the full year to 31 July 2023) because of the effect of items disallowed for tax and accelerated capital allowances.

4. 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.