URBAN exposure

A specialist real estate financier

Annual Report for the Period to 31 December 2018

An ethos of collaboration

"We have been particularly impressed with Urban Exposure's approach to meeting our funding requirements and look forward to their continued support as we launch further developments in the future."

Jonathan Morgan
Director of Investment & Developments, Galliard Homes

Contents

Urban Exposure Plc ('the Company') and its subsidiaries (together 'the Group', 'Urban Exposure' or 'we') announces its audited Group financial results for the period from 10 April 2018 (the date of incorporation) to 31 December 2018 ('the Period'), following its admission to AIM on 9 May 2018 ('IPO' or 'Admission'). These results are being published in accordance with AIM Rule 19.

At a glance

Fulfilling the UK's housing needs

Our core business is managing third-party capital which is deployed in the form of debt finance to small and medium-sized residential developers. We provide competitive, flexible finance terms to enable these developers to build mainstream housing in major towns and cities across the UK. We are particularly focused on financing under-supplied segments of the market, such as housing that's affordable for people on the lower rungs of the property ladder.

To service our borrower clients, we are expanding and developing our asset management activities to increase the funds available for deployment to this sector, thereby building market share, revenue growth, profitability and long-term shareholder value.

Business highlights

- Funding of **£525 million** was committed across 16 loans during the eight-month Period.
- On 27 July 2018, the Group announced that it had closed its first managed account, a partnership agreement with Kohlberg Kravis Roberts (KKR) with exclusivity, and with a value of **£165 million** (of which the Group has committed to invest up to £15 million).
- On 24 December 2018, the Group announced that it had closed its first discretionary senior secure debt facility with UBS into the KKR partnership with a value of up to £165 million, increasing the lending capacity of the partnership to **£330 million**.
- Overall third-party Assets Under Management (AUM) raised for the first eight months of operation totalled **£371 million** (excluding IPO proceeds).

New committed loans:	**£525m**
Deployed by the Group:	**£93m**
Projected aggregate income (on loan book over life of loans):	**£69m**
Projected aggregate income (the Group share, on loan book over life of loans):	**£27m**
Guaranteed minimum income (on loan book over life of loans):	**£43m**
Guaranteed minimum income (the Group share, on loan book over life of loans):	**£15m**
Weighted average LTGDV:	**67%**
Weighted average loan term:	**34 months**
Weighted average IRR (unlevered):	**10%**
Weighted average money multiple (annualised and unlevered):	**1.15x**

Birmingham, B15

Senior debt facility to fund development. St Martin's Place will be one of Birmingham's most exclusive luxury residential developments, located in one of the city's most sought-after postcodes, minutes from the main business and professional district. The development comprises 228 apartments, as follows: 88 x 1-bedroom, 29 x 2-bedroom, 97 x 3-bedroom, 13 x 4-bedroom, 1 x 6-bedroom.

SevenCapital is one of the largest privately owned real estate investment and development companies in the UK, and the largest residential developer in Birmingham. The lead contractor, Colmore Tang, is an award-winning firm.

GDV: £66.7m

Financial highlights

- The operating loss before exceptional items for the Period was £1.1 million and the total loss for the Period was £1.7 million, including exceptional costs of £0.9 million and share-based expenses of £0.5 million:
  - revenue of £3.9 million.
  - operating costs before exceptional items were £5 million, representing 0.81% of total committed loans.
- Final proposed dividend of 1.67 pence per share (interim dividend of 0.83 pence per share).

Income:	**£3.9m**
Basic loss per share:	**(1.18)p**
Basic loss per share adjusted for exceptional costs:	**(0.58)p**
Dividend per share:	**2.5p**
Net asset value:	**£151m**
Net asset value per share:	**95p**

"Overall third-party Assets Under Management (AUM) raised for the first eight months of operation totalled £371 million."

Business model

A unique set of resources

What we do

Our business model seeks to utilise our unique set of resources to provide an essential service to a wide range of stakeholders and to deliver long-term sustainable value.

The Group generates interest and fees from originating loans on its balance sheet, before moving the loans into asset management structures, from which origination and management fee income is generated from institutional investors. We therefore have two types of customer: borrowers and capital providers.

How we transact

The Group is able to use its balance sheet as a temporary store or 'warehouse' for loans that it executes, before moving them into an asset management structure, whilst retaining a proportion on the balance sheet via co-investment in these structures.

Our asset management strategy follows two routes:

i) syndicating loans alongside other lenders; and

ii) holding loans within managed accounts and co-mingled funds on behalf of institutional investors.

By using our balance sheet to co-invest with our capital providers, we are fully aligned with their objectives. To enhance our income returns and lending capacity, we use leveraged facilities from financial institutions.

Warehousing

Urban Exposure originates, underwrites and executes the transaction as principal, utilising its own balance sheet for funding.

Revenue streams
Paid by borrower: debt interest; arrangement fee; exit fee

Migration to asset management

Urban Exposure liaises with its institutional funding partners in order to place the deal within an appropriate asset management strategy, retaining a proportion of the loan.

Syndicated

(Single borrower, multiple institutions)
UE co-investment: up to 10%

Revenue streams
Paid by borrower (pari passu based on level of co-investment): debt interest

Paid by partner: origination fee; management fee; performance fee

Managed

(Multiple borrowers, single institution)
UE co-investment: up to 10%

Revenue streams
Paid by borrower (pari passu based on level of co-investment): debt interest

Paid by partner: management fee; performance fee

Co-mingled

(Multiple borrowers, multiple institutions)
UE co-investment: up to 10%

Revenue streams
Paid by borrower (pari passu based on level of co-investment): debt interest

Paid by partner: management fee; performance fee

What makes us relevant

We provide an essential service to a wide range of stakeholders by facilitating the building of homes within the UK. The market we operate in has two fundamental drivers:

- **Too few homes are being built** – a recent projection by the government states that approximately 300,000 new homes need to be built in England every year for the next decade in order to keep pace with rising demand and population growth; and
- **A lack of availability of development finance** – SME housebuilders' demands for finance outstrip supply due to the dramatic reduction in traditional bank lending to the residential development sector, largely due to regulatory reform.

Our purpose is to provide a crucial source of finance for residential property developers while simultaneously providing strong risk-adjusted returns to our asset management clients.

Our resources

- **Management** – the management consists of an award-winning team of residential development finance specialists operating within the sector for over 16 years.
- **Relationships** – the management team has relationships with over 300 high quality developers throughout the UK, each with a minimum of 10 years' experience.
- **Access to capital** – sources of funding are key to our success and range from traditional banks to private equity and other alternative credit lenders.
- **People** – our employees are highly skilled and respected industry figures in their relevant fields.
- **Technical expertise** – the Group has excellent underwriting processes as well as advanced risk management procedures.

The value we create

Our Borrowers

We provide our borrowers with speed of execution, flexibility and competitive pricing, underpinned by our niche sectoral experience.

Our Capital Providers

We originate, structure and negotiate, conduct due diligence on, and manage loans from inception to term on behalf of our capital providers, giving them excellent risk-adjusted returns.

Our Suppliers

We view our outsourced providers, who facilitate operational capacity whilst enhancing our commercial structuring and risk mitigation capabilities at a macro-economic, micro and project-specific level, as an integral part of our operations.

Our Shareholders

We aim to create long-term shareholder value across the market cycle.

Our Staff

We aim to provide an environment that allows our staff to achieve their full potential.

Our Community

We are proud to support a number of charitable causes, with the central theme of educating under-privileged children.

Greenwich, London SE10

Senior debt facility to fund development. The site is located in East Greenwich, a residential area in close proximity to central London and Canary Wharf. Redevelopment in the past 10 years has transformed much of the former surrounding industrial area around Greenwich Peninsula. Greenwich Square is a landmark residential-led scheme developed by Mace and strategic partners. Phase I of the development, funded by Urban Exposure, completed in October 2016 and delivered 361 new homes, a leisure centre, a public library, a GP surgery and new retail space, and was sold entirely off plan. Phase 2 comprises 239 private apartments built around a central landscaped courtyard, of which 86 are affordable units.

Mace was established in 1900 and is now a world-renowned construction and development group. It is the lead contractor on some of the most important and iconic building and infrastructure projects worldwide.

GDV: £133.1m

A sizeable market opportunity

We operate in the UK's non-bank lending sector, an under-supplied sub-segment of the market with significant unmet demand.

The market opportunity

The size of the market opportunity for the Group is based on two fundamental aspects:

1. **Too few homes being built:** Data from the Ministry of Housing, Communities & Local Government (formerly the Department for Communities & Local Government) on homes built from 2004 to 2016, identified a housing supply 'hole' of 1.4 million homes that were not built during this period.

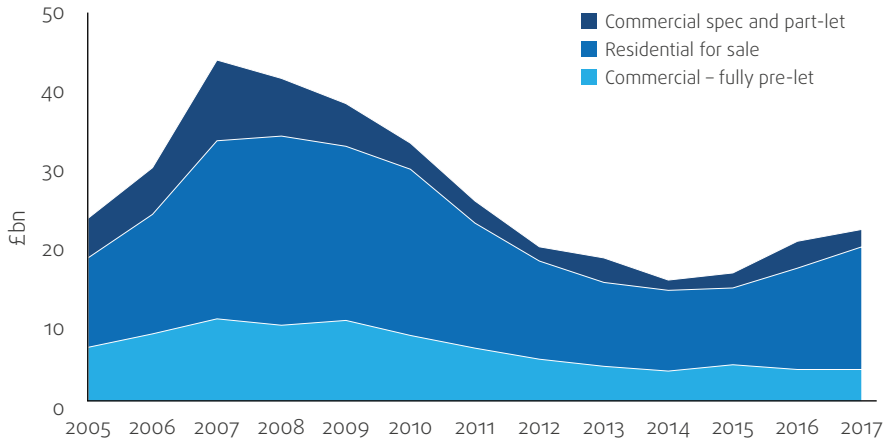
   The recent projection by the Ministry is that approximately 300,000 new homes need to be built in England per annum going forward to keep up with rising demand. This compares to the reality that only 163,250 houses were completed across England in 2017, and 163,420 to Q3 2018.

2. **A shortage of development finance:** Lack of availability of finance during the global financial crisis had a detrimental impact on the development finance market. Research indicates that debt outstanding and secured by residential development projects for sale has steadily declined by approximately 35% from a peak of £23.9 billion in 2008 to approximately £15.5 billion by the year end 2017.[1]

Traditional banks are constrained by regulation which has made development finance provision a less attractive activity. This includes additional Tier 1 capital requirements, conduct requirements applicable to senior directors and officers of the bank, single counterparty exposure limits, large loan constraints and higher provisioning requirements under IFRS 9.

This has meant that the financing requirements of SME housebuilders, in particular, considerably exceed the funding available in the market. Utilising government and Nationwide Building Society data, and based on the annual target for new homes, the Group estimates that there is a lending opportunity of £394 billion over the next decade across the UK. Of this, the 'funding gap' (relating to projected housing build shortfall) equates to £237 billion of development finance opportunities.

Allocation of Development Finance
(Banks, Building Societies and Insurance)[1]



1 Source: De Montfort University: Commercial Real Estate Lending Survey, Year End 2017.

Luton, Bedfordshire

Senior debt facility to fund the refinancing and development of a high profile freehold site known as 'Napier Gateway'. The 6.9 acre site is located near Luton airport and approximately one mile from the town centre. The development comprises 785 residential units, retail and leisure, a 209-bedroom hotel, a medical wellbeing centre, together with landscaping, car parking, new access and associated works.

Strawberry Star Group, established in 2007, is an international property company specialising in capital, acquisitions, development, sales, lettings, management and asset management of London property to local and international investors. It has completed a number of large mixed-use developments in London.

GDV: £124.4m

Government support

Housing is a key domestic priority for the government, with initiatives totalling some £21 billion (including the Home Building Fund, the Housing Infrastructure Fund, the Housing Growth Partnership and the Help to Buy scheme). The current government's priorities to increase housing supply are set out in the Housing White Paper, including the following which align with our business model:

- to promote SMEs over large housebuilders;
- to prioritise housing priced at a level that local residents, especially first-time buyers, can afford;
- to identify appropriate sites for development (including government land) with the right tenure mix;
- to utilise more efficient methods of construction (e.g. modular); and
- to promote higher densities in urban locations.

	Housing build number	Average housing price £[1]	Value £bn	Implied development finance @55% LTV £bn	Total development finance market over the next 10 years £bn
Average housing build figure (2008–2017)[2]	119,937	238,963	28.7	15.8	157.6
Housing shortfall to 300,000[3]	180,063	238,963	43.0	23.7	236.7
			71.7	**39.5**	**394.3**

Sources:
Data from the Ministry of Housing, Communities & Local Government (formerly the Department for Communities & Local Government); the Nationwide Building Society and government Budget announcement.

Note:
1 Average house price in England (2015-2017), per Nationwide HPI data, was £202,536. Current average is £238,963 per Nationwide Building Society HPI data (Q4 2018).
2 Private enterprise new build only.
3 Chancellor of the Exchequer, Philip Hammond, announced in his Autumn Budget 2017 the government's ambition "to put England on track to deliver 300,000 new homes a year".

Market review continued

Barriers to entry

The Group benefits from a number of barriers to entry that our sector exhibits, which make us well-placed to take advantage of the market opportunity. These include:

1. **Track record with borrowers** – it takes many years to build a reputation in the industry and a relationship of trust with quality borrowers who thoroughly vet a lender's experience and prior performance. The management team has an established track record.
2. **Track record with capital providers** – in order to attract capital, providers want to see a demonstrable track record of providing compelling returns, whilst also meeting their strenuous processes and reporting standards.
3. **Quantum of capital** – substantial capital is required to compete effectively, and new entrants would have difficulty raising substantial sums with no track record in the industry. The Group has successfully developed a number of relationships with capital providers.
4. **Cost of capital** – in order to lend profitably to experienced developers, a lender's capital must be priced efficiently or they will be unable to attract quality borrowers and maintain credit quality. The Group has negotiated advantageous terms with its capital providers to enable it to lend to these more experienced developers.
5. **Intensive management** – development finance requires intensive ongoing management compared to other real estate asset classes which new entrants may not have the operational capability to conduct.
6. **Technical expertise** – it takes time to recruit and build a technically competent team. The Group has an established team and also has a background itself as developers prior to being lenders.

"Development finance requires intensive ongoing management compared to other real estate asset classes which new entrants may not have the operational capability to conduct."

Birmingham, B2

Senior debt facility to fund development. Timber Yard, located in Birmingham's city centre Southside district, is a mixed-use scheme. Planning permission is in place for 379 residential units and 6,257 sq ft of commercial space at ground floor level on a 1.58-acre site. The development, designed by Claridge Architects, will comprise two residential buildings and will exhibit signature designs providing premier specifications. The East Block, the first release, will feature 219 studio, 1, 2 and 3-bedroom apartments. The West Block will feature 160 studio, 1 and 2-bedroom apartments.

Galliard is a highly regarded, award-winning UK housebuilder of significant standing.

GDV: £101.3m

The housing market

Nationally, house price inflation slowed steadily during the course of 2018, in line with the previous year. Across all regions, house price inflation was running at 2–3% towards the end of 2018, lower than the post-recession average of 4% per annum, and lower than the growth rate of average earnings. In London, house prices generally drifted lower in the second half of 2018 following a prolonged period where house price growth had significantly surpassed earnings growth. Outside London and the south east, house prices rose steadily during the reporting Period.

"...real income growth will support housing market activity, and economic growth more generally."

Supported by robust employment growth, rising wages and low borrowing costs, the number of first-time buyers rose back to pre-recession levels during the Period. Reflecting a combination of factors, home mover activity levels remained well below normal. Following a lengthy period of strong growth, buy-to-let mortgage lending growth continued to soften during 2018. Overall, the number of housing transactions was close to 100,000 a month throughout 2018, as it has been since the Brexit referendum. Housebuilding continued to strengthen during the Period but remained below pre-recession levels.

Notwithstanding the uncertainties associated with the UK's exit path from the European Union, the outlook for housing market activity over the medium term remains generally favourable. As mortgage interest rates have remained low and wage growth has risen above house price inflation, housing affordability has improved. High levels of job vacancies point to sustained employment growth during 2019 and, as wage growth continues to drift upwards and inflation in the wider economy remains close to the government's 2% target, real wages can be expected to strengthen further. With borrowing costs likely to remain at historically low levels, and the supply of high loan-to-value mortgage lending showing increasing signs of returning to more normal levels, real income growth will support housing market activity, and economic growth more generally.

Rising levels of housing demand will support housebuilding over the medium term, boosting the supply of housing accordingly. The well-documented shortage of new housing in the UK provides a compelling opportunity for our developer customers to increase output. However, difficulties in the debt markets during the global financial crisis had a detrimental impact on the development finance market. Debt outstanding and secured by residential development projects for sale has steadily declined by approximately 35% from its peak, creating an opportunity for non-bank providers to enter the space.

The capital markets

Against this backdrop, the outlook for our asset management operation is also positive. Capital inflows to the sector are strong. Investors have consistently increased their exposure to the UK residential sector (including for development) over the five years since 2013.

IPF's Research Programme survey in December 2018 revealed that its participants have consistently increased their exposure to the UK residential sector (including for development) since 2013, totalling £16.6 billion (£4.9 billion in relation to development over this period) and had a continued intention to increase investment in the sector.

The report by IPF went further, stating "A total net figure of £8.3 billion is reserved for future residential investment, the majority of which is expected to be channelled through development land for investment stock (£4.7 billion)...". This was an uplift from the previous year's survey.

Market outlook

Heading into 2019, a potential headwind is Brexit. There is still no clarity as to the nature of the UK's ongoing relationship with the rest of the EU. Hence, the key mitigant to Brexit risk for the Group is to lend only on assets for which the ongoing need, and therefore value, is less likely to be adversely affected by the UK's future relationship with the EU. This translates to prudent credit policies and rigorous deal appraisal to ensure the sales risk of underlying properties is particularly low, for example through pre-sales and the financing of projects addressing under-supplied segments of the market. As a result, our current approved loan pipeline consists of developments in high demand, growing areas of the UK, such as Greater London, Manchester and Birmingham.

We remain vigilant to any sudden and sharp market movements, including salient economic indicators such as the availability of mortgage products, affordability and wage growth, and incentive schemes such as Help to Buy. It is also worth noting that over 100 lenders now offer 95% LTV mortgages, reducing the market's reliance on Help to Buy going forward. Coupled with recent wage earnings growth, the macro economic environment continues to be supportive of our lending strategy.

Strategic framework

Delivering long-term value

Our strategy has been developed to fulfil the objectives of our two customer groups, borrowers and capital providers, as well as to deliver sustainable shareholder value.

Our vision is to fulfil the highest expectations of our stakeholders whilst delivering market-leading real estate finance.

Our mission is to raise deep pools of capital in order to provide debt finance for real estate projects. We achieve this and meet the needs of our clients through innovative products and services, seeking digital efficiency in our processes, and by building, developing and maintaining high performance teams.

To create long-term value, we have three strategic priorities built around the needs of our two sets of customer: our borrowers and our capital providers. These strategic priorities are to **grow** a profitable loan book while maintaining excellent levels of credit quality, to **raise** additional third-party capital for deployment to the real estate development market, and to **invest** in our operational efficiency, team learning and development.

Strategic Priority 1

1

Grow a profitable loan book while maintaining excellent levels of credit quality.

Achievements in 2018

- Loan book of £525 million, across England and Wales
- Weighted average LTGDV of 67%, 800 basis points less than maximum 75%, a strong indicator of higher quality loan book
- Projected income of £27 million over life of loans
- Zero losses achieved on loan book
- Net Asset Value of £151 million; 95p per share.

Objectives in 2019

- Grow loan book
- Maintain credit quality
- Grow projected income and maintain minimum income
- Maintain zero losses on loan book.

Strategic Priority 2

2

Raise additional third-party capital for deployment to the real estate development market.

Achievements in 2018

- Commercial relationships were executed with three new investors: KKR, UBS and Aviva:
  - two loan-on-loan lines signed, totalling £198m, with UBS and Aviva
  - total AUM raised was £371m.

Objectives in 2019

- Continue to build a strong and diverse pipeline of opportunities for raising new capital to service the loan book
- Raise further discretionary capital
- Source additional credit lines.

Strategic Priority 3

3

Invest in our operational efficiency, team learning and development.

Achievements in 2018

- Operating costs as a percentage of total committed loans were 0.81%, demonstrating the efficiency of the Group's operating model
- Development of our strategy
- We grew headcount from 16 to 25 while maintaining a culture conducive to 'high performance teaming'.

Objectives in 2019

- Implement a technology platform to improve our customers' experience in all their dealings with us, and to increase the efficiency of the loan underwriting, management and asset management processes
- Implement a company-wide objectives management system
- Maintain a culture of 'high performance teaming', learning and development
- Continue to invest in additional people resource to strengthen our capacity.

Key performance indicators

Measuring performance against objectives

Our key performance indicators (KPIs) will measure how successfully we deliver against our strategic objectives for the year ahead.

The figures stated below are those achieved for the Period ending 31 December 2018.

1. New committed loans Achieved for the Period: £525m	**KPI definition – New committed loans represent the total new loans underwritten by the Group on both a co-investment and asset management basis.** Growth in new committed loans reflects the ability of the Group to meet its objective of being a market-leading provider of residential property development finance.	Link to our strategy: 1
2. Projected aggregate income (PAI) and Minimum Income to the Group Achieved for the Period: £27m PAI; £15m Minimum Income	**KPI definition – Each loan originated by the Group includes a Minimum Income Clause (MIC). MICs set a floor on the income from each loan originated by the Group, regardless of the drawdown profile or an early refinancing of the debt. Total projected income on each loan represents all interest and other connected income streams earned over the life of the loan and always exceeds the level secured by any MIC.** PAI is an important metric for the Group as it represents the future income stream of all loans written. The recognition of this income will be dependent on a number of factors, including the timing of the drawdown of a loan and the application of financial reporting standards.	Link to our strategy: 1
3. Weighted average loan to gross development value (WALTGDV) Achieved for the Period: 67%	**KPI definition – WALTGDV represents the weighted average of all loans expressed as a percentage of the gross development value of the total loan book. Gross development value represents the market value of the proposed development assessed on the specific assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date.** WALTGDV is used by the Group as a key indicator of the credit quality of the loans written.	Link to our strategy: 1

4. Operational costs as a percentage of total committed loan book **Achieved for the Period: 0.81%**	**KPI definition – Operational costs as a percentage of the total committed loan book is calculated as total operational costs of the Group before exceptional items divided by the sum of total committed loans.** Operational costs as a percentage of the total committed loan book is a measure of the operational efficiency of the Group and its ability to write and service loans, as well as to raise and manage external capital at a low cost.	Link to our strategy: 3
5. Basic earnings per share (EPS) and basic earnings per share adjusted for exceptional costs **Achieved for the Period: (1.18p) basic EPS; (0.58p) adjusted EPS**	**KPI definition – Earnings per share is calculated by dividing the profit after tax by the weighted average number of shares in issue. Adjusted earnings per share is calculated by dividing the profit after tax, after exceptional costs, by the weighted average number of shares in issue (see note 12).** Over the long term, growth in shareholder value and returns are linked to growth in EPS, which measures the profitability of the Group after tax and interest costs. During the 'ramp-up' period, growth in EPS will lag behind other KPIs such as PAI but, in the medium to long term, it is expected to grow in line with those metrics.	Link to our strategy: 1 2 3
6. Organisational culture of high performance teaming, learning and development	**KPI definition – Organisational culture is defined as the underlying beliefs, assumptions, values and ways of interacting that contribute to the unique social and psychological environment of an organisation.** Employee engagement surveys are conducted in order to monitor performance in the areas of 'psychological safety', 'teaming' and learning and development.	Link to our strategy: 3

Chairman's statement

A focus on risk-adjusted returns

"The Board is committed to high standards of corporate governance and instilling the right culture, behaviour and approach to how we do business."

I am pleased to present my first Chairman's statement following our successful IPO.

The Group continues to focus on achieving a well-deployed loan book generating strong cash flow in the form of fee and interest income, and diversified income from asset management fees during the 'ramp-up' period (explained further in the CEO's Review). New loans will replace redeeming loans, creating churn on our capital naturally throughout the year and, at that stage Minimum Income will become less relevant as actual income becomes recognised. This scenario remains the short- to medium-term target for the Group and will drive shareholder value. Pursuing this plan will enable the business to become cash generative, and able to grow dividends at a constant rate, produce a high return on equity and deliver a greater total shareholder return relative to risk.

Trading and dividend

Whilst reporting a loss for the Period, projected aggregate income on the loan book is positive. Income recognition is explained within the Finance Review on page 21 and, as stated above, though we ultimately wish to move away from reporting Minimum Income, it is worth reiterating that this provides a comfortable basis for paying dividends whilst recognition of income is deferred in the financial statements.

Costs are commensurate with the growth phase of the business, and within an acceptable ratio of the value of executed transactions.

"We are focused on building a large, modestly-geared loan portfolio that generates strong risk-adjusted returns, serving best-in-class SME developers with a competitive product, exemplary customer service and loan structuring with a solutions-based focus, incorporating flexibility and ingenuity."

We have accelerated expansion plans in order to capitalise on the opportunity we identified at IPO, firmly believing that we can capture the capital looking to enter our sector. We are focused on building a large, modestly-geared loan portfolio that generates strong risk-adjusted returns, serving best-in-class SME developers with a competitive product, exemplary customer service and loan structuring with a solutions-based focus, incorporating flexibility and ingenuity.

The Board declared an interim dividend of 0.83 pence per share paid in January 2019 and is recommending a final dividend of 1.67 pence per share to be paid on 7 May 2019 (with a record date of 12 April 2019).

Board and governance

The Board is committed to high standards of corporate governance and instilling the right culture, behaviour and approach to how we do business.

Nigel Greenaway, Andrew Baddeley and I continue to assist in steering the Group through the risk, governance and regulatory requirements of a newly listed business, and to challenge the Executive function of the business when appropriate.

Overall, we enter 2019 in a robust position, with a high quality loan book, a stronger team in place, and a healthy pipeline of loans and asset management opportunities to execute in the forthcoming period.

Our people

We know our business is nothing without our talented team and so investing in it is critical to how we intend to grow. We foster an environment that offers meaning and purpose through aligning personal values with business objectives.

Learning & development

We have cultivated a learning environment through providing various experiential learning opportunities for all.

Diversity

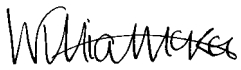
We believe that building diverse and inclusive teams is not just a generic business objective but good for business. We are committed to promoting an inclusive and empowering working environment for all.

Flexible working

We recognise how important it is for our employees to be able to balance responsibilities at work with responsibilities at home.

Gender equality

Gender parity is important to us and we want to be accountable for what we are doing to improve it. We want to ensure that we have equality in our hiring practices, equal representation across the different functions and fair treatment for all.



William McKee, CBE
Chairman

Chief Executive's review

A transformational year for the Group

"The Group has made solid progress towards achieving the business plan set out at IPO."

2018 was a transformational year for the Group, during which we joined the AIM market. We have made a solid start to this new phase for the Group and laid firm foundations for the coming years.

Trading and dividend

The reported loss of £1.7m covers a period of less than eight months. Overall, we have made solid progress, with a total of £525m in committed loans and £371m in new capital available through our partnership arrangements. Gross projected aggregate income on the loan book as a whole is £69m (with just under £43m as the guaranteed minimum income). Our share of the projected aggregate income is £27m, which will eventually translate into earnings in the financial statements over the life of the loans. Our share of the minimum income is £15 million. The weighted average LTGDV on the loan book is 67% and the weighted average IRR is 10% (unlevered), demonstrating excellent credit quality, whilst delivering a strong IRR.

While the raising of capital must occur alongside the commitment of new loans, the two are still distinct business activities and the business will one day manage capital in excess of its committed loan book. The Group 'warehouses' loans until capital raised via asset management strategies matches loan commitments. We call this period, estimated to be two to three years following the IPO, the 'ramp-up' period. Over time, as assets under management grow, the Group will have the ability to grow its loan book without having to warehouse each loan temporarily. I will refer to this stage as the 'steady-state' period. The premium earnings multiple that asset managers' share prices trade at typically, as opposed to balance sheet lenders who often trade at a multiple of book value, shows that the market recognises and values this as higher quality earnings.

Initially, given the time it can take to deploy capital into committed loans, we will value the business using a combination of both NAV and earnings. After the 'ramp-up' period, this valuation approach should gradually transition away from NAV towards earnings as the key measure.

Committed loans of

£525m

Key achievements

For the Group, the eight months to the 31 December have been full of significant milestones. Whilst the business today makes a loss, looking at the loss in isolation fails to paint a true picture of the business's achievements in 2018, some of which were exceptional. Shortly after the IPO, in July 2018, the Company entered into a partnership with KKR, with an initial size of £165m. A partnership with such an industry behemoth involved KKR undertaking a considerable degree of diligence on the Company, the competition and the sector, and therefore substantiated our profile and calibre, the size of the market opportunity and the extent of investor appetite in the sector.

In December 2018, the partnership closed a first-of-its-kind, blind-pool discretionary loan-on-loan funding line with UBS, which provided the Group with a £165m facility on a portfolio basis. Additionally, the Group also secured an additional loan-on-loan funding line from Aviva Investors for a single loan within the partnership structure. The combined firepower of the KKR and UBS venture therefore currently provides circa £363m of development lending available to the Group. The Group also syndicated loans to other financial institutions during the year. The total lending capacity raised in 2018 was £371m.

The various relationships secured with high calibre investment partners will, of course, improve our routes to market, demonstrating our growing market stature and, in turn, the quality of our capital base. These relationships also allow us to leverage our partners' market standing and experience by, for example, securing more favourable terms on facilities utilised to enhance returns.

Capital raising

We have a strong institutional investor network and deep-rooted relationships from the management team's 16 years in the industry, initially as principal developers and then, after the global financial crisis, as a non-bank, specialist development finance lender in the UK. The nature of the asset class, and the technical expertise required in underwriting and managing development loans, requires a specialist team to operate in the space. The Group's platform provides institutional investors with the ideal

"2019 is going to be an exciting year for us as we continue to build on what we do best and what we can do better."

Manchester, M4

Senior debt facility to fund redevelopment. The building, Brownsfield Mill, dating from 1825 and Grade II listed, is located in central Manchester in the vibrant Northern Quarter and sits on the canal side. The development will be one of the last mill conversions in the city. The development comprises 31 residential units (1 x one bedroom, 24 x two bedrooms, 6 x three bedrooms) and 19 surface car parking spaces, together with the freehold.

Since 1993, Urban Splash is a specialist regeneration developer and has undertaken more than 60 regeneration projects across the country, from Plymouth in the south to North Shields in the north, creating over 5,000 new homes and 2 million sq. ft of working space.

GDV: £14.2m

Chief Executive's review continued

opportunity to gain exposure to the sector with the benefit of our robust mitigation of various risks alongside return protection mechanisms, demonstrated by our lending and asset management track record.

Investor appetite and capital inflows into the sector are strong and demonstrable through our market partnerships announced in 2018, from large private equity funds and financial institutions to development finance providers. The Market Overview demonstrates positive investor sentiment.

Asset management opportunities are prioritised on the basis of i) increasing the Group's capacity to lend with sufficient operational flexibility to allow us to transact on loans in a timely manner; ii) being secured at rates which are sufficiently competitive to enable us to deploy the funds effectively into the marketplace; (iii) being accretive to our total returns.

Managing discretionary pools of capital, both public and private, as well as raising additional managed accounts and loan-on-loan debt lines, achieves these objectives for the Group.

Loan credit quality

At 31 December 2018, the Group had executed 16 loans with commitments totalling £525m with some of the most highly regarded and experienced real estate developers in the UK, including the Galliard Group, Mace Group and Strawberry Star. Our ability to approach loan structuring with a solutions-based focus, incorporating flexibility and ingenuity, has seen a marked increase in the quality of enquiries from both the developer and broker communities. We employ robust credit guidelines, rigorous deal appraisal and stringent policies and procedures to mitigate market risk in our lending and operations.

The Group has pursued a strategy of geographical diversification, executing funding in regional cities such as Birmingham and Manchester. Residential developments in certain regional locations appeal to the domestic owner-occupier market as well as the investor market and, whilst affordability in London remains challenging, these locations offer relatively affordable accommodation and are supported by strong demand-side factors.

"At 31 December 2018, the Group had executed loan commitments totalling £525m with some of the most highly regarded and experienced real estate developers in the UK."

Falmouth, Cornwall

Senior debt facility to fund the acquisition of land and development of 53 residential apartments. The freehold site directly overlooks Gyllyngvase beach and all the apartments will have uninterrupted beach and sea views. The development will consist of 53 residential units above 2,800 sq ft of commercial property. Falmouth Town railway station is located 0.4 miles from the site. The scheme, which has been christened 'The Liner' due to its nautical design, is set to become an iconic and visionary building, adding a new level of quality to the seafront.

Acorn Property Group is a residential and mixed use developer delivering high quality residential property for almost 20 years. During that time, it has completed a significant number of developments and is a consistent award-winner.

GDV: £31.0m

The Group negotiates levels of pre-sales prior to initial drawdown of particular loans. Demand at many schemes is strong, and our stringent pre-sale requirements are often surpassed, both in terms of sales velocity and prices achieved.

An increased quality of counterparties often results in lower leverage requirements due to higher equity contributions from borrowers. Lower leverage doesn't just reduce lender risk through the larger equity buffer, it also disproportionately diminishes the construction risk. The majority of the build risk is typically within the ground and, in the very early stages of construction, more cash equity up front from the developer means this risk can be significantly reduced prior to the Group advancing any funds. Our loan book exhibits this at a number of projects. We also seek to mitigate cost overrun risk through a combination of fixed price contracts, performance bonds and guarantees from appropriately capitalised entities.

The corollary to securing higher levels of equity up front from the borrower is that the Group defers its own income due to loan drawdowns occurring later. However, we protect against this risk, including the risk of early prepayment, through Minimum Income Clauses in our loan contracts. This allows us to lend against highly de-risked assets, knowing that a minimum level of income will still be received regardless of the final drawdown profile.

Operations

As we commence 2019, the increased operational budget includes nine additional employees, larger office space to accommodate the growing team, and investment in the technological automation of the business. At 0.81% of the c. £620m of total committed loans, we are comfortable this represents a good investment for the Group and should generate a strong ROE within three years.

We continue to focus on seeking benefits for our customers through digitising our business processes, providing our clients with an online interface to manage their dealings with us. This project will also improve internal efficiencies through streamlining the origination, underwriting, management and syndication of existing loans, and the servicing of asset management relationships.

> "The Group enters 2019 with a substantial live pipeline of new loan transactions and ongoing asset management relationships, some of which are of considerable size and calibre."

Market outlook

We constantly monitor the macro economic and political environment in the UK, the housing market, and the capital markets. The outlook remains positive in the medium term, despite the uncertainties associated with the UK's exit path from the European Union.

Corporate social responsibility

In recent years, we have been proud to support a number of charitable causes, all with the central theme of education and children. In 2019, we have taken the decision to formalise our philanthropic activities within the structure of our own charitable foundation, UE Philanthropy Limited.

Looking forward

In 2019, our strategy is to build on the positive foundations laid in 2018, to service our borrower clients through competitively priced and modestly geared loans, and to continue to raise deep and diverse pools of institutional capital to finance these loans by aligning with the needs of our capital providers.

The Group enters 2019 with a substantial live pipeline of new loan transactions and ongoing asset management relationships, some of which are of considerable size and calibre. We are focused on ensuring the growth in our loan book and assets under management will translate into profit and total shareholder return over the medium term.

We continue to recognise that our business is, and always will be, a work in progress, constantly growing and refining itself as we strive to achieve our vision. 2019 is going to be an exciting year for us as we continue to build on what we do best, and what we can do better.

The Strategic Report includes the Business Model, Market Review, Strategic Framework, Key Performance Indicators, Chairman's Statement, Chief Executive's Review, Finance Review, Principal Risks & Uncertainties and Corporate Social Responsibility and has been reviewed by the Board and signed on its behalf by:

Randeesh Sandhu
Chief Executive Officer

Finance review

Translating performance into recognisable earnings

Since the IPO, the Group has made good progress in the development of the asset management business, although this is not yet reflected in the reported earnings.

Overview

The Group's operating loss before exceptional items was £1.1m, and total reported loss after tax was £1.7m. This was primarily driven by the Group's strategic objective to grow its asset management business, with a focus on building a sustainable platform with predictable and recurring income streams, profitability and therefore total shareholder return, at the expense of short-term profits. A high quality loan book, with more equity from developers and consequently slower drawdown of funds, also had an adverse impact on short-term income. The projected aggregate income generated by the existing loan book is in line with expectations and the Group expects to expand its lending capacity through its fund-raising activities. The reported earnings include exceptional one-off costs of £0.9m and share-based expenses of £0.5m.

The headline financial results for the period from 10 April 2018 to 31 December 2018 are presented in this Finance Review.

"The Group expects to expand its lending capacity through its fund-raising activities."

Bracknell, RG12

Senior debt facility to fund acquisition and development. The site is the former bus station at Market Street, Bracknell, Berkshire. The town's brutalist concrete structures have not aged well, and the area has undergone an extensive, phased regeneration project costing over £0.75bn, making it one of the largest urban regeneration schemes in the UK. The site is being redeveloped to provide 242 residential units (181 private, 61 affordable) across two blocks, plus 2,680 sq ft of offices and 184 parking spaces. Of the 242 apartments, eight are studios, 136 are 1-bedroom and 98 are 2-bedroom units.

The developer, SevenCapital is one of the largest privately owned real estate investment and development companies in the UK.

GDV: £67.5m

Income recognition

In furtherance of the Group's strategic objective to grow its asset management business, the loans originated by the Group are sold or syndicated to third parties, which delays the recognition of income.

All loans and investments in partnership vehicles are accounted for on a fair value basis under the requirements of IFRS 9.

The structure of our business model is such that loans are typically on balance sheet at origination but are thereafter transferred into an asset management structure, whilst maintaining a portion of the capital commitment. This structure allows the Group to continue its participation in the loans by virtue of its co-investment, and to free up capital to originate new loans to our borrowers.

Each loan originated by the Group includes a Minimum Income Clause ('MIC'). MICs set a floor on the income from each loan originated by the Group, regardless of the drawdown profile or an early refinancing of the debt. Projected aggregate income from each loan represents all interest and other connected income streams earned over the life of the loan and always exceeds the level of any MIC.

Income

£m	31 December 2018
Income	3.9
Operating costs	(5.0)
Operating loss before exceptional items	**(1.1)**
Exceptional items	(0.9)
Loss before taxation	**(2.0)**
Taxation	0.3
Loss after taxation	**(1.7)**
Basic EPS	(1.18p)
Diluted EPS	(1.18p)
Dividend per share	0.83p

Capital

£m	31 December 2018
Committed loan capital	**524.5**
Third-party funds raised	**371.0**
Cash and cash equivalents	**46.8**
Net asset value	**150.5**
NAV per share	**95p**
Shares in issue	**165,000**
Shares in issue (excluding treasury shares)	**158,494**

Finance review continued

Income that is generated from capital committed by the Group (before subsequently being transferred to the asset management business) or from asset management fees can only be recognised once committed loans are drawn down. If there is a delay in the drawdown of loans by a developer, due for example to the developer committing more equity to the development, there will be a delay in the recognition of income in the income statement. Income recognised in the Period is therefore lower than expected due to some loans being drawn down later than forecast.

The total projected aggregate income due to the Group is £27m. This projected income will be recognised in the income statement over the life of the loans. Our forecast earnings profile for this income is:

2018	2019	2020	2021	2022
12%	25%	25%	25%	13%

Going forward, as the Group grows its AUM and the time between closing a loan and moving it into an asset management structure is reduced, the earnings profile for new loans is more likely to adopt the following profile:

2019	2020	2021	2022	2023
5%	20%	30%	20%	25%

This can be applied to new loans originated in 2019 and onwards.

Financing

During the Period, the Group raised a total of £371m of third-party funds, mainly from its first managed account, a partnership agreement with Kohlberg Kravis Roberts (£150m excluding the Group's investment of £15m) plus an associated loan-on-loan credit line from UBS which will facilitate up to an additional £165m of lending. The commercial terms of asset management fees and performance fees agreed in connection with this are in line with the business plan. The performance fees will crystallise at the end of the agreement's life, once each of the loans is fully redeemed.

Operating costs

The Group has invested significantly in its inaugural Period, with higher than expected operating costs amounting to £5m (£5.9m including exceptional costs of £0.9m). The key area of investment during this 'ramp-up' period was additional resource, with staff numbers increasing from 16 to 25 since IPO. Salaries and benefits (including bonus provisions) totalled £3.1m, with £0.5m of share-based expenses, relating to the costs of the Long-Term Incentive Plan. Although costs are higher than previously expected, they should be seen in the context of the size of the overall committed loan book. The cost base represents just 0.81% of the total committed loan book.

Exceptional items

Exceptional items relate to costs incurred in relation to the IPO amounting to £0.6m plus one-off professional fees of £0.3m.

Earnings per share

Basic loss per share for the period is 1.18p and adjusted loss per share after exceptional costs is 0.58p, based on a weighted average number of shares of 145,793,865.

Dividends

In accordance with our dividend policy:

- the Board approved a total dividend for the Period ended 31 December 2018 of 2.5p per Ordinary Share
- one third was paid as an interim dividend which was declared on 17 December 2018 at 0.83p per Ordinary Share
- the balance of 1.67p per Ordinary Share is expected to be declared as a final dividend for the period ended 31 December 2018 at the Group's AGM
- a dividend of 5.0p per Ordinary Share is expected for 2019
- The Group will have a progressive dividend policy thereafter.

Balance sheet

£m	31 December 2018
Non-current assets	18.6
Fair value of loans	89.5
Contract assets	3.4
Cash and cash equivalents	46.8
Other assets and liabilities	(7.8)
Net assets	**150.5**

Cash flow

£m	31 December 2018
Operating cash flows before movement in working capital	(1.4)
Change in working capital	(89.5)
Net cash outflow from operating activities	**(90.9)**
Capital Expenditure	(0.4)
Net cash outflow from investing activities	**(0.4)**
Share issue	150.0
Share issue expenses	(6.7)
Share buyback	(5.2)
Net cash inflow from financing activities	**138.1**
Net increase in cash and cash equivalents	**46.8**

Hampstead, London NW3

Debt facility to fund the development of a unique scheme of 17 apartments within the Hampstead Village conservation area. Hampstead is situated in north London and benefits from the neighbouring expansive Hampstead Heath. The property is situated on the northern side of New End, which is within the centre of the village of Hampstead. The development is the first new-build scheme to be completed in the area for 18 years and will create some of the finest residential addresses in Hampstead. The development is of a striking design with wrap-around terraces on the upper floors and communal outside gardens, and will benefit from spectacular views across London. The properties will all benefit from underground parking spaces.

The borrower, The Linton Group, is an experienced developer having undertaken a variety of projects from basic refurbishments to large scale new-builds.

GDV: £74.6m

Investments

In the Period, £2m was invested in the partnership with Kohlberg Kravis Roberts (KKR), being the Group's 9.1% share of £21.4m total invested by the partners. This was primarily to fund loan drawdowns, and the Group will earn asset management fees on its share of these drawdowns. The investment is accounted for at fair value through profit and loss.

Shares

At year end, there were 165,000,000 ordinary shares issued, including 6,505,870 Ordinary Shares held in treasury, which were purchased by the Company on 14 November 2018.

Tangible assets

Group capital expenditure was £0.4m, invested predominantly in new office premises.

Loans receivable

The fair value of loans as at 31 December 2018 was £89.5m. These are held on the balance sheet with the intention of being transferred to third party management structures, thereby growing asset management revenues and freeing up capital to deploy into new committed loans.

Cash flow

Operating cash outflows before movement in working capital of £1.4m reflects the loss for the period less net adjustments for non-cash items. The large working capital movement of £89.5m reflects the increase in receivables, being predominantly the deployment of cash into loans. After investment and financing activities (described above and including £6.7m of share issue costs), the net increase in cash and cash equivalents was £46.8m.

Trevor DaCosta
Finance Director

Effective risk management

The Group's risk appetite sets out the level of risk that we are willing to accept in pursuit of our business objectives.

The Board is responsible for setting the Group's risk appetite and delegates the responsibility for the setting of limits and policies and monitoring of processes, systems and reporting to ensure that the Group is operating within the risk appetite to the Audit Committee.

Risk appetite statements have been created for each Level 1 Risk and Level 2 Risk category and provide an articulation of the Group's tolerance for risk in both qualitative measures and, where appropriate, quantitative terms. Level 1 Risks are defined as Credit Risk, Market Risk, Conduct Risk, Capital & Liquidity Risk, and Operational Risk. Level 2 Risks are sub-sets of each Level 1 Risk.

The definition of risk for the Group has been created following discussions among the Group's Executive Committee and with members of the Audit Committee and the Board. They are used in mapping key risks and assessing their materiality, and ultimately underpin the Group's overall risk management framework.

The risk appetite statements are reviewed formally on an annual basis by the Board as part of planning and budget setting and the review of the Group's medium-term strategy. They combine a top-down view of the Group's overall risk capacity with a bottom-up view of the risk profile requested and recommended by the business area (which will have been previously discussed and reviewed by the Audit Committee).

Throughout the year, all aspects of the risk appetite statements (which are monitored by the Executive Committee) are reported to the Audit Committee and the Board. In particular, the Executive Committee is responsible for assessing the impact on the Group's risk appetite of any changes in circumstances (internal or external) that may warrant a change to the risk appetite statements, and recommending any consequent changes to the Audit Committee and the Board ahead of the scheduled annual review.

Overarching risk appetite statements

Overarching statements as detailed below express the Group's broad risk appetite at a 'whole business' level, whilst underlying limits cover specific aspects of the Group's operations.

We maintain stakeholder confidence – by operating the business in such a way that we deliver against key objectives, both financial and non-financial, and remain within our risk appetite.

We maintain adequate capital and liquid resources – we maintain a sufficient level of capital and liquidity to support effectively the lending and asset management activity of the business and to ensure that all liabilities are met as they fall due under both normal conditions and under a range of stress scenarios and regulatory guidance.

We protect our reputation – we are seen as an organisation that treats all our stakeholders fairly; we have no appetite for material negative or adverse reputational events.

We limit the potential for credit losses – by being aware of and managing key concentrations, lending in markets where we can demonstrate expertise and consistent with risk-adjusted returns.

We manage our operational risks effectively – we have a low tolerance of operational risk failures and ensure that all our people are properly trained, procedures are thoroughly documented, and supervisory controls and reporting methodologies are in place to minimise the impact of adverse operational risk events that disrupt customer service.

We demonstrate high standards of conduct and compliance – we have a low tolerance for material conduct and compliance-related adverse events, or breaches of a regulatory or legal nature, and will operate the business in such a way as to minimise the potential for such adverse events to occur.

Primary board risk appetite metrics & reporting

Periodically, the Board and management review the corporate plan, performance against the plan and the key underpinning assumptions. Reviews can take place more frequently if circumstances change.

The following tables detail risk appetite categories based on the current business plan.

The risk profile is reported monthly to the Executive Committee and bi-monthly to the Board, supported by commentary on an exception basis (Amber and Red indicators) where they are subject to review and challenge.

The metrics in respect of the categories provide both a point in time position (current month 'RAG' status) and an indication of direction of travel versus short- and medium-term plans. As a consequence, the Board and Executive management are better equipped to decide, at an early stage, whether changes to the plan or to levels of risk appetite require further consideration.

Level 1 Risks, their potential impact on the Group and the manner in which those Level 1 Risks are mitigated are shown in the table below. Our core business is the origination and asset management of loans secured against property. The risks set out below are all considered key risks to our core business.

There are other risks associated with general financial uncertainty in the business (or in any other business), e.g. the loss of staff and insurance risk. These have been reviewed but are not considered key or principal risks.

Risk	Explanation of risk	Impact on the Group	Mitigation of risk
Credit risk	The Group is exposed to credit losses if borrowers are unable to repay loans and outstanding interest and fees.	A major loss could have a serious effect on Group profit.	The Group has stringent underwriting criteria which include third party valuations and a full legal documentation pack for each loan written by the Group. Further details of the Group's credit process are set out below.
Market risk	A risk that a change in the Group's funding rates will impact its return from lending.	A potential reduction in earnings.	All loans made by the Group are subject to a floor interest rate, and the interest rates charged move with changes in funding costs or are appropriately hedged, so that the Group does not have interest rate risk.
Capital & liquidity risk	A risk that the Group does not have sufficient capital and/or liquidity to fund its business.	A lack of capital and/or liquidity will result in the business not being able to fund its costs as they fall due or fund its lending to borrowers.	The Group does not commit to any loan to a borrower without clearly identifying how the loan will be funded over its life. The Group maintains a minimum level of liquidity to ensure that its 12-month projected operational costs are fully funded.
Conduct risk	Any action that leads to a breach in the regulatory or legal obligations of the Group.	Failure to comply with regulatory or legal obligations could result in fines being imposed on the Group.	Anti Money Laundering checks are conducted for each loan as part of the Group's stringent underwriting criteria. Third party law firms are appointed on each loan written by the Group and the Group has zero tolerance for any material breaches of law or regulatory obligations.
Operational risk	Any action that leads to an interruption in the provision of business services by the Group.	A failure in the operations of the business may cause harm to the customers of the Group and may have an impact on the income of the business.	The Group seeks to ensure that it remains resilient to operational risk events through the maintenance of a robust control environment and transparent reporting of control failures and risk incidents.

Principal risks & uncertainties continued

GDPR

As a business, we do not rely on significant volumes of third party data, however we do handle personal client information in the process of complying with Anti Money Laundering checks. We have invested in third-party operational reviews to ensure our processes are compliant with GDPR, which came into effect in May 2018.

Credit Committee

The Credit Committee is comprised of Rabinder Takhar (Chairman), Randeesh Sandhu and Daljit Sandhu. The Committee meets once a week, or more frequently if required by the Committee Chairman.

The Committee is responsible for reviewing the credit policy, and monitoring the performance of the credit portfolio with respect to the credit policy and current market conditions. In addition to this, the Committee will oversee new product approval, review of risk models, approval and monitoring of large exposures, and workouts. Recommendations for adjustment of policies are made to the Board as are requests for authorisation of new loans.

The Committee is the second line of defence from a risk perspective, the first line being the underwriting team, which is comprised of underwriters with many years of experience of development finance transactions.

The Credit Committee approves or rejects transactions through a two-stage process. An initial Pre-Credit Approval is required for each transaction after Heads of Terms have been sent to the potential borrower. The Pre-Credit Meeting determines whether there is an initial approval to proceed and, if so, subject to which conditions; otherwise the transaction is declined. Unanimous approval of the Credit Committee is required before a transaction proceeds.

Final Credit meets after full due diligence has been completed, including, but not limited to, full Anti Money Laundering checks, full red book valuation, reports on title, an independent review of construction costs, programme and procurement, and loan facility and security documentation. Final Credit determines whether all Pre-Credit Approval conditions have been met and whether the results of the full due diligence exercise are satisfactory. The transaction is at this stage either declined or approved, subject to final conditions for funding.

Credit risk is key to the Group's business. At the underlying loan level, the Group seeks to mitigate a number of risks through a rigorous credit underwriting process:

Welwyn Garden City, Hertfordshire

Senior debt facility to fund working capital for the Borrower following land acquisition. A high profile site consisting of 10 acres adjacent to the train station, it was formerly the Shredded Wheat Factory which closed in 2008 after 73 years in operation. Part of the former factory and all of the silos are Grade II* listed. The development will comprise 850 dwellings, potentially including up to 80 care home/ assisted living units, various retail, commercial, office and leisure uses, together with ancillary amenity space. Several stakeholders including Tesco, Metropolitan Housing Trust and Welwyn Hatfield Borough Council.

The ZM Land team has delivered over 300 planning consents amounting to over 9,000,000 sq. ft of development in the last 20 years.

GDV: £133.1m

Risk	Mitigating factor	
Planning	• Only fund schemes that have outline or full planning permission in place	
Construction	• Only lend to experienced developers with typically a 10-year + track record in UK development • Due diligence developers and professional team, including its main contractors and sub-contractors	• Drawdowns are paid in arrears only once external project monitors verify the works, values and costs • In-house capability to complete construction of any project – 'step-in' rights
Credit	• 100% of required equity taken up front prior to releasing first tranche of UE loan • Cost overrun guarantees trigger further injection of equity from borrower	• Robust stress-testing of borrower's model • Performance bonds to cover insolvency risk
Sales	• Approval of developer's sales and marketing plan • Facility LTGDV average 67%, (capped at 75%) • Pre-sales prior to funding with large deposits held in escrow – loan value typically lower than pre-sales value • 30–40% fall in prices required to impact on capital – values in London fell by c. 22% during 2007–2009	• Lending in areas with strong rental demand • Only lending on projects with end units priced in line with local market • Requiring minimum 10% deposit, individuals only, UK residents predominantly
Stamp duty changes	• Urban Exposure typically lends on low/mid end-priced developments – these projects have benefited from the recent SDLT reductions	
Housing bubble	• Supply/Demand imbalance in the UK at its greatest since WWII • UK population at all-time high and continuing to rise at record rates	• Sizeable government initiatives and funding support to increase housing supply across the UK (inc. Help to Buy, SDLT reform, Lifetime ISAs, etc.)
Political climate	• Housing is always a key focus of any government given its significance to voters. Focused on areas where demand exceeds supply and lending on projects in line with government policy	• As Brexit nears in April 2019, the government has reiterated its support for the White Paper of 2017, which matches the Company's lending strategy also
Interest rate rises	• Loans typically linked to LIBOR (with LIBOR floor) • UE loans may require the borrower to be hedged against interest rate rises	• End buyer mortgages are currently offered at historic lows, and this is expected to continue for the medium term

Committed to maintaining the highest standards

The Company is committed to maintaining the highest standards of corporate governance, an obligation that is wholly endorsed by the Board.

A fundamental facet of this assurance is the desire to manage the Group in a sustainable and socially responsible manner, since we believe it to be integral to behaving in a way that is beneficial to all our stakeholders – employees, customers, suppliers, investors and shareholders – our environment, and the wider community.

Urban Exposure Plc is a young business – indeed, this annual report is its first as a public company – and in terms of headcount is relatively small, currently numbering less than 30 individuals. Nevertheless, we are mindful of our ability to make a positive contribution to society and we aim to improve continually our endeavours in these areas.

In pursuance of that aim, we recognise five key areas that contribute to corporate social responsibility: **Our people**, **Our clients**, **Our suppliers**, **Our environment** and **Our community**.

We set out both our beliefs and our tangible achievements in those areas here.

Our people

We know our business is nothing without our talented team and so investing in it is critical to how we intend to grow. We foster an environment that offers meaning and purpose through aligning personal values with business objectives. We want our employees to be proud to work with us. We actively encourage every individual to speak up, lead projects, drive change and continuously share their ideas and learnings regardless of their level within the organisation.

Our culture is underpinned by transparency. We recognise the importance of keeping employees informed of matters affecting them, such as the financial indicators impacting the performance of the business and developments in the industry in which we operate. These aspects are communicated to employees through weekly briefings, 'town hall' meetings and social events. It is of equal importance that our employees, regardless of seniority or tenure, have a voice so we can learn from our mistakes, improve our decision-making and continue to innovate and adapt to market demands.

Learning & development

We have cultivated a learning environment through providing various experiential learning opportunities for all. Where it is necessary, we will support learning with formal programmes. It is our belief that supporting individual growth helps our employees maximise their full potential, and strengthens our organisational capabilities, this in turn benefits all stakeholders by helping us to achieve more as individuals and collectively, and future-proofing the organisation as a whole.

Diversity

We believe that building diverse and inclusive teams is not just a generic business objective, but good for business. We are committed to promoting an inclusive and empowering working environment for all. We respect and value the things that make our people who they are. It is our different thinking styles, experiences and personality types which have allowed us to find dynamic solutions to the challenges we have faced.

Flexible working

We recognise how important it is for our employees to be able to balance responsibilities at work with responsibilities at home. We have therefore developed family-friendly policies to enable all our employees to deliver to their fullest potential whether this is working from home, compressed hours or part-time working arrangements.

Gender equality

Furthermore, gender parity is important to us and we want to be accountable for what we are doing to improve it. As an employer with less than 250 employees in the UK, the Group is not required to publish gender pay gap information under the Equalities Act 2010 (Gender Pay Gap Information) Regulations 2017. However, in the spirit of transparency, we have decided to begin publishing data from the next financial year onwards. We want to ensure that we have equality in our hiring practices, equal representation across the different functions and fair treatment for all.

We strive to improve every component of our employees' health and wellbeing through various initiatives, policies and benefit programmes. We expect a great deal from our employees and we therefore take our duty as an employer extremely seriously. We want our people to operate at their very best and we will continually work to ensure they have the tools and capabilities to do so.

Our clients

We serve many different types of client – borrowers (typically small to medium-sized residential property developers), development finance brokers, and institutional investors.

In seeking to ensure that we are providing the best possible service for our clients, we expect our employees to communicate clearly and honestly, and to exercise high ethical and moral standards at all times whilst representing the business. The Board ensures that ethical values and behaviours are recognised and respected throughout the organisation, and leads from the top in this respect by maintaining the highest standards of personal behaviour. The Audit Committee and Board scrutinise the activities of the business and have responsibility for monitoring the ongoing effectiveness of our internal controls.

"We recognise the importance of respecting and supporting the communities in which we operate and thereby improving the positive impact of business in society."

The Harris Federation

The Harris Federation is a not-for-profit charity with over 25 years' experience of education in and around London. It has built its reputation on a family of 47 (and growing) primary and secondary academies that, across the board, are setting the highest standards of excellence.

It is the top-performing large multi-academy trust and educates one in every 44 pupils in London (32,000) with a £200 million annual budget and 4,000 staff. 78% of all its academies have been graded as 'Outstanding' (compared to 20% nationally).

We have identified our first Harris Federation nursery – in Peckham, south-east London – for which we intend to provide dedicated financial support. Our aim is to raise annual charitable donations sufficient to discharge the entire operational costs of the nursery on an ongoing basis, with a launch date of September 2019. We would maintain constant involvement in the running of the nursery and, in time, would look to expand the model to further nurseries across London and the rest of the UK.

This initiative will form the core of a dedicated Urban Exposure charitable foundation – Urban Exposure Philanthropy Limited – to be launched in the autumn of 2019. We are currently undergoing the process of registering the charity with the UK Charity Commission.

Corporate social responsibility continued

Our community

The Group understands the importance of giving back to the community and, as a consequence, we recognise the importance of respecting and supporting the communities in which we operate, thereby improving the positive impact of business in society.

The Group's employees support their local communities and dedicate their time to charities and other causes, both independently and with the Group's explicit endorsement. We are keen to support employees in these endeavours wherever possible, through the provision of company resources, including the allocation of paid time off from work or direct donations. We give all staff three CSR days a year in order for them to donate their time and expertise to charities on a pro bono basis, participate in community projects or for other fundraising activities.

The various initiatives that we have supported make it clear that we have a particular passion for giving under-privileged children a better future, inspiring and empowering youth to live their dreams. As part of that strategy, we have adopted the following programmes, all dedicated to supporting youth in terms of education specifically and well-being generally. Urban Exposure employees have been actively involved in supporting all three of the initiatives described in this section.

"The various initiatives that we have supported make it clear that we have a particular passion for giving under-privileged children a better future."

Norwood

The Norwood charity supports vulnerable children and their families, children with special educational needs and people with learning disabilities and autism. It has a multi-disciplinary team of practitioners and a family of services designed specifically to support vulnerable children and their families.

It offers educational support services, occupational therapy, speech therapy and groups for children with social and emotional difficulties, and also a respite facility for children with learning disabilities or complex health needs.

In addition, it owns and manages 13 residential care homes to enable older children to live as independently as possible.

Urban Exposure was proud to win Norwood's Corporate Volunteer of the Year award for 2018.

Our suppliers

The logistics of our business require us to forge relationships with a wide variety of suppliers of services, both generally and as transactional counterparties: lawyers, surveyors, valuers, project managers, and other professional services firms. Our reputation is very important to us and, to help safeguard this, we will not knowingly do business with any organisation that doesn't share our commitment to dealing with stakeholders fairly, transparently and ethically. Our approach to procurement is based on the principles of competitive tendering and dealing with suppliers in a fair and open manner.

Furthermore, as an ethical employer, we take the elimination of modern slavery and/or human trafficking practices from our supply chain seriously, as required by the Modern Slavery Act 2015. Due to the nature of our business and our approach to governance, we assess that our supply chain is low risk but will keep this under assessment on a regular basis.

Our environment

We believe resolutely in the principle of caring for the environment and, therefore, acknowledge our responsibility to do business in a manner that both protects and improves that environment, both in the present and for the benefit of future generations.

Accordingly, we strive to incorporate environmental good practice into our workplace, taking a sustainable approach to waste management, reducing our carbon emissions and using resources wisely across the business. For example, we have taken large steps in our commitment to delivering a paperless office, and we minimise business travel, providing teleconferencing facilities to enable employees to reduce the need to travel for meetings.

"Our reputation is very important to us and, to help safeguard this, we won't knowingly do business with any organisation that doesn't share our commitment to dealing with stakeholders fairly, transparently and ethically."

Akshaya Patra Foundation

The Akshaya Patra Foundation is a not-for-profit organisation headquartered in India. It strives to eliminate classroom hunger by implementing the Mid-Day Meal Scheme in state and state-aided schools.

Constantly leveraging technology, its state-of-the-art kitchens have become a subject of study across the world. It is now the world's largest NGO-run mid-day meal programme, serving wholesome food every school day to over 1.75 million children from 15,000 schools across 12 states in India.

In February 2019, the organisation celebrated the serving of over three billion meals. It also aims to counter malnutrition and actively supports the right to education of socio-economically disadvantaged children.

Chairman's introduction to governance

Integrity and transparency

With robust infrastructure and governance in place, the Group has the ability to capitalise on the opportunities that arise to achieve sustained growth in the future.

The Board

The Board is responsible for the Group's strategic direction and long-term prosperity. It is accountable to shareholders for ensuring that the Group is appropriately managed and governed. I am pleased that the skill-set of our Executive and Non-Executive Directors is complementary to these aims and their capabilities are appropriate for the size and nature of the business in order to deliver our strategy effectively.

Risk management

The Board recognises the requirement to present a fair, balanced and understandable assessment of the Group's position and outlook, and to uphold a robust and transparent governance structure. The Board will regularly review that structure along with the effectiveness of internal controls, including financial, operational and compliance systems and risk management through the implementation of internal audits. The internal control framework is important to support a growing business and is a key focus for 2019.

The Group strives to ensure best practice in relation to the effectiveness of its Board, accountability and governance. Board meetings are designed to be efficient and productive, coupled with a strong focus on the Group's KPIs and strategy. Our principal risks are outlined on pages 25 to 28.

Culture

The Board seeks to ensure its leadership is accountable and that members demonstrate integrity and transparency in their leadership. The Group is, by its nature, entrepreneurial and unconstrained in its thinking; it has a high performance culture with a focus on learning and growth – traits that have delivered success thus far and provide a springboard for future achievements.

The Group aims to be supportive for staff and compliant with applicable regulations. The Group undertakes regular staff reviews in each quarter of the year. Feedback is acted upon and suggestions for improvement are shared within the Group in our regular business updates through team meetings, committees, and whole company strategy days. We are looking to make more formalised feedback mechanisms within the business through staff surveys with the aspiration of creating a positive feedback loop that drives even better results and enhances our working environment.

William McKee, CBE
Chairman

"The Board seeks to ensure its leadership is accountable and that members demonstrate integrity and transparency."

Whetstone, London N20

Senior debt facility to fund the purchase and development of a site with planning permission for residential accommodation in north London. The site address is 1418-1420 High Road, Whetstone. It is within walking distance of Totteridge & Whetstone underground station on the High Barnet branch of the Northern Line. Oakleigh Park overground station is also close by, providing direct links to Moorgate with a journey time of 30 minutes. Both stations are located in Zone 4. The proposed scheme is a mixed-use development with 22 new-build apartments on the first to fifth floors, and two retail units on the ground floor. The development will also benefit from a double basement car park for residents and retail staff.

Yogo Group is a renowned, multi-award winning property developer in north London. For over 18 years, and as a family run business, it has been designing, building and renovating some of the most glamorous and individual homes, with in-house architects, interior designers and project managers all working together to produce homes to an exacting standard.

GDV: £21.8m

Board of directors

Our board members

At the date of this report, the Board was comprised of three executive directors: Randeesh Sandhu, Rabinder Takhar and Trevor DaCosta; and three non-executive Directors: William McKee as non-executive Chairman, Andrew Baddeley as Chairman of the Audit Committee, and Nigel Greenaway as Chairman of the Remuneration Committee.

Both Andrew Baddeley and Nigel Greenaway are deemed to be independent of the Group, with the exception of the fees that they receive as Directors and the Ordinary Shares they hold as disclosed on page 45. The Directors who served during the period from Admission to 31 December 2018 are shown here.

Randeesh Sandhu
Chief Executive Officer

Randeesh co-founded the Urban Exposure business in 2002 when it was originally a property development company and has overseen its evolution into today's development financing and asset management business. He is experienced in the origination, evaluation and structuring of real estate investments in senior and stretched senior whole loans, mezzanine debt and equity joint ventures. Prior to founding Urban Exposure, Randeesh was a credit risk analyst at Deutsche Bank and a market risk analyst at Royal & Sun Alliance Investments. He is a qualified actuary, a published author and a regular speaker/panellist at specialist industry conferences. Randeesh chairs the Executive Committee.

William McKee
Non-Executive Chairman

William McKee, CBE, has acted on the boards of numerous companies, government bodies and local authorities including as CEO of the British Property Federation, Chairman of Tilfen Land Limited, Chairman of Thurrock Thames Gateway Development Corporation, and Chair of the Mayor of London's Outer London Commission. He is a director of Newcourt Residential Limited and a board member of the Mayor of London's Old Oak & Park Royal Development Corporation. William also acts as a member of a number of advisory committees including BPF Planning Committee, London First Retail Group and is Chair of the Mayor of London/London First Industry & Logistics Sounding Board. William was previously involved with the Urban Exposure business when it was a property development company. William was awarded a CBE in 2002 for services to the property industry and is an Honorary Member of the British Property Federation.

Rabinder Takhar
Chief Risk Officer

Ravi joined the Urban Exposure business in 2005 and previously served as Chairman to the business. He has over 25 years' experience in the acquisition, financing and growth of financial businesses and, since 2002, has been the CEO of AIM-quoted Orchard Funding Group Plc, which specialises in insurance premium finance and the professional fee funding market. Ravi is also an independent non-executive director of Honeycomb Investment Trust Plc, which specialises in the acquisition of loans made to consumers and small businesses as well as other counterparties and is listed on the Specialist Fund Segment of the Main Market of the London Stock Exchange. He has previously held senior positions in several mortgage companies and, as an investment banker, was a founding member of Nikko Principal Finance and Head of Mortgage Principal Finance at Investec Bank Plc. Ravi qualified as a lawyer at Clifford Chance and, specialising in property finance, helped to secure the first mortgage-backed securitisations in the UK. He has an MA from the University of Oxford.

Trevor DaCosta
Finance Director

Trevor is responsible for the day to day management of the finance function, with specific responsibility for reporting performance to the shareholders, financial planning and analysis, and statutory and management reporting. He has over 17 years' experience in the property sector. Prior to joining Urban Exposure in 2017, Trevor was senior director, Head of FP&A (Europe) for Tishman Speyer Properties Limited, a privately owned global property investment and development business. He was previously Finance Manager at Telereal Trillium (commercial property management and investment) and Financial Controller at BT Group PLC's property division. Trevor is a Fellow of the Chartered Institute of Management Accountants (FCMA).

Andrew Baddeley
Non-Executive Director

Andrew currently serves as Chief Financial Officer at wealth manager Tilney Group. He was previously Group Chief Financial Officer for TP ICAP Plc where he drove the completion of the ICAP acquisition as Tullett Prebon's Group Chief Financial Officer and led the planning and the initial implementation of the integration project. This followed 18 years in the insurance industry where Andrew was latterly Group Chief Financial Officer of Brit Limited through the IPO process and into the FTSE 250 with a £1 billion market capitalisation. Andrew qualified as a chartered accountant in 1987 and spent over 10 years with PwC and Ernst & Young. Andrew is currently a director of Hillcrest Residents Association Limited, a governor of Walthamstow Hall School and serves on the Audit & Risk Committee of the Young Enterprise Trust.

Nigel Greenaway
Non-Executive Director

Nigel has 40 years' experience in the house building industry, with the final 30 as part of Persimmon Plc. Nigel served on the Persimmon board from 2013 until he retired in 2016 from his role as South Division Chief Executive, a role which he held from 2007. Nigel was one of the senior Persimmon team meeting with the Home Builders Federation and with the Government. Following his retirement from Persimmon, Nigel has maintained a number of private business interests in the property and construction industry.

Board Committees

The Board is supported both by the Audit Committee and the Remuneration Committee, each of which has access to the resources, information and advice that it deems necessary, at the cost of the Group, in order to enable it to discharge its duties. These duties are set out in the Terms of Reference of each committee, copies of which are summarised on the Group's website. The executive directors are not members of any of the Board committees, however they may be invited to attend.

Board and committee attendance

The Board met on six occasions in the Period ending 31 December 2018 and all six directors attended each meeting. The Audit Committee met twice in the same Period and all members attended both meetings. The Remuneration Committee met once in the Period and all members attended.

The minutes of committee meetings are produced as soon as possible after the meetings and are circulated to all committee members for comment prior to being signed by the committee Chairman. Once approved, the minutes of each meeting are circulated to all other members of the Board unless it would be inappropriate to do so in the opinion of the committee Chairman.

Audit Committee

The Audit Committee is scheduled to meet at least twice a year and has been chaired throughout the Period by Andrew Baddeley; its membership comprises all non-executive directors. The Chief Executive Officer, Finance Director and Chief Operating Officer are normally invited to attend Audit Committee meetings along with the external auditors.

The committee monitors the integrity of the financial statements of the Group, including the annual and interim reports, interim management statements, preliminary results announcements, and any other formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgments that such reports, announcements and statements may contain, having regard to matters communicated to it by the auditor.

The committee is responsible for recommending the appointment, reappointment or removal, and remuneration of the external auditor.

The committee is also responsible for monitoring the effectiveness of the Group's internal financial controls in the context of the Group's overall risk management system and, specifically, considering and keeping under review whether the Group requires an internal audit function.

In addition, the committee is responsible for monitoring the Group's overall risk appetite, tolerance and strategy and advising internally on the risk exposures of the Group and future risk strategy.

Remuneration Committee

The Remuneration Committee is scheduled to meet at least once a year and has been chaired throughout the Period by Nigel Greenaway; its membership comprises all non-executive directors. The Chief Executive Officer may be invited to attend meetings.

The committee determines and agrees with the Board the framework and broad policy for the remuneration and pension rights of the Group's Chairman, executive directors and such other senior employees as it is requested by the Board to consider.

The remuneration of non-executive directors is a matter for the Board or the shareholders (within the limits set in the Articles of Association). No director or senior manager is involved in any decisions as to their own remuneration. The committee makes recommendations and monitors the level and structure of remuneration for senior management.

The committee takes into account all factors that it deems necessary, including relevant legal and regulatory requirements and the provisions and recommendations of relevant guidance. These require the policy and associated procedures and practices to be consistent with, and to promote, sound and effective risk management in accordance with the remuneration principles. The objective is to ensure that members of the executive management of the Group are provided with appropriate incentives to encourage enhanced performance, and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.

In assessing the efficacy of the remuneration policy, the committee will obtain practicable, reliable and up-to-date information about remuneration in other comparable businesses and shall have full authority to appoint remuneration consultants within any budgetary constraints imposed by the Board.

The committee shall approve the design of, and determine targets for, any performance-related pay schemes operated by the Group and will approve the total annual payments made under such schemes. The committee shall also review the design of all share incentive plans for approval by the Board, determining each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to executive directors, and the performance targets to be used.

The committee shall, in consultation with the Chairman and the Chief Executive Officer respectively, determine the total individual remuneration package for the Chief Executive Officer and each executive director/senior executive including bonuses, incentive payments and share awards, having regard to relevant legal requirements, the provisions and recommendations in the QCA Code, the AIM Rules and associated guidance.

The committee is also responsible for reviewing the structure, size and composition, including skills, knowledge, experience and diversity, of the Board and making recommendations to the Board with regards to any changes, and giving full consideration to succession planning for directors and other senior executives.

Executive Committee

The Executive Committee is not a committee of the Board. It is chaired by the CEO and is scheduled to meet on a monthly basis. It is comprised of the senior management of the business. The committee oversees the day to day operational management of the business.

Relations and communications with shareholders

The Company both encourages and welcomes dialogue with its institutional shareholders in order that the Group can assess the views and requirements of those shareholders. The Chief Executive Officer met with major shareholders during the period following the IPO and will meet major shareholders following the announcement of both the results to 31 December 2018 and interim results for the six months ending 30 June 2019, and at other times deemed appropriate during the year. The AGM also provides a forum for investors to meet the directors and discuss questions or matters affecting the Group.

LGL Secretaries Ltd
Company Secretary
2 April 2019

UK corporate governance code

Urban Exposure Plc (the 'Company') recognises the importance of good corporate governance and intends that best practice is adopted and applied in so far as it is appropriate for the Group given its entrepreneurial nature, its size and stage of development. As an AIM-traded company, the UK Corporate Governance Code issued by the Financial Reporting Council ('FRC') does not apply, however the Board intends to comply as far as possible with the requirements of the Corporate Governance guidelines published by the Quoted Companies Alliance (the QCA Guidelines) for AIM companies.

Bethnal Green, London E2

Senior debt facility to fund development. The site is located in Bethnal Green, East London and lies adjacent to the Regent's Canal. The completed development will provide 56 residential units in total, with 50 private apartments, three private cottages and three affordable units. There will also be three commercial units.

Aitch Group is a highly experienced and well-regarded developer, specialising in residential property development projects in London and the south east, having completed hundreds of mixed use, residential and commercial projects. It operates an integrated business model, from land and planning to construction, property management and marketing.

GDV: £40.4m

Review and challenge

The Audit Committee meets at least twice a year and has been chaired throughout the Period by Andrew Baddeley; its membership as at 31 December 2018, in addition to the Chairman, comprised William McKee and Nigel Greenaway, all of whom are non-executive directors of the Group.

Duties and terms of reference

The committee monitors the integrity of the financial statements of the Group, including its annual and half-yearly reports, interim management statements, preliminary results announcements and any other formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgments that they contain.

The committee reviews and challenges, where necessary, the consistency of, and any changes to, the accounting policies across the Group. It considers the clarity of the disclosures in the Group's financial reports, in addition to the context in which statements are made, and all material information presented with the financial statements, such as the business, strategic and financial reviews together with the corporate governance statements.

The committee keeps under review the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems, and monitors and reviews the effectiveness of the Group's internal financial controls in the context of the Group's overall risk management system and, specifically, considers and keeps under review whether the Group requires an internal audit function.

The committee considers and makes recommendations to the Board, to be put to shareholders for approval at the AGM, in relation to the appointment, re-appointment and removal of the Group's external auditor. The committee also oversees the relationship with the external auditor including, but not limited to, recommendations on its remuneration, developing a policy for the supply of non-audit services, monitoring adherence to that policy, and approving fees for such non-audit services, and ensuring that the level of fees for the audit is appropriate to, enable an effective and high quality audit to be conducted.

The committee considers the terms of engagement of the external auditor, including the engagement letters issued at the start of the audit and the scope of the audit, assessing its independence and objectivity taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The committee meets the external auditor at least once a year, without management being present, to discuss its remit, and any issues arising from the audit.

Activities during the Period

During the Period from incorporation to 31 December 2018, the committee met on two occasions and among other matters:

- reviewed the appropriateness of the accounting policies used in preparing the Group's financial statements;
- reviewed and approved the unaudited interim financial statements for the Period from incorporation to 30 September 2018;
- considered the external auditor's report on its review of the unaudited interim financial statements for the Period from incorporation to 30 September 2018; and
- discussed with the external auditor the audit plan for the Period from Admission to 31 December 2018, with acquisition accounting, the treatment of the partnership agreement with KKR, accounting for loan receivables, share-based payments, and management override of controls being identified as significant risk areas.

Significant accounting matters

During the Period, the committee considered key accounting issues, matters and judgments in relation to the Group's financial statements and disclosures relating to:

Acquisition accounting

The committee considered the asset management business comprising the employees, systems and client contacts, together with existing receivables purchased at the IPO. The committee determined that this should be accounted for as a business combination under IFRS and that the amounts receivable for performance should be valued as a contract asset under IFRS 15, and for loan financing accounted for under IFRS 9.

Accounting for the partnership agreement with KKR

The committee considered whether the Group had either joint control or significant influence over the agreement between the Group and KKR, and determined it should be accounted for as a general trade investment under IFRS 9, held at fair value at the reporting date and accounted for at fair value through profit and loss.

Accounting for loan receivables

The committee considered the loans made by the Group, evaluating the recoverability of balances, management's intended approach to managing the loan book, the value of the loans, and the basis of recognising earnings from the portfolio. The committee concluded that the loans should be accounted for under IFRS 9 and held at fair value through profit and loss.

Share-based payments

The committee evaluated the valuation and resulting expense to be recorded in respect of the share options accounted for as share-based payments under IFRS 2.

Internal controls

The committee is satisfied that the current controls are effective in the context of the Group's overall risk management framework, given the size of the Group. Any internal control system can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Internal audit function

The Group has a system of internal controls that is reviewed by the external auditor as part of the annual audit. The committee considers that the internal controls are appropriate for the present stage of development, given the entrepreneurial nature of the Group's business. The committee regularly considers whether there is a need for an internal audit function and reports its findings to the Board. The committee and Board do not believe that there is currently a need for an internal audit function over and above the existing activities performed by management but this position will continue to be reviewed.

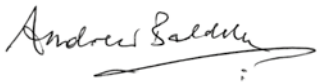
External auditor

BDO LLP has provided audit services to the Group since its appointment in May 2018 following the Initial Public Offer. The committee is satisfied with the performance of the auditor and considers it appropriate to recommend to the Board and shareholders that BDO LLP be reappointed as auditor at the forthcoming AGM.

Prior to the Company's admission to AIM, the Company awarded a number of non-audit assignments to BDO LLP, such as corporate and tax advisory work and is conscious of the need to ensure its independence and objectivity is not compromised.

The committee determined that the award of non-audit assignments to BDO LLP did not compromise its independence on the basis that different teams worked on the separate engagements. The committee continues to believe that, in some circumstances, the external auditor's understanding of the Company's business can be beneficial in improving the efficiency and effectiveness of advisory work. For this reason, we have continued to appoint BDO for the provision of tax services, with an estimated fee of £20,000.

The committee will keep under review the provider of audit and non-audit assignments and future non-audit services will be authorised on the basis that they are permissible under regulations relating to listed entities.



Andrew Baddeley
Chairman, Audit Committee
2 April 2019

Aligning performance incentives and reward

The Remuneration Committee meets at least once a year and has been chaired since Admission by Nigel Greenaway; its membership as at 31 December 2018, in addition to the Chairman, comprises William McKee and Andrew Baddeley, both of whom are non-executive directors of the Group.

The committee, following consultation with the CEO, determines the specific remuneration packages for each of the executive directors and certain senior managers, including base salary, annual bonus, participation in an equity incentive share option scheme (Long-Term Incentive Plan 'LTIP'), benefits and terms of employment.

The committee is responsible for approving the scope of the annual base salary review for all staff across the Group. The committee also reviews the application of the performance conditions for the LTIP and may vary the performance condition or the level of vesting, if it considers appropriate, to reflect real performance. The committee ensures that the Group's remuneration policy complies with applicable regulations and any associated reporting obligations.

Where appropriate, the Company adheres to the principles and requirements of the QCA Corporate Governance Code (the 'Code') and the recommendations set out in the associated QCA Remuneration Committee Guide for Small and Mid-Size Quoted Companies. This report has been prepared in accordance with the expectations and recommendations of the Code and associated Guidance, although the Remuneration Committee recognises that, in some respects, this report does not fully meet those recommendations.

However, the Remuneration Committee considers that the contents of this report provide an appropriate level of disclosure to shareholders in light of the relatively short period of time since the Company listed on AIM and the continuing development of the Company's remuneration policy since that listing. The Remuneration Committee aims to meet more fully the expectations and recommendations of the Code and associated Guidance in future years.

Activities during the period

The committee met once during, and again shortly after the end of, the Period. At these meetings, the committee considered the planned salary reviews, the level of discretionary bonus awards and their partial deferral into shares, and the LTIP awards and performance metrics.

Remuneration principles and 2018 approach

The Group recognises the importance of recruiting and retaining suitable executives and staff to support the effectiveness and efficiency of the business. To achieve this, the committee is tasked with providing a competitive package of incentives and rewards, with the aim of aligning personal reward with increased shareholder value over both the short and longer term. To that end, we operate the following remuneration framework:

Element	Operation	Approach in 2018
Salary	Annual salary is targeted to be competitive in the sector and allow the Company to attract and retain the best talent in the industry. Salaries are reviewed regularly to ensure that they remain competitive, with reference to sector peers and other companies of similar size and complexity.	During the Period, the Committee sought advice on remuneration levels for executive directors and other employees, and reviewed salary levels in the context of market competitors and the status of the business as an AIM-listed company.
Discretionary Bonus Scheme ('DBS')	The DBS is based on stretching financial and non-financial service and personal development orientated criteria. Under the DBS, executive directors and staff may receive a discretionary bonus, based on these criteria. Part of the bonus is paid following the year end, after the signing of the financial statements. The remaining deferred element is paid in alignment with income recognition. At the committee's discretion, the recipients of an award under the DBS may be required to receive part of the bonus in shares in the Group for which there is a minimum holding period or performance hurdle.	The committee assessed the performance of the executive directors during the year against their defined performance criteria and was satisfied that these targets have been met in part or in full. Details of the resulting bonus pay-outs, as determined by the committee, are provided on page 43. In each case, a portion of the bonus is deferred into shares, or deferred for periods that align with income recognition.
Long-Term Incentive Plan ('LTIP')	All employees are eligible to participate in order to align the entire team with the Group's investors in driving the business forward. Under the LTIP, employees are given the opportunity to acquire shares in an intermediate holding company and/or are granted options over Ordinary Shares in the Group. The shares in the intermediate holding company may be exchanged for Ordinary Shares in the Group and the options may be exercised when certain performance criteria are met over a three-year period.	Initial awards under the LTIP were granted on Admission, and may vest in three tranches after one, two and three years, subject to satisfaction of the performance conditions. Further details can be found on the following pages.
Benefits	The Company provides a competitive package of benefits including market comparable holiday, sick leave cover, and generous maternity provisions, based on length of service and incentives to return to work. Staff can opt in to a private health insurance scheme including cover for their dependants, and a car allowance is available based on seniority and length of service.	Executive directors receive benefits in line with those offered to the wider workforce, including a car allowance.
Pension	All employees are eligible for pension contributions under the Company-wide pension scheme, in line with government requirements.	Executive directors received pension contributions under the Company-wide plan.
Non-Executive Director fees	Fees payable to the non-executive directors are set with reference to market data for sector peers and other companies of similar size and complexity. The committee reviews fee levels regularly to ensure that they remain competitive.	Fees payable to the Company's non-executive directors were set on their appointment to the Company at Admission.

Remuneration Committee report continued

Summary of emoluments by individual director (audited)

The emoluments of the directors who served during the Period are set out in the table below. Note that these figures relate only to the Period from Admission to the year end.

	Base salary	Pension benefits	Other benefits	Discretionary bonus – cash	Long-term incentives[1]	Total remuneration 2018
Executive Directors						
Randeesh Sandhu, Chief Executive Officer	274,193	470	12,700	192,500	16,204	486,067
Rabinder Takhar, Chief Risk Officer	96,774	470	0	16,500	8,102	121,846
Trevor DaCosta, Finance Director	80,645	470	2,500	40,000	4,861	128,476
Non-Executive Directors						
William McKee	38,709	–	–	–	–	38,709
Andrew Baddeley	36,878	–	–	–	–	36,878
Nigel Greenaway	36,878	470	–	–	–	37,348
Total	**564,077**	**1,880**	**15,200**	**249,000**	**29,167**	**849,324**

1. IPO LTIP awards vest on the publication of the Company's audited financial accounts. As the share price on this date is not yet known, this value is based on the three-month average share price up to 31 December 2018 of 92.36p. This value will be restated in next year's remuneration report once the final value is known.

An element of the DBS is subject to the achievement of a share price performance condition by 31 December 2021, and will be included in directors' emoluments when this performance condition is met.

During the year, the Group provided loans to employees for the payment of taxes relating to the grant of options under the LTIP. For the three executive directors these totalled c.£6,000. The Group has not provided any guarantees for the benefit of any director or the directors collectively, nor does it intend to do so.

Discretionary Bonus Scheme

Bonuses are awarded from a Company-wide bonus pool, the size of which is determined by the committee, based on performance with respect to key transactional KPIs for each year. For 2018, the DBS bonus pool was funded by the following three metrics:

1. Fund raising – funds raised during the year;
2. Loan commitment – loans committed during the year; and
3. Projected aggregate income from incremental loans committed during the year.

In order to encourage the staff and directors to build long-term value for the Group, the deferred element of the bonus may be used to purchase shares that will vest on satisfaction of certain conditions including continued employment up to the vesting date. Furthermore, elements of the bonus payments will be deferred to align to actual Group projected aggregate income.

2018 performance and bonus pool generation

Fund raising

During 2018, the Group completed its IPO, transitioning from being a privately-held business to achieving a listing on AIM. This involved a significant amount of work for a small management team working with the Company's advisers. The committee determined that the DBS pool should include an amount of £750,000 to reward those key members of staff (the 'IPO Bonus').

Loan commitments

The Group was extremely successful in meeting demand for its product in its first trading period. Accordingly, the committee set aside a percentage of committed loans for the bonus pool.

Projected aggregate income

As described in the Chief Executive's Review, the Group was able to commit loans with high quality earnings that will develop as the funds are drawn down and the relevant development moves through its construction, marketing and sale process. The committee determined that a percentage of future earnings should be set aside for the bonus pool; however, reflecting the longer timeframe over which these earnings are expected to materialise, this element of the bonus pool will be payable based on recognition of income, and is subject to review should there be any negative adjustment to future income.

2018 awards under the DBS

The Group's remuneration policy provides the committee with flexibility to select appropriate performance ranges in relation to the target awards to ensure the application of the remuneration policy is fair for both individuals and shareholders.

In the months following the IPO, the Group encountered various difficulties that resulted in a significant fall in the share price. Accordingly, the committee determined that payment of the IPO-related element of the bonus should be 100% deferred and should be awarded in shares. The Company will establish an employee benefit trust that will acquire the requisite shares using the funds from the DBS bonus pool. Each employee and director due to receive an allocation of that pool will have an award of shares that will vest when the share price reaches £1.10 (i.e. a 10% premium to the IPO price), provided that occurs before 31 December 2021 and that the recipients remain employed and not under notice to leave the Company on or before that vesting date. If the performance conditions are not satisfied, the award will lapse.

In addition to the IPO Bonus which is subject to deferral conditions as described above, a portion of awards made under the DBS have been deferred into shares, 50% for the CEO and CRO, and for the wider employee group, 20% will be deferred into shares.

Executive director performance objectives

The committee considered the roles performed by, and the achievements of, each of the three executive directors, reflecting also on the activities at the Group during the Period. Whilst all three executive directors were heavily involved in the IPO, the CEO took a clear lead in this work and then was the driver of the creation of the loan book, the achievement of the joint venture with KKR, developing the strategy and responding to the challenges encountered by the Group post-IPO.

	Personal objectives	Performance outcome	Committee decision
Chief Executive Officer	• Delivery of the IPO • Originating and completing a high volume of loan commitments • Securing a number of strong and substantial asset management relationships • Developing the Group's profile within the investor community • Building and developing the executive team	Exceeded	The CEO received an IPO Bonus of £185,000 which is deferred into shares, the vesting of which is subject to a share price condition as described above. The committee determined that the CEO should receive a bonus of £192,500 and a further amount would be deferred into shares.
Chief Risk Officer	• Delivery of the IPO • Developing a risk management framework for the Group • Securing additional funding sources	Exceeded	The CRO received an IPO Bonus of £75,000 which is deferred into shares, the vesting of which is subject to a share price condition as described above. The committee determined that the CRO should receive a bonus of £16,500, and a further amount would be deferred into shares.
Finance Director	• Supporting the CEO and CRO through the IPO • Delivering the transition to listed company reporting • Delivery of the Interim reporting	Met	The FD received an IPO Bonus of £20,000 which is deferred into shares, the vesting of which is subject to a share price condition as described above. The committee determined that the FD should receive a bonus of £40,000, and a further amount would be deferred into shares.

Remuneration Committee report continued

Long-Term Incentive Plan

The LTIP is designed to incentivise employees to build long-term value for the Company and allow them to share in the value created. Shares awards under the LTIP were granted on Admission with one third vesting after the publication of the Company's accounts each year over a three-year period. Awards vest subject to the satisfaction of three equally-weighted performance targets, as set out below.

Performance is measured in three tranches: the first tranche is measured from Admission to 31 December 2018, with tranches two and three measured over the following two financial years.

a) Annualised Total Shareholder Return ('TSR') (target range of 6.25–12.5%);
b) Annualised Return on Equity ('ROE') (target range of 7.5–15%); and
c) Committed loan volumes (target range of £125–250m).

Performance is measured on a straight-line basis between target levels.
The committee assessed performance for the first tranche of these awards in early 2019. The Group achieved one of the three performance criteria, falling short of achieving the targets for TSR and ROE. The Group comfortably exceeded its target of between £125m and £250m for committed loan volumes. Accordingly, one ninth of the total award (one third of the first tranche) will vest on the publication of the Company's audited financial accounts following the end of the performance period.

Summary of outstanding share-based awards

Details of all the executive directors' outstanding share-based awards are described in the table below.

	Award type	Granted in period	Exercised	Lapsed	Outstanding at 31.12.18	Grant date	Vesting date
Randeesh Sandhu	LTIP (IPO tranche 1)	52,632	–	35,088	17,544	09.05.18	2019[1]
	LTIP (IPO tranche 2)	52,632	–	–	52,632	09.05.18	2020[1]
	LTIP (IPO tranche 3)	52,631	–	–	52,631	09.05.18	2021[1]
		157,895		**35,088**	**122,807**		
Rabinder Takhar	LTIP (IPO tranche 1)	26,316	–	17,544	8,772	09.05.18	2019[1]
	LTIP (IPO tranche 2)	26,316	–	–	26,316	09.05.18	2020[1]
	LTIP (IPO tranche 3)	26,315	–	–	26,315	09.05.18	2021[1]
		78,947		**17,544**	**61,403**		
Trevor DaCosta	LTIP (IPO tranche 1)	15,790	–	10,527	5,263	09.05.18	2019[1]
	LTIP (IPO tranche 2)	15,789	–	–	15,789	09.05.18	2020[1]
	LTIP (IPO tranche 3)	15,789	–	–	15,789	09.05.18	2021[1]
	MSO	50,000	–	–	50,000	09.05.18	09.05.21[2]
		97,368		**10,527**	**86,841**		

1. Awards vest, subject to satisfaction of the performance conditions above, on the publication of the Company's audited financial accounts following the end of the performance period.
2. Management Share Options 'MSO' – Awards vest subject to the recipient remaining employed and not under notice to leave the Company on or before the vesting date.

The committee intends to make further awards under the LTIP in 2019, the details of which will be disclosed in next year's annual report, along with the DBS deferred share and IPO Bonus awards, which will be made shortly after the Company's AGM.

Service contracts and directors' interests in the Company

Details of the commencement dates, notice periods, and shareholdings in respect of the executive and non-executive directors are as follows:

			Shareholdings – Ordinary shares			Unvested share awards	
	Date of appointment	Length of service contract	Held at Admission	Acquired during the year	Held at 31.12.2018	Subject to performance	Subject to service only
Randeesh Sandhu	9.4.2018	12 months	3,307,783	–	3,307,783	122,807	–
Rabinder Takhar	30.4.2018	3 months	2,295,000	–	2,295,000	61,403	–
Trevor DaCosta	9.4.2018	12 months	–	–	–	36,841	50,000
William McKie	30.4.2018	3 months	20,000	19,500	39,500	–	–
Andrew Baddeley	30.4.2018	3 months	25,000	25,000	50,000	–	–
Nigel Greenaway	30.4.2018	3 months	25,000	–	25,000	–	–

2019 remuneration policy

For 2019 the committee intends to operate broadly the same remuneration framework as 2018.

The committee carried out a review of the salaries of senior employees in early 2019. The executive directors' salaries will remain the same for 2019. Considering the increased level of responsibility for leadership of an AIM-listed company, a number of senior employees in the wider group had adjustments made to their base salaries, effective 1 January 2019.

The DBS will operate in a similar manner to 2018, based on stretching financial and non-financial criteria. A portion will be payable after the Company has signed off its financial accounts, with the remainder deferred until the first and second anniversaries of grant. The projected aggregate income target will continue to operate under the same principles of being deferred over a period to reflect when the income is recognised and subject to review should there be any negative adjustment to future income.

The Company will make further LTIP awards to the employee population in 2019. The Committee, with support from its independent advisors, has carried out a review of the performance conditions applying to LTIP awards. From 2019 onwards, awards will vest in a single tranche after three years. This represents a move towards typical market practice and helps align reward more appropriately with the Company's long-term financial goals.

The performance criteria will be:

- Average annual TSR of 6.25% to 12.5%;
- Average annual ROE of 7.5% to 15%; and
- Average annual committed loan volumes of £750m to £1 billion p.a.

Each of these metrics will operate on a straight-line scale in computing the percentage of the LTIP that vests.

Nigel Greenaway
Chairman, Remuneration Committee
2 April 2019

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that legislation, the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for the Period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may differ from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Randeesh Sandhu
Chief Executive Officer
2 April 2019

Directors' report

The directors present their report together with the audited consolidated financial statements for the Period ended 31 December 2018.

Principal activities, review of business and other disclosure

Details of the Group's principal activities and a review of the business are included within the Strategic Report on pages 2 to 32.

Directors

The following directors hold office as at the date of this report:
Randeesh Sandhu, appointed 10.04.18
Trevor DaCosta, appointed 10.04.18
Rabinder Takhar, appointed 30.04.18
William McKee, appointed 30.04.18
Andrew Baddeley, appointed 30.04.18
Nigel Greenaway, appointed 30.04.18

Financial risk management

The Group is exposed to market risk (including interest rate risk and real estate market risk), credit risk and liquidity risk. The Group's Chief Risk Officer oversees the management of these risks with senior management, and the Board of directors has overall responsibility for the determination of the Group's risk management objectives and policies and it sets policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out in note 4 and the Principal Risks & Uncertainties section of the Strategic Report.

Directors' indemnities

The Company has arranged qualifying third party indemnity for all of its directors.

Directors' interests

The interests of directors who held office at 31 December 2018 are disclosed in the Remuneration Committee Report on pages 41 to 46.

Dividends

On 21 January 2019, the Company paid a dividend of 0.83p to the holders of its Ordinary Shares. The directors recommend a final dividend of 1.67p.

Share capital

As at 31 December 2018, the issued share capital of the Company was 165,000,000 Ordinary Shares (including 6,505,870 shares held in treasury).

Purchase of own shares

On 14 November 2018, the Company purchased 6,505,870 of its Ordinary £0.01 Shares at 80 pence per share. All shares repurchased are held in treasury.

Voting rights

The Company's Articles of Association provide that a resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is duly demanded in accordance with the articles.

Articles of Association

The Company's Articles of Association may only be amended by the unanimous approval of the Company's shareholders.

Shareholders

A register of the Company's major shareholders can be found on the Company's website.

Annual General Meeting

The AGM will be held at 10am on 2 May 2019 at the offices of MHPC, 6 Agar Street, London WC2N 4HN.

Significant agreements

The Group has entered into one significant partnership agreement with KKR.

Auditor

BDO LLP is in office as the Group's auditor.

Disclosure of information to the Company's auditor

In accordance with the provisions of section 418 of the Companies Act 2006, the directors who held office at the date of this report each confirm that:

- so far as they are aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditor is unaware; and
- they have taken all steps required of a director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditor is aware of that information.

Post-balance sheet events

The Group has no post-balance sheet events requiring disclosure.

Going concern

Having considered the Group's funding position and financial projections, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the financial statements.

Political donations

The Group and/or Company did not make any political donations during the period.

Future developments

Future developments in the business of the Group are set out in the Strategic Report on pages 2 to 32.

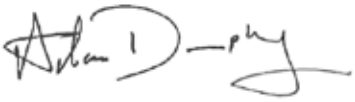
Directors' report continued

Directors' authority to buy back shares

The directors believe that the most effective means of minimising any discount to Net Asset Value which may arise on the Group's share price is to deliver strong, consistent performance from the Group's investment portfolio, in both absolute and relative terms. However, the Board recognises that wider market conditions and other considerations will affect the rating of the shares in the short term and the Board may seek to limit the level and volatility of any discount to Net Asset Value at which the shares may trade. The means by which this might be done could include the Group repurchasing shares. Therefore, subject to the requirements of the AIM Rules, the Companies Act 2006, the Articles of Association and other applicable legislation, the Group may purchase shares in the market in order to address any imbalance between the supply of and demand for shares or to enhance the Net Asset Value of shares. In deciding whether to make any such purchases, the directors will have regard to what they believe to be in the best interests of shareholders and in accordance with applicable legislation which requires the directors to be satisfied on reasonable grounds that the Group will, immediately after any such repurchase, satisfy a solvency test prescribed by the Companies Act 2006 and any other requirements in its Memorandum and Articles of Incorporation. The making and timing of any buybacks will be at the absolute discretion of the Board and not at the option of the shareholders. Any such repurchases would only be made through the market for cash at a discount to Net Asset Value. Annually, the Group passes a resolution granting the directors general authority to purchase in the market up to 14.99% of the shares in issue immediately following Admission at a price not exceeding the higher of (i) 5% above the average mid-market values of shares for the five business days before the purchase is made or (ii) the higher of the last independent trade or the highest current independent bid for shares. The directors intend to seek renewal of this authority from the shareholders at the Annual General Meeting.

Pursuant to this authority, and subject to the Companies Act 2006 and the discretion of the directors, the Group may purchase shares in the market on an on-going basis with a view to addressing any imbalance between the supply of and demand for shares. Shares purchased by the Group may be cancelled or held as treasury shares. The Company may borrow and/or realise investments in order to finance such share purchases.

By resolution of the Board



LGL Secretaries Ltd
Company Secretary
2 April 2019

The Annual General Meeting will be held at 10am on 2 May 2019 at the offices of MHPC, 6 Agar Street, London WC2N 4HN.

Independent auditor's report to the members of Urban Exposure Plc

Opinion

We have audited the financial statements of Urban Exposure Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the Period from 10 April 2018 to 31 December 2018 which comprise consolidated statement of comprehensive income, consolidated and Company statement of financial position, consolidated and Company statement of changes in equity, consolidated cash flow statement and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard in the United Kingdom and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's loss for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current Period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report to the members of Urban Exposure Plc continued

Key audit matter	How the matter was addressed in our audit
Valuation of loans (note 4 and 18) Loans receivable represent the largest element of the Group's net assets. As explained in note 4, these financial assets are measured at fair value through profit and loss, and the determination of fair value involves significant judgment and estimation. There is a risk that the carrying value is misstated if either the classification of the assets is inappropriate (based on the business model under which they are held), or the inputs and assumptions underlying the valuation calculation, such as borrower credit assessment, are inappropriate. As income principally comprises movements in the fair value of the loan receivables, there is risk that income will also be misstated.	We obtained the loan agreements and credit assessment documentation for each loan advanced. We agreed drawdowns paid prior to the year end to bank statements. We also obtained direct confirmation from borrowers of the loan principal and accrued interest outstanding at 31 December 2018. We discussed the status of each loan with the Urban Exposure credit team, including consideration of any changes in the credit assessment of each borrower. We also reviewed the reasonableness of management's cash flow forecasts for each loan based on the loan documentation and supporting project appraisals. We also discussed with management the business model for the loans and considered the appropriateness of the held to sell classification and resultant measurement at fair value through profit and loss. We obtained management's fair value calculations and considered the appropriateness of the methodology applied and assumptions used. Valuation inputs have been agreed to supporting documentation including the underlying loan agreements and we have performed our own fair valuation calculations to help assess the reasonableness of the Company's own calculations.
De-recognition of loans and investments in related structures (note 4 and 16) As explained in Note 2, the Group's transaction strategy is to use its balance sheet as a temporary warehouse for loans that are executed, before moving them into an asset management structure. During the Period to 31 December 2018, the Group has entered into a partnership agreement with Kohlberg Kravis Roberts ('KKR') in which the Group has a 9.1% interest, and loans have been transferred into this vehicle. The Group has also syndicated two loans with another lender prior to the year end. There is a risk that the accounting treatment adopted in respect of the transfer or syndication of loans and the classification and measurement of the Group's remaining interests is not appropriate.	We reviewed management's assessment of the nature of the investment in, and the de-recognition of loans on transfer into, the KKR partnership. We also considered the carrying value of this interest at 31 December 2018. Our audit work included, but was not restricted to, the following: • we inspected the limited partnership agreement which details the rights and responsibilities of each party; • we considered the appropriateness of the methodology and assumptions management applied in valuing the investment at 31 December 2018; • we agreed the valuation inputs to supporting documentation. We also reviewed management's assessment of whether the syndicated loans meet the criteria for de-recognition under IFRS 9. This included inspection of the syndication agreements.

Key audit matter	How the matter was addressed in our audit
Acquisition accounting and carrying value of intangible assets including goodwill (notes 14 and 27) As described in note 27, the Group acquired an asset management business which has been accounted for as a business combination under IFRS. There is a risk that judgments made by management in allocating the purchase price of this acquisition to goodwill and acquired assets and liabilities are not appropriate. This includes judgments around the identification of acquired intangible assets, and in the fair valuation of all acquired assets and liabilities, including the use of key assumptions such as growth rates and discount rates. In addition, at each reporting date the Group is required to consider any indication of impairment to the carrying value of its intangible assets and goodwill. The assessment is based on expected future cash flows. There is a risk that management may unduly influence the significant judgments and estimates in respect of the requirement for an impairment provision.	We reviewed the sale and purchase agreements and agreed the terms of those agreements in respect of the consideration, assets acquired and other key terms. We considered and challenged management's allocation of the purchase consideration between goodwill and other identifiable assets and liabilities, agreeing amounts to supporting documentation where appropriate. This included consideration of the appropriateness of the valuation methodologies used by management to value the receivables and brand, and benchmarking key assumptions including applied discount rates against market comparables in respect of the brand, sensitising relevant forecasts and testing the mechanical accuracy of the underlying calculations. We used valuation specialists to assist our work in this area. We also assessed management's period-end impairment review process and performed analysis to challenge management's assumptions. Our audit work included, but was not restricted to, the following: • we reviewed management's assessment of forecasted cash flows and considered the forecasts in the light of results achieved during the period. to 31 December 2018; • we obtained evidence, including market-based evidence, to support the growth and discount rates used by management and assessed those for reasonableness.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in the evaluation of the effect of misstatements on the audit and in forming our audit opinion. Materiality is assessed on both quantitative and qualitative grounds.

Materiality	£250,000
Performance materiality	£125,000
Reporting threshold	£5,000

Materiality

The magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We determined materiality for the Group financial statements as a whole to be £250,000. This provides a basis for determining the nature and extent of our risk assessment procedures, identifying and assessing the risk of material misstatement, and determining the nature and extent of further audit procedures.

With this being the Group's first audited reporting Period, and it being a short accounting Period, we have used a materiality level based on the results for the Period with consideration of the Group's asset base.

The principal activity of the Parent Company is that of a holding company. We set materiality for the Parent Company based on 90% of Group materiality, being £225,000.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgment was that overall performance materiality for the Group should be 50% of materiality, namely £125,000.

Performance materiality for the Parent Company was also set at 50% of materiality, being £112,500.

Reporting threshold

We agreed with the Audit Committee that we would report to the committee all individual audit differences in excess of £5,000 as well as differences below this threshold that, in our view, warranted reporting on qualitative grounds.

We agreed that the reporting threshold for the Parent Company would be £4,500.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

Independent auditor's report to the members of Urban Exposure Plc continued

An overview of the scope of our audit

Our audit of the Group was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, applicable legal and regulatory frameworks and the industry in which it operates, and assessing the risks of material misstatement at the Group and Parent Company level. This included consideration of the risk that the Group was acting contrary to applicable laws and regulations, including fraud.

The Group operates solely in the United Kingdom and operates through one segment, underwriting and managing loans, structured through three operating subsidiary companies. Our audit approach was completed on the Group as a single component. The Group audit team performed all the work necessary to issue the Group and Parent Company audit opinions, including undertaking all of the audit work on the key audit matters.

We undertook audit procedures to respond to the risk of non-compliance with laws and regulations, focussing on those that could give rise to a material misstatement in the Group and Parent Company financial statements, including, but not limited to, the Companies Act 2006 and the AIM Rules of the London Stock Exchange for companies trading securities on AIM. We made enquiries of management to obtain further understanding of the risks of non-compliance. There are inherent limitations in the audit procedures described above, and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We addressed the risk of management override of internal controls, by undertaking procedures to review journal entries processed during and subsequent to the year end and evaluating whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We consider that the audit procedures we planned and performed in accordance with ISAs (UK) have provided us with reasonable assurance that irregularities, including fraud, would have been detected to the extent that they could have resulted in material misstatements in the financial statements. Our audit was not designed to identify misstatements or other irregularities that would not be considered to be material to the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the Period for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 47, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body for our audit work, for this report, or for the opinions we have formed.

Geraint Jones (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
2 April 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income

for the Period from 10 April 2018 to 31 December 2018

	Note	Before exceptional items £'000	Exceptional items £'000	Total £'000
Income	5	3,903		3,903
Operating costs	7,9	(5,011)	(869)	(5,880)
Operating loss	6	**(1,108)**	**(869)**	**(1,977)**
Finance costs	10			(12)
Loss before taxation for the Period				**(1,989)**
Taxation	11			273
Loss after taxation for the Period and total comprehensive income				**(1,716)**
Earnings per share				
Basic EPS	12			(1.18p)
Diluted EPS	12			(1.18p)

All activities derive from the continuing operations of the Group.

There are no comparatives as the Company was incorporated on 10 April 2018.

The notes on pages 59 to 81 form an integral part of these Financial Statements.

Consolidated statement of financial position

as at 31 December 2018

Non-current assets	Note	£'000
Intangible assets	14	12,420
Tangible assets	15	4,276
Investments	16	1,949
Total non-current assets		**18,645**
Current assets		
Loan receivables	18	89,544
Trade and other receivables	19	3,947
Cash and cash equivalents	20	46,806
Total current assets		**140,297**
Total assets		**158,942**
Current liabilities		
Trade and other payables	21	3,217
Lease liabilities	22	229
Dividends payable	13	1,316
Total current liabilities		**4,762**
Total assets less current liabilities		**154,180**
Non-current liabilities		
Lease liabilities	22	3,576
Deferred tax	23	83
Total non-current liabilities		**3,659**
Net assets		**150,521**
Equity and reserves		
Share capital	24	1,700
Share premium	25	–
Retained earnings		148,821
Total equity and reserves		**150,521**

There are no comparatives as the Company was incorporated on 10 April 2018.

The Company Registration Number is 11302859.

The notes on pages 59 to 81 form an integral part of these Financial Statements.

These Financial Statements were approved and authorised for issue by the Board of Directors on 2 April 2019 and were signed on its behalf by:

Randeesh Sandhu
Chief Executive Officer

Consolidated statement of changes in equity

for the Period from 10 April 2018 to 31 December 2018

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 10 April 2018		–	–	–	–
Loss for the Period		–	–	(1,716)	(1,716)
Share-based payments	26	–	–	480	480
Dividends payable	13	–	–	(1,316)	(1,316)
Issue of share capital	24	1,700	163,300	–	165,000
IPO costs related to equity issue	25	–	(6,722)	–	(6,722)
Capital reduction	25	–	(156,578)	156,578	–
Share buyback	24	–	–	(5,205)	(5,205)
Balance at 31 December 2018		**1,700**	**–**	**148,821**	**150,521**

There are no comparatives as the Company was incorporated on 10 April 2018.

The notes on pages 59 to 81 form an integral part of these Financial Statements.

Consolidated cash flow statement

for the Period from 10 April 2018 to 31 December 2018

	Note	£'000
Cash flows from operating activities		
Loss for the Period after taxation		(1,716)
Adjustments for non-cash items:		
Amortisation of intangible assets	6	122
Share-based payments	7	480
Finance costs	10	12
Deferred tax credit for Period	11	(273)
		(1,375)
Changes in working capital		
Increase in payables		2,160
Increase in trade investments	16	(1,949)
Increase in receivables		(89,693)
Net cash outflow from operating activities		**(90,857)**
Cash flows from investing activities		
Payments for purchase of tangible assets	15	(410)
Net cash outflow from investing activities		**(410)**
Cash flows from financing activities		
Proceeds from the issue of share capital	24	150,000
Share issue expenses	25	(6,722)
Share buyback		(5,205)
Dividends paid		–
Net cash inflow from financing activities		**138,073**
Net increase in cash and cash equivalents		46,806
Cash and cash equivalents brought forward		–
Cash and cash equivalents at 31 December 2018	20	**46,806**

There are no comparatives as the Company was incorporated on 10 April 2018.

The notes on pages 59 to 81 form an integral part of these Financial Statements.

Notes to the consolidated financial statements

for the Period from 10 April 2018 to 31 December 2018

1. General information and basis of preparation

General information

Urban Exposure 1 Plc was incorporated on 10 April 2018 as a public limited Company in England and Wales with Company registration number 11302859. The Company changed its name to Urban Exposure Plc on 27 April 2018 and its Ordinary Shares were admitted to trading on the Alternative Investment Market ('AIM'), operated by the London Stock Exchange, on 9 May 2018.

The registered office of the Company is 6 Duke Street, St. James's, London SW1Y 6BN. The Group's principal activity is the underwriting and management of loans to UK residential developers.

Period of account

The Consolidated Financial Statements of the Group are in respect of the reporting Period ('the Period') from 10 April 2018 to 31 December 2018.

Basis of preparation

The Consolidated Financial Statements of the Group for the Period comprise the results of Urban Exposure Plc (the 'Company') and its subsidiaries (together, the 'Group'). These Financial Statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the European Union and in compliance with the Companies Act 2006.

The Financial Statements have been prepared on the historical cost basis, except for the trade investments and loan receivables held at fair value at the end of each reporting period, as explained in the accounting policies and in note 3. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The functional and presentational currency of the Group is Sterling.

The Company has applied the exemption allowed under Section 408(1b) of the Companies Act 2006 and has therefore not presented its own Statement of Comprehensive Income in these Financial Statements. The Group loss for the year includes a loss after taxation of £82,000 for the Company.

Going concern

The Directors have, at the time of approving the Financial Statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Board is, therefore, of the opinion that the going concern basis of accounting adopted in the preparation of the Annual Report is appropriate for at least 12 months from the date of approval of the Annual Report.

The Directors have made this assessment after reviewing the Group's latest forecasts for a period of 12 months from the reporting date.

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 2 to 32. This includes, on pages 21 to 24, the Finance Review detailing the financial position of the Group, its cash flows and liquidity position. In addition, note 4 to the Financial Statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of financial instruments, and its exposure to credit risk and liquidity risk.

New standards, interpretations and amendments effective from the beginning of the Period

New standards impacting the Group which have been adopted in the Financial Statements for the Period ended 31 December 2018 are:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from contracts with customers
- IFRS 16 Leases

IFRS 9 Financial instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

IFRS 9 introduces new requirements for:

1. The classification and measurement of financial assets and liabilities
2. The impairment of financial assets, and
3. General hedge accounting.

1. General information and basis of preparation continued

IFRS 9 Financial instruments continued

As this is the first Period since incorporation, the standard has been applied from the beginning of the Period.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- For trade investments and loan receivables, the Group has reviewed the business model within which each financial asset is managed and concluded that all the loans from primary operating activities and equity investments should be measured at the Fair Value Through Profit and Loss ('FVTPL'). At initial recognition, the Group measures trade investments and loan receivables at fair value and any transaction costs are expensed to the income statement. Following initial recognition, these financial assets are subsequently valued at fair value on a recurring basis, with gains or losses arising from changes in fair value recognised through finance income in the income statement.
- Contract assets are those assets held to collect contractual cash flows. The contract assets which were acquired as part of the business combination are originated credit-impaired assets. These assets are monitored for changes in credit risk, and impairment provisions are adjusted accordingly.
- Financial liabilities being trade payables and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest rate method.

IFRS 15 Revenue from contracts with customers

In the current period, the Group has applied IFRS 15 Revenue from contracts with customers (as amended in April 2016) which is effective from 1 January 2018. IFRS 15 introduces a five-step approach to revenue recognition. Prescriptive guidance has been added to IFRS 15 to deal with specific scenarios.

IFRS 15 uses the term 'contract assets' and 'contract liabilities' to describe what might commonly be known as 'accrued income' and 'deferred income'. The Group has adopted the terminology used in IFRS 15 to describe such balances. The term 'income' is in respect of management fees, performance fees and movement in contract assets.

The Group's accounting policies for its income streams are disclosed in detail in note 2.

IFRS 16 Leases

In addition, the Group has early adopted IFRS 16 and has included the right-of-use assets and lease liabilities in accordance with IFRS 16 from the beginning of the Period.

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- the right to obtain substantially all the economic benefits from the use of an identifiable asset; and
- the right to direct the use of the asset.

New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards and interpretations which have been issued by the IASB that are effective for future accounting periods that the Group has decided not to adopt early. The most significant of these is:

- IFRIC Uncertainty over Income Tax positions (effective 1 January 2019).

It is expected that this will not have a material effect.

2. Significant accounting policies

Basis of consolidation

The Consolidated Financial Statements comprise the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) as at 31 December 2018. Subsidiaries are all entities over which the Company has control. The Company controls an investee when:

- it has power over the investee;
- is exposed, or has rights to variable returns from, its involvement with the investee; and
- has the ability to affect those returns through its power over the investee.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Basis of consolidation continued

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control as stated above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the ability to direct the relevant activities of the investee.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the period are included in the income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of assets transferred by the Group, liabilities incurred by the Group and the equity interest issued by the Group in exchange for control of the business or assets and liabilities. Acquisition-related costs are recognised in the income statement as incurred.

The identifiable assets acquired and liabilities assumed are recognised at their fair values at the acquisition date.

Goodwill is measured as the excess of the fair value of the consideration transferred over the fair value of the acquired assets less liabilities assumed at the acquisition date. If the fair value of the net assets acquired exceeds the fair value of the consideration transferred by the Group, this excess is recognised immediately in the income statement as a bargain investment gain.

Income recognition

The majority of the Group's revenue arises from movements in the fair value of loans receivable and trade investments which are held at fair value through profit and loss.

Asset management fees received from third parties for managing loan facilities are recognised in the income statement when the related service has been performed.

The Group receives carried interest from the third party loans it manages once those loans exceed a performance target. The recognition of variable consideration arising in relation to carried interest has been constrained in order that it is highly probable that there will not be a future reversal in the amount of revenue recognised when the final carried interest is calculated.

Where there is a significant financing component included in the transaction price (for example where fees are payable at the termination of a loan for services provided at inception or during the term of the loan), the revenue recognised is calculated by discounting the future cash flows at the interest rate implicit in the loan.

Financial instruments

Financial assets and liabilities are recognised on the Group's statement of financial position when the Group has become a party to the contractual provision of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through the income statement are recognised immediately in the income statement.

2. Significant accounting policies continued

Financial assets

Under IFRS 9, the Group is required to classify and measure financial assets according to the business model within which they are managed and the contractual terms of the cash flows. Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. The Group has determined that contract assets, trade and other receivables, and cash and cash equivalents are financial assets which are measured at amortised cost.

Financial assets are measured at Fair Value Through Other Comprehensive Income ('FVTOCI') if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and their contractual cash flows represent solely payments of principal and interest. Other financial assets are measured at FVTPL.

The Group has reviewed the business model within which each financial asset is managed and concluded that loan receivables from primary operating activities should be measured at the FVTPL. The Group has also determined that certain trade investments meet the criteria for IFRS 9 and should be measured at FVTPL. For assets measured at FVTPL, at initial recognition, the Group measures the financial asset at its fair value and any transaction costs are expensed to the income statement. Following initial recognition, assets are subsequently valued at fair value on a recurring basis with gains or losses arising from changes in fair value recognised in the income statement.

Contract assets

Contract assets are purchased or originated credit-impaired financial assets. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for any loss allowance. These assets are subsequently monitored for changes in credit risk, and impairment provisions are adjusted accordingly.

De-recognition of financial assets

A financial asset is derecognised when either the contractual rights to the cash flows expire, or the asset is transferred. The Group holds loan receivables until a suitable institutional capital provider gains control, and assumes the risks and rewards of the loan receivable. At that point, the transfer is recorded at the transfer value. This proportion of the loan qualifies for de-recognition. The proportion of the loan which is not transferred will remain as a loan receivable and continue to be valued at fair value.

Financial liabilities

Trade payables and other short-term monetary liabilities are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest rate method.

Intangible assets

Goodwill

Goodwill arising on the acquisition of subsidiaries or following a business combination is determined as detailed in the business combination accounting policy.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the Group's Cash Generating Units (CGUs) expected to benefit from the synergies of the business combination. The CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that a unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit and recognised as an impairment in the income statement. Once an impairment loss is recognised, it cannot be reversed in a subsequent period.

On disposal of a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of that unit.

Other intangible assets

Intangible assets with finite lives are acquired separately at cost less accumulated amortisation and accumulated impairment losses. The Group's intangible assets comprise of the brand name acquired by the Group.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual value using the straight-line method over their estimated useful lives, and is recognised as a charge in the income statement. Amortisation methods, useful lives and residual values are reviewed at each reporting date, and are adjusted where appropriate.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Other intangible assets continued

The estimated useful economic lives for the intangible assets are as follows:
Brands: 10 years

Leased assets

The Group has applied IFRS 16 Leases.

Leases are recognised when the Group enters into a contractual lease which conveys the right to control the use of identifiable assets for a period of time in exchange for consideration.

Upon lease commencement, a lessee recognises a right-of-use asset. If the right-of-use asset is an investment property, it is valued at fair value. Where the asset is property, plant or equipment, it is valued at the present value of the lease payment within tangible assets and separately identified as a right-of use tangible asset. Where the lease provides for variable elements, such as a rent review or rate increases linked to a specific index, the lease payments are initially measured at current rates. When the rate varies, this is a re-measuring event and the lease asset and liability is re-measured and treated as an adjustment to the right-of-use asset and lease liability.

The lease liability is initially measured at the present value of the lease payments payable over the lease term and discounted at the rate implicit in the lease if this can be readily determined. Where this cannot be readily determined, the Group's incremental borrowing rate is estimated and used to arrive at the present value of the lease payments. When a re-measurement event occurs, the lease liability is re-measured at this time.

The Group has elected not to apply IFRS 16 to leases with a lease term of less than 12 months or where the underlying asset has a low value when new. In such circumstances, the lease payments are expensed to the income statement as incurred and disclosed in the operating profit note.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks, and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition. The carrying value of these assets approximates their fair value.

Employee benefits

Share-based payments

The Group issues compensation to its employees under equity-settled share-based Long Term Incentive Plans ('LTIP'). The fair value of equity-settled share-based payment arrangements granted to employees is recognised as an expense, with a corresponding increase in equity and spread over the vesting period of the plan on a straight-line basis. The total amount to be expensed is determined by reference to the fair value of the awards made at the grant date, and is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest as a result of non-market based vesting conditions. It recognises the impact of the revision to the original estimates, if any, in the income statement with a corresponding adjustment to equity over the remaining vesting period.

Market vesting conditions are factored into the fair value of the options granted. The fair value of the awards and ultimate expense are not adjusted on a change in market vesting conditions during the vesting period. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

Equity

For the purpose of preparing the consolidated Financial Statements of the Group, the share capital represents the nominal value of the issued share capital of Urban Exposure Plc.

Treasury Shares

Where the Company purchases its own share capital (Treasury Shares), the consideration paid is set off against share premium. Where the share premium is nil, consideration above the nominal value of shares is debited against retained earnings. The proceeds from the sale of own shares held increase equity. Neither the purchase, cancellation nor sale of own shares leads to a gain or loss being recognised in the income statement.

2. Significant accounting policies continued

Dividend and capital distributions

Dividend and capital distributions to the shareholders are recognised in the Group's Financial Statements in the period in which they are declared and appropriately approved. Once approved, dividends are recognised as a liability and as a deduction from equity.

Taxation

Tax expense comprises current and deferred tax.

Current tax

Current Income Tax assets and liabilities are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted.

Deferred tax

Deferred tax is provided on the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised.

Deferred tax assets and liabilities are measured at the rates that are expected to apply in the Period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Earnings per share

Basic earnings per share are calculated by dividing profit after tax attributable to equity shareholders of the parent Company by the weighted average number of Ordinary Shares in issue during the period.

Diluted earnings per share requires that the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. These arise from awards made under share-based incentive schemes. Share awards with performance conditions attaching to them are not considered to be dilutive if the share price on their exercise is above market price.

Provisions and contingencies

Provisions are liabilities with uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate of the amount of the obligation can be made at the date of the Statement of Financial Position.

A contingent liability is a possible obligation that arises from past events or a present obligation that is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability. A contingent liability is disclosed but not recognised.

IPO expenses

Qualifying costs attributable to the primary issuance of shares are debited directly to equity. They include incremental costs that are directly attributable to issuing the primary shares, such as advisory and underwriting fees.

All other non-qualifying costs are taken to the Statement of Comprehensive Income.

Tangible assets

Leasehold assets, furniture, fixtures and fittings, and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on all tangible assets at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset, on a straight-line basis over its expected useful life as follows:

Right-of-use assets are depreciated over their expected useful life based on the relevant lease term. Where a break clause is contained within the lease, an assessment is made as to whether this is likely to be exercised or not and the lease is depreciated based on the expected lease term.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Tangible assets continued

The useful lives and depreciation rates applicable are as follows:

- Right-of-use leasehold 10 years
- Fixtures and fittings 10 years
- Furniture and office equipment 5 years
- Computer equipment 5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year, otherwise they are classified as non-current liabilities.

The directors consider that the carrying amount of trade payables approximates to their fair value.

Segmental reporting

Under IFRS 8, operating segments are required to be determined based upon the Group's internal organisation and management structure and the primary way in which the Chief Operating Decision Maker (CODM) is provided with financial information. In the case of the Group, the CODM is considered to be the Executive Committee.

The Executive Committee reviews the activities of the Group as a single operating segment.

The Group operates only in the United Kingdom and, as a result, no geographical segments are reported. The Group does not rely on any individual customer and so no additional customer information is reported.

The Group's Executive Committee is of the opinion that the Group is engaged in a single segment of the business and the operations of the Group are wholly within the United Kingdom.

Events after the balance sheet date

Post year-end events that provide additional information about the Group's position at the balance sheet date and are adjusting events are reflected in the Financial Statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

3. Significant accounting judgments, estimates and assumptions

The preparation of the Group's Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments and estimates

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the Consolidated Financial Statements:

(a) Determination of fair values

A number of assets and liabilities included in the Group's Financial Statements require measurement at, and/or disclosure of, fair value. Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's-length transaction at the measurement date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these Consolidated Financial Statements, is determined on such a basis, except for share-based payments that are within the scope of IFRS 2, leasing transactions that are within the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

3. Significant accounting judgments, estimates and assumptions continued

(a) Determination of fair values continued

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 inputs are unobservable inputs for the asset or liability.

The classification of an item into the above levels is based on the lowest level of the inputs that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period in which they occur. Further details of fair values are given in note 4.

(b) Business combinations

The Group identifies whether an acquisition is a business combination or the acquisition of assets and liabilities. The Group will then consider the carrying value of the assets and liabilities acquired in the case of a business combination and will need to assess whether fair value adjustments are required, and determine which factors impact on those valuations. The Group is also required to use judgment in determining the valuation of any non-cash consideration exchanged in the business combination. Details of the business combinations in the Period are included in note 27.

(c) Share-based payments

The Group operates two employee compensation schemes, settled in equity. The fair value of equity-settled share-based payment arrangements requires significant judgment in the determination of the valuation of options, or the assumptions regarding vesting conditions being met, which will affect the expense recognised during the period. These assumptions include the future volatility of the Company's share price, future dividend yield and the rate at which awards will lapse or be forfeited. These assumptions are then applied to a recognised valuation model in order to calculate the fair value of the awards. The fair value attributed to the awards and hence the charge made to the income statement could be materially affected should different assumptions be made to those applied by the Group. Details of these assumptions are set out in note 26. The Group uses a professional valuer in the determination of the fair value of options at grant date.

(d) Valuation adjustments

The Credit Committee reviews each financial asset in the Group's portfolio. Assets which are underperforming are assessed for credit valuation adjustments. Typical events include, but are not limited to, non-payment of cash interest, breach of loan covenants, construction cost over-runs or significant reductions in gross development values.

(e) Deferred tax

In determining the quantum of deferred tax balances to be recognised, judgment is required in assessing the extent to which it is probable that future taxable profit will arise in the companies concerned and the timing of transactions.

4. Financial instruments – fair values and risk management

The Group is exposed through its operations to the following financial risks:

- credit risk
- liquidity risk
- market risk

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these Financial Statements.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the effect on the Group's financial performance. Risk management is carried out by the Board of Directors. It identifies, evaluates and mitigates financial risks. The Board provides written policies for credit risk and liquidity risk. These risks are dealt with in detail in Principal Risks & Uncertainties on pages 25 to 28.

Notes to the consolidated financial statements continued

4. Financial instruments – fair values and risk management continued

(i) Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Loan receivables
- Investments
- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables

(ii) Financial instruments by category

		Carrying amount		
At 31 December 2018	Note	FVTPL £'000	Amortised cost £'000	Total £'000
Financial assets				
Investments	16	1,949	–	1,949
Loan receivables	18	89,544	–	89,544
Trade and other receivables	19	–	3,862	3,862
Cash and cash equivalents	20	–	46,806	46,806
Total financial assets		**91,493**	**50,668**	**142,161**
Financial liabilities				
Trade and other payables	21	–	3,217	3,217
Total financial liabilities		**–**	**3,217**	**3,217**

(iii) Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables and trade and other payables. The carrying value of the trade assets and other receivables has been amortised to estimated net recoverable value where there are circumstances indicating that the full value will not be recovered. Due to the short-term nature of cash and cash equivalents and trade and other payables, the Directors consider that their carrying value approximates to their fair value.

(iv) Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is provided below.

	Fair value			
At 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Investments	–	–	1,949	1,949
Loan receivables	–	–	89,544	89,544
Total financial assets	**–**	**–**	**91,493**	**91,493**

The valuation techniques and significant unobservable inputs used in determining the fair value measurement at Level 2 and Level 3 financial instruments, as well as the inter-relationship between key unobservable inputs and fair value, are set out in the table below.

Financial instrument	£'000	Valuation techniques used	Significant unobservable inputs (Level 3 only)	Inter-relationship between key unobservable inputs and fair value (Level 3 only)
Loan receivables	89,544	Initial transaction costs plus a pro rata share of fees plus accrued interest adjusted for changes in credit risks or market movements.	Profile and timing of loan drawdowns. It is assumed that loan can be syndicated to third parties at fair value.	The earlier the timing of the drawdowns and the higher the value of the drawdowns, the higher the fair value of the loan receivables
Equity investments	1,949	Initial transaction costs subsequently valued at fair value based on projected future earnings discounted at an appropriate discount rate.	Profile and timing of loan drawdowns which determine profile and timing of investment and returns on investment.	The earlier the timing of the drawdowns and the higher the value of the drawdowns, the higher the fair value of the investment.
Total financial assets	**91,493**			

4. Financial instruments – fair values and risk management continued

(iv) Financial instruments measured at fair value continued

The reconciliation of the opening and closing fair value balance of Level 3 financial instruments is provided below:

Reconciliation of fair value balances – Level 3	Loan receivables £'000	Investments £'000
Balance at 10 April 2018	–	–
New loans advanced/investments during Period	104,823	1,949
Loan repayments	(7,010)	–
Loans sold to asset management structures	(11,488)	–
Fair value through income statement	3,219	–
Transfers out of Level 3	–	–
Balance at 31 December 2018	**89,544**	**1,949**

Risk management framework

The Board has overall responsibility for the determination of the Group's risk management framework and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Chief Risk Officer ('CRO'). The Board receives regular updates from the CRO through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Executive Committee also reviews the risk management policies and processes, and reports its findings to the Audit Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness or flexibility.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Further details regarding the Group's risk management policies are set out below:

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit losses if borrowers are unable to repay loans and outstanding interest and fees. The Group has stringent underwriting criteria which include third-party valuations and a full legal documentation pack for each loan written by the Group.

At 31 December 2018, the maximum exposure to credit risk for financial assets by geographic region was as follows:

Analysis by geographic region	Loan receivables £'000	Investments £'000	Trade and other receivables £'000	Cash and cash equivalents £'000	Total £'000
Greater London	1,222	–	2,634	46,806	50,662
East of England	39,121	–	–	–	39,121
Midlands	–	–	582	–	582
South East	21,826	–	295	–	22,121
South West	7,469	–	254	–	7,723
North West	1,419	–	97	–	1,516
Wales	18,487	–	–	–	18,487
Outside of UK	–	1,949	–	–	1,949
	89,544	**1,949**	**3,862**	**46,806**	**142,161**

Four loan receivables represented £72,330,000 of the loan receivables balance. However, risk is mitigated on all loans as property assets relating to those loans plus other securities and guarantees are provided against all loans.

The cash and cash equivalents balances of £46,806,000 are held with a Regulated Bank given an A-2 rating by Standard & Poor's.

Notes to the consolidated financial statements continued

4. Financial instruments – fair values and risk management continued

(b) Liquidity risk

Liquidity risk is the risk the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. In order to manage liquidity risk, the Group prepares short-term and medium-term cash flow forecasts. These forecasts are reviewed centrally to ensure the Group has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The maturity analysis of the trade and other payables is given as below:

	0-1 month £'000	1-3 months £'000	3-6 months £'000	Total £'000
Trade and other payables	**873**	**367**	**1,977**	**3,217**

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the end of the Period, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

The Group does not commit to any loan to a borrower without clearly identifying how the loan will be funded over its life. The Group maintains a minimum level of liquidity to ensure that its projected operational costs are fully funded for 12 months.

(c) Market risk

Market risk is the risk that a change in the Group's bank funding rates will impact its return from lending. It is the risk that the fair value or future cash flows of loans will fluctuate because of changes in interest rates (interest rate risk).

The Group's financial assets and liabilities have interest rates applied as follows:

	Fixed and floating interest rate £'000	Floating interest rate £'000	Non-interest bearing £'000	Total £'000
Financial assets	–	–	–	–
Investments	1,949	–	–	1,949
Loan receivables	89,544	–	–	89,544
Trade and other receivables	–	–	3,862	3,862
Cash and cash equivalents	–	46,806	–	46,806
Total financial assets	**91,493**	**46,806**	**3,862**	**142,161**
Financial liabilities	–	–		
Trade and other payables	–	–	3,217	3,217
Total financial liabilities	**–**	**–**	**3,217**	**3,217**

The investments and loan receivables are valued at fair values determined by a number of factors including contractual interest rates applicable to loan receivables which are generally at a fixed % rate above LIBOR, which is variable.

The Group manages interest rate risk by ensuring that all loans are subject to a floor interest rate and move with changes in bank funding costs, or are appropriately hedged.

The following table shows the sensitivity of fair values grouped in Level 3 to changes in interest rates, for a selection of the largest financial assets. It is assumed that the interest rates were changed by 1% whilst all other variables were held constant.

	Value in Financial Statement £'000	+1% change in interest rate £'000	-1% change in interest rate £'000
Loan receivables	89,544	89,709	89,379
Investments	1,949	1,949	1,949
Balance at 31 December 2018	**91,493**	**91,658**	**91,328**

The fair values are subject to interest rate risk where there is a change in the market, including a change in LIBOR and the underlying bank base rate, or a change in the credit rating of the borrower.

4. Financial instruments – fair values and risk management continued

(d) Capital management

The Group monitors capital which comprises all components of equity (i.e. share capital, share premium, treasury capital and retained earnings). The Group's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group's objective is also to provide an adequate return to shareholders by maintaining an optimum capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividends paid, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of debt to capital. During the Period, the Group did not have any loans and borrowing, and therefore the debt to capital ratio is 0%. The capital at the Period end is £150,521,000.

5. Income

The Group income for the Period was derived as follows:

	For the Period to 31 December 2018 £'000
Fair value income from loan receivables	3,219
Income from contract assets	679
Management fees	5
Total income	**3,903**

6. Loss for the Period

The Group operating loss for the Period is stated after charging:

	For the Period to 31 December 2018 £'000
Amortisation of intangible assets	**122**
Depreciation of right-of-use leasehold	**–**
Exceptional items note 9	**869**
Auditor's remuneration comprises:	
Fees payable to the auditor for the Group audit	112
Fees payable to the auditor for the audit of the subsidiaries	17
	129
Fees payable to the auditor and its related entities for other services:	
Audit-related assurance services	61
Tax compliance services	24
Tax advisory services	118
Other services	14
Fees for corporate finance services related to the IPO	210
Fees included within operating costs	556
Fees for corporate finance services related to the IPO charged to share premium	120
Total fees payable to auditor	**676**

Amounts payable to BDO inclusive of VAT in respect of audit and non-audit services are disclosed in the table above.

Although the right-of-use leasehold asset was acquired on 20 November 2018, it was not in a condition available for use until January 2019 and so it has not been depreciated in the Period.

Notes to the consolidated financial statements continued

7. Operating costs

The Group's operating costs are stated after charging:

	Before exceptional items £'000	Exceptional items total £'000	Total £'000
Staff costs	3,122	–	3,122
Share-based payments	480	–	480
Rent, rates and office costs	115	-	115
Marketing	113	–	113
Audit & accountancy	128	–	128
Legal & professional Fees	332	256	588
IPO costs	–	613	613
Other overheads	721	–	721
	5,011	**869**	**5,880**

Exceptional items are detailed in note 9.

8. Employee and key management emoluments

The employee and director costs during the Period were as follows:

	For the Period to 31 December 2018 £'000
Salaries	2,740
Social security costs	374
Contributions to defined contribution pension schemes	8
	3,122
Share-based payments (note 26)	480
	3,602

The average number of employees (including Directors) during the Period was as follows:

	Number
Management	6
Administrative	6
Sales & risk assessment	9
	21

Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including the directors of the Company listed on pages 35 to 36.

	For the Period to 31 December 2018 £'000
Key management emoluments	
Salary	1,399
Other benefits	22
Social security costs	201
Contributions to defined contribution pension schemes	4
Emoluments before share-based payments	**1,626**
Share-based payments	270
	1,896

A detailed disclosure of directors' remuneration is set out in the Remuneration Committee Report on page 43.

9. Exceptional items

The following costs were identified as exceptional during the Period:

	For the Period to 31 December 2018 £'000
IPO costs	613
Exceptional legal and professional costs related to investments and syndication of loans	256
	869

Urban Exposure Plc's Ordinary Shares were admitted to trading on AIM on 9 May 2018. Costs of £613,000 related to the IPO were expensed as a one-off non-recurring cost.

Legal and professional costs incurred in setting up the syndication agreement with KKR. The set-up costs are an exceptional one-off cost in defining the arrangement between the parties and are considered exceptional in size.

10. Finance costs

	For the Period to 31 December 2018 £'000
Interest expense for right-of-use leased assets	12
	12

11. Taxation

	For the Period to 31 December 2018 £'000
Current tax	–
Deferred tax	273
Taxation credit for the Period	**273**

The standard current rate of tax for the Period ended 31 December 2018 is 19%.

Deferred tax has been accounted for at the substantively enacted Corporation Tax rate of 19%.

The tax for the Period is based on the loss before taxation and is computed as follows:

	For the Period to 31 December 2018 £'000
Loss before taxation	**(1,989)**
Tax based on loss for the Period at tax rate of 19%	(378)
Expenses not deductible for tax purposes	105
Tax credit for the Period	**(273)**

Notes to the consolidated financial statements continued

12. Earnings per share (EPS)

Basic earnings/loss per share (EPS) has been calculated based on the loss for the Period as shown in the Consolidated Statement of Comprehensive Income divided by the weighted average number of Ordinary Shares in issue.

Diluted EPS has been calculated based on the loss for the Period as shown in the Consolidated Statement of Comprehensive Income divided by the weighted average number of Ordinary Shares. Although 3,150,000 share options were in issue, as these would have an anti-dilutive effect they have not been included in the calculation of 'Weighted average number of shares for diluted earnings per share'. In the future, when a profit is generated, these will have a dilutive impact.

	For the Period to 31 December 2018 £'000
Loss for the Period	(1,716)
Loss for the Period excluding exceptional items (note 9)	(847)

	Number of shares
Weighted average number of shares for basic EPS	145,793,865
Dilutive effect of share options	–
Weighted average number of shares for diluted EPS	145,793,865

	For the Period to 31 December 2018
Basic loss per share	1.18p
Diluted loss per share	1.18p
Adjusted basic loss per share	0.58p
Adjusted diluted loss per share	0.58p

13. Dividends

	£'000
Interim dividend for the Period	1,316
Proposed final dividend for the Period	2,647

The Board approved an interim dividend of 0.83p per share on 17 December 2018 which was paid on 21 January 2019. This has been recognised as a liability at 31 December 2018.

A final dividend of 1.67p per share is proposed, payable to all shareholders on the Register of Members on 12 April 2019.

The proposed final dividend is subject to approval at the Annual General Meeting and has not been recognised as a liability at 31 December 2018. The payment of this dividend will not have any tax consequences for the Group.

14. Intangible assets

	Goodwill £'000	Brand £'000	Total £'000
Cost			
At 10 April 2018	–	–	–
Acquired during the Period	10,668	1,874	12,542
Cost at 31 December 2018	10,668	1,874	12,542
Amortisation			
At 10 April 2018	–	–	–
Charge for the Period	–	122	122
Amortisation at 31 December 2018	–	122	122
Net book value at 31 December 2018	**10,668**	**1,752**	**12,420**

The Group acquired the goodwill and the brand on acquisition of the business of Urban Exposure Investment Management LLP on 9 May 2018, as detailed in note 27.

Brands are amortised on a straight-line basis over their useful economic lives, currently estimated at 10 years.

Goodwill

The Group tests annually for impairment, or more frequently if there are indications that goodwill may be impaired.

The carrying amount of goodwill is allocated to CGUs. The directors consider that the goodwill is allocated to the overall business of Urban Exposure Plc as one CGU.

The recoverable amount is determined based on the value in use calculation. The use of this method requires the estimation of future cash flows and the determination of a discount rate to calculate the present value of the cash flow.

The basis on which the CGU's recoverable amount has been determined is the value in use of the asset over a five-year period, discounted at 5.45%, and assumes growth of the loans, primarily through asset management.

The Group has conducted an analysis of the sensitivity of the impairment testing to changes in the key assumptions used to determine the recoverable amount of the CGU to which goodwill is allocated. The directors believe that any reasonable change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

A 10% underperformance against forecast income would reduce the headroom but would show an aggregate value in excess of the carrying value of the CGU and hence would not result in an impairment charge. An increase in the discount applied to the cash flows of 5%, to 10.45%, would reduce the headroom but would show an aggregate value in excess of the carrying value of the CGU and hence would not result in an impairment charge.

Notes to the consolidated financial statements continued

15. Tangible assets

	Right-of-use short leasehold £'000	Furniture, fixtures & fittings £'000	Computer equipment £'000	Total £'000
Cost				
At 10 April 2018	–	–	–	–
Acquired during the Period	3,839	418	19	4,276
Cost at 31 December 2018	3,839	418	19	4,276
Depreciation				
At 10 April 2018	–	–	–	–
Charge for the Period	–	–	–	–
Depreciation at 31 December 2018	–	–	–	–
Net book value at 31 December 2018	**3,839**	**418**	**19**	**4,276**

A right-of-use short leasehold was acquired on 20 November 2018 and has been recognised as an asset in accordance with IFRS 16. The leasehold was not in a condition available for occupation and was not occupied until January 2019. The furniture, fixtures and fittings and computer equipment were acquired for the new office. As the date of first use of all the assets is January 2019, there was no depreciation charge for the Period ended 31 December 2018.

16. Investments

	£'000
Valuation	
At 10 April 2018	–
Acquired during the Period	1,949
Valuation at 31 December 2018	**1,949**

The Group entered into a partnership agreement with Kohlberg Kravis Roberts (KKR) in which the Group has a 9.1% interest. The purpose of the agreement is to make loans to real estate developers in the United Kingdom for the development of residential and mixed use properties. Under this agreement, KKR will invest up to £150m and Urban Exposure Plc will invest up to £15m in assets under management, with each party contributing as directed under the partnership agreement, as and when required. At 31 December 2018, the Group had invested £1,949,000 under this agreement and considers this to be the fair value as at that date.

The investments are classified as a trade investment under IFRS 9. Accordingly, they are financial assets measured at FVTPL. See note 4 for further disclosures.

17. Subsidiaries

The principal subsidiaries of Urban Exposure Plc, all of which have been included in these Consolidated Financial Statements, are:

Name of company	Country of incorporation and principal place of business	Proportion of ownership interest at 31 December 2018	Principal activity
Urban Exposure Holdings Limited	United Kingdom	100%	Holding company
Urban Exposure Lendco Limited	United Kingdom	100%*	Development finance
UE SFA 1 Limited	United Kingdom	100%*	Asset management
Urban Exposure Amco Limited	United Kingdom	100%*	Support services

* Indirectly held by a subsidiary

All the subsidiaries are registered at 6 Duke Street, St. James's, London SW1Y 6BN.

UE SFA 1 Limited (formerly Urban Exposure Security Agent Limited) was incorporated on 3 May 2018.

Urban Exposure Holdings Limited, Urban Exposure Lendco Limited and Urban Exposure Amco Limited were acquired by Urban Exposure Plc on 9 May 2018. Further details are given in note 27.

18. Loan receivables

	As at 31 December 2018 £'000
Loan receivables	89,544
	89,544

Please see note 4 for further disclosures relating to financial assets.

19. Trade and other receivables

	As at 31 December 2018 £'000
Contract assets	3,409
Other receivables	453
Total financial assets	3,862
Prepayments	85
Total trade and other receivables	**3,947**
Less: non-current portion of trade receivables	(254)
Less: non-current portion of other receivables	(422)
Current portion	**3,271**

The carrying value of trade and other receivables classified at amortised cost approximates to fair value.

Contract assets were acquired on the business combination and are secured by a charge on the assets being developed and are repayable based on the expected sales of those assets. There is no movement in the impairment provision in the Period.

Included within trade receivables is a contract asset of £254,000 which is expected to be repaid after more than one year.

Included within other receivables is a deposit of £422,000 for the right-of-use lease asset which is repayable within five years subject to meeting certain criteria.

20. Cash and cash equivalents

	As at 31 December 2018 £'000
Cash and cash equivalents – unrestricted	**46,806**

All the cash and cash equivalents are held in Sterling.

The directors consider that the carrying amount of cash and cash equivalents approximates to their fair values.

21. Trade and other payables

	As at 31 December 2018 £'000
Trade payables	1,096
Other creditors	117
Accruals	2,004
	3,217

The carrying value of trade and other payables is measured at cost which approximates to fair value.

Note 4 gives further disclosures and a maturity analysis of the financial liabilities.

All trade and other payables are payable within one year.

Notes to the consolidated financial statements continued

22. Lease liabilities

The lease liabilities, as measured at present value, mature as follows:

	As at 31 December 2018		
	Total £'000	Within 1 year £'000	After > 1 year £'000
Payable within 1 year	229	229	–
Payable between 1–2 years	325	–	325
Payable between 2–5 years	1,220	–	1,220
Payable after more than 5 years	2,031	–	2,031
	3,805	**229**	**3,576**

The lease liabilities are in respect of the right-of-use leasehold premises acquired towards the end of the Period for the new head office to facilitate the Group as it grows.

The leasehold agreement is for 10 years with a five-year tenant-only break clause. The Group anticipates that this will not be exercised and has measured the right-of-use leasehold asset and lease liabilities on this basis.

The lease agreement includes a variable annual service cost which has a maximum value linked to the RPI. The lease is subject to a rent review after five years. Both variations will be measured as and when they occur.

23. Deferred tax

The net deferred tax movement for the Period is as follows:

	Brand £'000	Accelerated capital allowances £'000	Other temporary timing differences £'000	Losses carried forward £'000	Total £'000
Balance at 10 April 2018	–	–	–	–	–
Deferred tax on intangible asset acquired (note 27)	(356)	–	–	–	(356)
Credit/(Charge) to income statement in Period	23	(37)	98	189	273
Deferred tax liability at 31 December 2018	**(333)**	**(37)**	**98**	**189**	**(83)**

Deferred tax has been accounted for at the substantively enacted Corporation Tax rate of 19%.

24. Share capital

Share capital for the Period has been issued as follows:

	Number	Value per share £'000	Ordinary Shares £'000	Deferred Shares £'000	Total £'000
Issued at 10 April 2018 on incorporation	1	1.00	–	–	–
Issued at 16 April 2018	49,999	1.00	50	–	50
Shares as at 30 April 2018	50,000		50	–	50
Sub-division of 50,000 £1 shares converted to 5,000,000 1p shares at 30 April 2018	5,000,000	0.01	50	–	50
Shares re-organised into Ordinary and Deferred Shares on 30 April 2018		0.01	(50)	50	–
Issued in share exchange on 9 May 2018	14,950,000	0.01	150	–	150
Issued at IPO on 9 May 2018	150,000,000	0.01	1,500	–	1,500
At 31 December 2018	**169,950,000**		**1,650**	**50**	**1,700**

24. Share capital continued

The movement in the number of shares during the Period is shown as below:

	Ordinary Shares number	Deferred Shares number	Treasury Shares number	Total number
Issued at 10 April 2018 on incorporation	1	–	–	1
Issued at 16 April 2018	49,999	–	–	49,999
Shares as at 30 April 2018	50,000	–	–	50,000
Sub-division of 50,000 £1 shares converted to 5,000,000 1p shares at 30 April 2018	5,000,000	–	–	5,000,000
Shares re-organised into Ordinary and Deferred Shares 30 April 2018	(4,950,000)	4,950,000		–
Issued in share exchange on 9 May 2018	14,950,000	–	–	14,950,000
Issued at IPO on 9 May 2018	150,000,000	–	–	150,000,000
Shares re-purchased as Treasury Shares on 14 November 2018	(6,505,870)	–	6,505,870	–
At 31 December 2018	**158,494,130**	**4,950,000**	**6,505,870**	**169,950,000**

The Company was incorporated on 10 April 2018. On incorporation, the Company issued 1 Ordinary Share of £1 at par value. On 16 April 2018, the Company issued another 49,999 shares of £1 each.

On 30 April 2018, the entire share capital of 50,000 Ordinary Shares was sub-divided into 5,000,000 Ordinary Shares of £0.01 each and re-organised into 50,000 Ordinary Shares of £0.01 each and 4,950,000 Deferred Shares of £0.01 each.

On 9 May 2018, the Company entered into a legacy receivables share exchange agreement with Urban Exposure Holding Company (Jersey) Limited and as a result 7,151,300 Ordinary Shares of £0.01 each were issued for a consideration of £7,151,300.

On 9 May 2018, the Company entered into another share exchange agreement with the members of Urban Exposure Investment Management LLP and issued 7,798,700 shares of £0.01 each for a consideration of £7,848,700.

On 9 May 2018, the Company listed on AIM and issued 150,000,000 of £0.01 each at an issue price of £1.

On 14 November 2018, the Company re-purchased 6,505,870 £0.01 Ordinary Shares for a consideration of £0.80 per share through a share buyback. All the shares re-purchased are held as Treasury Shares.

The Ordinary Shares have full voting, dividend and capital distribution rights (including on a winding up). The Ordinary Shares do not confer any rights of redemption.

The Deferred Shares have no rights to dividends and no right to partake in a capital distribution (including on a winding up) before all other shareholders, neither do they confer any right to attend or vote at a general meeting of the Company.

25. Share premium

	As at 31 December 2018 £'000
Balance as at 10 April 2018	–
Share premium arising on Ordinary Shares issued	163,300
Share issue costs	(6,722)
Transfer to retained earnings	(156,578)
Balance at 31 December 2018	**–**

At 31 May 2018, a resolution was passed authorising, conditional on admission, the amount standing to the credit of the share premium account of the Company (less any issue expenses set off against the share premium account) to be cancelled and the amount of the share premium account so cancelled to be credited to retained earnings.

An application was made to the High Court to cancel the share premium account and judgment was obtained by Order of the High Court of Justice, Chancery Division, to approve the application and the share premium of £156,578,000 was cancelled and credited to retained earnings.

The SH19 form was submitted to Companies House with a copy of the Court Order on 24 July 2018.

Notes to the consolidated financial statements continued

26. Share-based payments

Following the IPO, the Group established equity-settled employee share schemes under which shares or share options are granted to employees or directors subject to the terms of the schemes:

There are two share option schemes in operation and both were set up during the Period.

The Long-Term Incentive Plan ('LTIP')

The LTIP enables the participants to acquire 'A' Ordinary Shares in Urban Exposure Holdings Limited ('A Ordinary Shares') as awards. On or after vesting, the participants may require the Company to acquire the A Ordinary Shares in exchange for the issue of Ordinary Shares in the Company. The acquisition price for the A Ordinary Shares shall be the nominal value of the shares.

The LTIP also grants share options to the participants with a nominal value exercise price. On exercise, the participants will be issued Ordinary Shares in the Company. The A Ordinary Shares and the share options will combine to deliver a maximum number of Ordinary Shares in the Company.

The options vest based on achievement of three separate measures for each of the periods ended 31 December 2018, 31 December 2019 and 31 December 2020, with a maximum of 550,000 shares available to vest in each period and a maximum number of 1,650,000 in total.

Measures:
1. Total shareholder return
2. Annualised return on equity
3. Annualised principal amount of committed loans made or arranged by the Company

Up to one ninth of the total LTIP share options will vest for achieving and exceeding each measure on an annual basis. Therefore 183,333 options are available for achieving each measure at each of the three period ends from 31 December 2018 to 31 December 2020.

The awards granted are subject to rigorous, stretching performance conditions as set by the Remuneration Committee on an annual basis.

Management Share Options ('MSO')

The MSO enables the participants to acquire A Ordinary Shares in Urban Exposure Holdings Limited as awards. On or after vesting, the participants may require the Company to acquire the A Ordinary Shares in exchange for the issue of Ordinary Shares in the Company. The acquisition price for the A Ordinary Shares shall be the nominal value of the shares.

The MSO also granted share options to senior management at the date of the IPO with an exercise price of 100p. On vesting, the participants will be issued Ordinary Shares in the Company.

Under the scheme, 1,500,000 share options were granted with an exercise price of 100p. The only vesting condition is that the holders remain within the employment of the Group. The options will vest on 9 May 2021.

The share-based payments for the Period included in operating costs comprise:

	For the Period 31 December 2018 £000's
Total share-based payment	**480**

26. Share-based payments continued

The following table illustrates the number and movement in share options during the Period:

	Number of options	Weighted average exercise price (pence)	Grant date/ (Lapsed date)	Vesting date	Weighted average remaining contractual life (years)
As at 10 April 2018	–				
LTIP share option issued	550,000	1	9/05/2018	31/12/2018	10 years
LTIP share option issued	550,000	1	9/05/2018	31/12/2019	10 years
LTIP share option issued	550,000	1	9/05/2018	31/12/2020	10 years
MSO issued	1,500,000	100	9/05/2018	31/12/2020	10 years
LTIP share options lapsed in Period	(366,666)		31/12/2018	09/05/2021	
	2,783,334				
Analysed as:					
Share options exercisable	183,333				
Share options not exercisable	2,600,001				
	2,783,334				

The fair value of the share-based payments for the LTIP and the MSO has been calculated based on the Black Scholes Pricing model with the following assumptions:

	LTIP	MSO
Current price (p)	100	100
Exercise price (p)	1	100
Risk-free rate of return	1.03%	1.03%
Volatility	24.23%	24.23%
Expected life of option (years)	5	5
Value per option (p)	**76.93**	**11.10**

27. Business combinations

On 9 May 2018, Urban Exposure Amco Limited, a 100% subsidiary of Urban Exposure Plc, acquired the business of Urban Exposure Investment Management LLP in exchange for 15,000,000 Ordinary Shares of £1.

	£'000
Fair value of consideration 15,000,000 shares of £1 each	15,000
The following assets and liabilities were acquired:	
Net assets acquired at fair value:	
Intangible assets: brands	1,874
Trade and other receivables: contract asset	3,798
Trade and other payables	(984)
Deferred taxation	(356)
	4,332
Goodwill acquired	**10,668**

The primary reason for the acquisition was to acquire the original Urban Exposure business as a going concern including the goodwill, business information, IT system, the business name, business intellectual property rights, records and all other property, rights and assets used or intended to be used in connection with the business and it is these assets which represent the goodwill. The Company also acquired the rights to revenues in respect of contract assets which are included in trade and other receivables.

All assets and liabilities were valued at fair value at the date of acquisition. The book value of the contract assets acquired were £7,151,000 and these were adjusted to fair value of £3,798,000 at the date of acquisition.

Notes to the consolidated financial statements continued

28. Capital and financial commitments

As at 31 December 2018, there were no capital commitments for the Group.

The Group has £325 million of undrawn committed loan capital payable over the next four years. These commitments will be significantly reduced as and when they are syndicated to other lenders, or as and when the Group enters into co-lending arrangements with institutional investors.

The Group has entered into a partnership agreement with KKR with a commitment of up to £15 million and has made payments of £1,949,000 under this agreement during the Period. This leaves an outstanding financial commitment relating to the agreement of £13,051,000. See note 16 for further details.

29. Related party transactions

During the Period, the Group companies entered into the following transactions with related parties which are not members of the Group:

	Purchases – charges for payroll costs £'000	Purchases – charges for other costs £'000	Total purchases £'000	Amounts due to related parties at 31 December 2018 £'000
UE Finco Limited	93	235	328	85
Urban Exposure Limited	–	10	10	6
Urban Exposure Investment Management LLP	63	–	63	63
	156	**245**	**401**	**154**

Payroll and other operating costs were incurred on behalf of the Group and recharged at cost by the companies shown above.

Details of the directors' emoluments and of directors' interests are contained in the Remuneration Committee Report on page 41.

There were loan balances outstanding from the directors at the Period end of £6,000.

Dividends of £73,000 were paid to the directors and key managers of Urban Exposure Plc in respect of the interim dividend for 2018.

In addition, the following investments were acquired from related parties:

On 2 May 2018, Urban Exposure Plc acquired £100 Ordinary Shares in Urban Exposure Holdings Limited from R. Sandhu, a Company Director, for a consideration of £100.

On 9 May 2018, Urban Exposure Amco Limited issued 7,848,700 £1 shares to acquire the business assets of Urban Exposure Investment Management LLP in a share exchange with the members.

On 9 May 2018, Urban Exposure Plc acquired contract assets of £7,151,300 from Urban Exposure Holding Company (Jersey) Limited in exchange for 7,151,300 shares issued at a value of £1 each.

30. Post balance sheet events

The Group had no significant post balance sheet events requiring adjustment or disclosure.

Company statement of financial position

as at 31 December 2018

	Note	£'000
Fixed assets		
Investments	4	71,682
Total fixed assets		**71,682**
Current assets		
Trade and other receivables	6	72,926
Cash at bank and in hand		8,937
Total current assets		**81,863**
Total assets		**153,545**
Current liabilities		
Trade and other payables	7	1,390
Total current liabilities		**1,390**
Total assets less current liabilities		**152,155**
Net assets		**152,155**
Equity and reserves		
Share capital	9	1,700
Share premium	10	–
Retained earnings		150,455
Total equity and reserves		**152,155**

The Company's net loss after taxation for the Period was £82,000.

The Company Registration Number is 11302859.

There are no comparatives as the Company was incorporated on 10 April 2018.

The notes on pages 84 to 89 form an integral part of these Financial Statements.

These Financial Statements were approved and authorised for issue by the Board of Directors on 2 April 2019 and were signed on its behalf by:

Randeesh Sandhu
Chief Executive Officer

Company statement of changes in equity

for the Period from 10 April 2018 to 31 December 2018

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
Balance at 10 April 2018		–	–	–	–
Loss for the Period		–	–	(82)	(82)
Share-based payments		–	–	480	480
Dividends payable	8	–	–	(1,316)	(1,316)
Issue of share capital	9	1,700	163,300	–	165,000
IPO cost related to equity issue	10	–	(6,722)	–	(6,722)
Capital reduction	10	–	(156,578)	156,578	–
Share buyback	9	–	–	(5,205)	(5,205)
Balance at 31 December 2018		**1,700**	**–**	**150,455**	**152,155**

There are no comparatives as the Company was incorporated on 10 April 2018.

The notes on pages 84 to 89 form an integral part of these Financial Statements.

Notes to the company financial statements

for the Period from 10 April 2018 to 31 December 2018

1. General information and basis of preparation

Urban Exposure 1 Plc was incorporated on 10 April 2018 as a public limited Company in England and Wales with registration number 11302859. The Company changed its name to Urban Exposure Plc on 27 April 2018 and its Ordinary Shares were admitted to trading on AIM on 9 May 2018.

The registered office of the Company is 6 Duke Street, St. James's, London SW1Y 6BN.

The Company's principal activity is that of a holding company.

Period of account

The Company Financial Statements are in respect of the reporting Period ('the Period') from 10 April 2018 to 31 December 2018.

Basis of preparation

The Financial Statements of the Company have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland.

The preparation of Financial Statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgments in applying the Company's accounting policies.

The Company has applied the exemption allowed under Section 408(1b) of the Companies Act 2006 and has therefore not presented its own Statement of Comprehensive Income in these Financial Statements.

2. Significant accounting policies

Parent Company disclosure exemptions

In preparing the separate financial statement of the parent Company, advantage has been taken of the following disclosure exemptions available in FRS 102.

- No cash flow statement has been presented for the parent Company;
- Disclosures in respect of the parent Company's financial instruments have not been presented, as equivalent disclosures have been provided in respect of the Group as a whole;
- Disclosures in respect of the parent Company's share-based payment arrangements have not been presented, as equivalent disclosures have been provided in respect of the Group as a whole; and
- No disclosure has been given for the aggregate remuneration of the key management personnel of the parent Company as their remuneration is included in the totals for the Group as a whole.

Investments in subsidiaries

Investments in subsidiaries in the Company's Statement of Financial Position are recorded at cost less provision for impairments.

Contract assets

Contract assets acquired as part of the business combination are purchased or originated credit-impaired assets. These assets are subsequently monitored for changes in credit risk and impairment provisions are adjusted accordingly.

Cash at bank and in hand

Cash at bank and in hand comprise cash in hand, deposits held at call with banks, and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition.

Taxation

Tax expense comprises current and deferred tax.

Current tax

Current Income Tax assets and liabilities are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted.

Deferred tax

Deferred tax is provided on the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes at the reporting date.

Notes to the company financial statements continued

2. Significant accounting policies continued

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be utilised.

Deferred tax assets and liabilities are measured at the rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Provisions and contingencies

Provisions are liabilities with uncertainties in the amount or timing of payments. Provisions are recognised if there is a present obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and if a reliable estimate of the amount of the obligation can be made at the date of the statement of financial position.

A contingent liability is a possible obligation that arises from past events or a present obligation that is not recognised as it is not probable that an outflow of resources will be required to settle the obligation or the amount of obligation cannot be measured with sufficient reliability. A contingent liability is disclosed but not recognised.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year, otherwise they are presented as non-current liabilities.

Equity

The share capital represents the nominal value of the issued share capital of Urban Exposure Plc.

Treasury Shares

Where the Company purchases its own share capital (Treasury Shares), the consideration paid is set off against share premium. Where the share premium is nil, consideration above the nominal value of shares is debited against retained earnings. The proceeds from the sale of own shares held increase equity. Neither the purchase, cancellation nor sale of own shares leads to a gain or loss being recognised in the income statement.

Dividend and capital distributions

Dividend and capital distributions to the shareholders are recognised in the Company's Financial Statements in the period in which they are declared and appropriately approved. Once approved, dividends are recognised as a liability and recognised as a deduction from equity.

Events after the balance sheet date

Post year-end events that provide additional information about the Company's position at the balance sheet date and are adjusting events are reflected in the Financial Statements. Post year-end events that are not adjusting events are disclosed in the notes when material.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of the Company's Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the Company Financial Statements:

Investment in subsidiaries

The most critical estimates, assumptions, and judgments relate to the determination of carrying value of subsidiary investments and the carrying value of the loans that the Company has made to them. The nature, facts and circumstances of the investment or loan are taken into account on assessing whether there is any objective evidence of impairment.

Trade and other receivables

Trade and other receivables have been valued at amortised cost and are reviewed for effective evidence of impairment. Trade and other receivables include contract assets and amounts due from subsidiary undertakings and prepayments.

4. Investments

The investments are in respect of investment in subsidiary undertakings.

	£'000
Cost	
At 10 April 2018	–
Acquired during the Period	71,682
Cost at 31 December 2018	71,682
Impairment	
At 10 April 2018	–
Impairment for the Period	–
Impairment to 31 December 2018	–
Net book value at 31 December 2018	**71,682**

On 2 May 2018, Urban Exposure Plc acquired £100 Ordinary Shares in Urban Exposure Holdings Limited from R. Sandhu for a consideration of £100.

On 9 May 2018, the Company entered into a legacy receivables share exchange agreement with Urban Exposure Holding Company (Jersey) Limited and as a result 7,151,300 Ordinary Shares of £0.01 each were issued for a consideration of £7,151,300.

On 9 May 2018, Urban Exposure Plc acquired a further £7,848,700 Ordinary Shares in Urban Exposure Holdings Limited in a share exchange with the members for a consideration of £7,848,700.

On 9 May 2018, share options were issued to the directors and employees of Urban Exposure Amco Limited. The fair value of this investment for the Period is £480,000.

On 16 October 2018, Urban Exposure Plc acquired a further £60,000,000 Ordinary Shares in Urban Exposure Holdings Limited.

5. Subsidiaries

The principal subsidiaries of Urban Exposure Plc are:

Name of company	Country of incorporation and principal place of business	Proportion of ownership interest at 31 December 2018	Principal activity
Urban Exposure Holdings Limited	United Kingdom	100%	Holding company
Urban Exposure Lendco Limited	United Kingdom	100%*	Development finance
UE SFA 1 Limited	United Kingdom	100%*	Asset management
Urban Exposure Amco Limited	United Kingdom	100%*	Support services

* Indirectly held by a subsidiary

All the subsidiaries are registered at 6 Duke Street, St. James's, London SW1Y 6BN.

UE SFA 1 Limited (formerly Urban Exposure Security Agent Limited) was incorporated on 3 May 2018.

Urban Exposure Holdings Limited, Urban Exposure Lendco Limited and Urban Exposure Amco Limited were acquired by Urban Exposure Plc on 9 May 2018.

Notes to the company financial statements continued

6. Trade and other receivables

	As at 31 December 2018 £'000
Contracts assets	3,409
Amounts due from subsidiary undertakings	69,469
Prepayments	48
	72,926

Included within contract assets is a balance of £254,000 recoverable after more than one year.

7. Trade and other payables

	As at 31 December 2018 £'000
Trade payables	27
Dividends payable	1,316
Accruals	47
	1,390

8. Dividends

	£'000
Interim dividend for the Period	1,316
Proposed final dividend for the Period	2,647

The Board approved an interim dividend of 0.83p per share on 17 December 2018 which was paid on 21 January 2019. This has been recognised as a liability at 31 December 2018.

A final dividend of 1.67p per share is proposed payable to all shareholders on the Register of Members on 12 April 2019. The proposed final dividend is subject to approval at the Annual General Meeting and has not been recognised as a liability at 31 December 2018. The payment of this dividend will not have any tax consequences for the Company.

9. Share capital

Share capital for the Period has been issued as follows:

	Number	Value per share £'000	Ordinary Shares £'000	Deferred Shares £'000	Total £'000
Issued at 10 April 2018 on incorporation	1	1.00	–	–	–
Issued at 16 April 2018	49,999	1.00	50	–	50
Shares as at 30 April 2018	50,000	–	50	–	50
Sub-division of 50,000 £1 shares converted to 5,000,000 1p shares at 30 April 2018		0.01	50	–	50
Shares re-organised into Ordinary and Deferred Shares at 30 April 2018	5,000,000	0.01	(50)	–	–
Issued in share exchange on 9 May 2018	14,950,000	0.01	150	50	150
Issued at IPO on 9 May 2018	150,000,000	0.01	1,500	–	1,500
At 31 December 2018	**169,950,000**		**1,650**	**50**	**1,700**

9. Share capital continued

The movement in the number of shares during the Period:

	Ordinary Shares Number	Deferred Shares Number	Treasury Shares Number	Total Number
Issued at 10 April 2018 on incorporation	1	–	–	1
Issued at 16 April 2018	49,999	–	–	49,999
Shares as at 30 April 2018	50,000	–	–	50,000
Sub-division of 50,000 £1 shares converted to 5,000,000 1p shares at 30 April 2018	5,000,000	–	–	5,000,000
Shares re-organised into Ordinary and Deferred Shares at 30 April 2018	(4,950,000)	4,950,000	–	–
Issued in share exchange on 9 May 2018	14,950,000	–	–	14,950,000
Issued at IPO on 9 May 2018	150,000,000	–	–	150,000,000
Shares re-purchased as Treasury Shares on 14 November 2018	(6,505,870)	–	6,505,870	–
At 31 December 2018	**158,494,130**	**4,950,000**	**6,505,870**	**169,950,000**

The Company was incorporated on 10 April 2018. On incorporation, the Company issued 1 Ordinary Share of £1 at par value. On 16 April 2018, the Company issued another 49,999 shares of £1 each.

At 30 April 2018, the entire share capital of 50,000 Ordinary Shares were sub-divided into 5,000,000 Ordinary Shares or £0.01 each and re-organised into 50,000 Ordinary Shares of £0.01 each and 4,950,000 of Deferred Shares of £0.01 each.

On 9 May 2018, the Company entered into a legacy receivables share exchange agreement with Urban Exposure Holding Company (Jersey) Limited and as a result 7,151,300 Ordinary Shares of £0.01 each were issued for a consideration of £7,151,300.

On 9 May 2018, the Company entered into another share exchange agreement with the members of Urban Exposure Investment Management LLP and issued 7,798,700 shares of £0.01 each for a consideration of £7,848,700.

On 9 May 2018, the Company listed on AIM and issued 150,000,000 of £0.01 each at an issue price of £1.

On 14 November 2018, the Company re-purchased 6,505,870 £0.01 Ordinary Shares for a consideration of £0.80 per share through a share buyback. All the shares re-purchased are held as Treasury Shares.

The Ordinary Shares have full voting, dividend and capital distribution rights (including on a winding up). The Ordinary Shares do not confer any rights of redemption.

The Deferred Shares have no rights to dividends and no right to partake in a capital distribution (including on a winding up) before all other shareholders, neither do they confer any right to attend or vote at a general meeting of the Company.

10. Share premium

	As at 31 December 2018 £'000
Balance as at 10 April 2018	–
Share premium arising on Ordinary Shares issued	163,300
Share issue costs	(6,722)
Transfer to retained earnings	(156,578)
Balance at 31 December 2018	**–**

On 31 May 2018, a resolution was passed authorising, conditional on admission, the amount standing to the credit of the share premium account of the Company (less any issue expenses set off against the share premium account) to be cancelled and the amount of the share premium account so cancelled to be credited to the retained earnings.

An application was made to the High Court to cancel the share premium account and judgment was obtained by Order of the High Court of Justice, Chancery Division, to approve the application and the share premium of £156,578,000 was cancelled and credited to retained earnings.

The SH19 form was submitted to Companies House with a copy of the court order on 24 July 2018.

Notes to the company financial statements continued

11. Related party transactions

Details of the directors' emoluments and of directors' interests are given in the Remuneration Committee Report on page 43.

Dividends of £73,000 were paid to the directors and key managers of Urban Exposure Plc in respect of the interim dividend for 2018.

In addition, the following investments (see note 4) were acquired from related parties:

On 2 May 2018, Urban Exposure Plc acquired £100 Ordinary Shares in Urban Exposure Holdings Limited from R. Sandhu, a Company Director, for a consideration of £100.

On 9 May 2018, the Company entered into a legacy receivables share exchange agreement with Urban Exposure Holding Company (Jersey) Limited, and as a result 7,151,300 Ordinary Shares of £0.01 each were issued for a consideration of £7,151,300.

On 16 October 2018, Urban Exposure Plc acquired a further £60,000,000 Ordinary Shares in Urban Exposure Holdings Limited.

Glossary

Term	Short term	Definition
Adjusted earnings per share	Adjusted EPS	Profit or loss after tax for the period, adjusted to exclude exceptional items, divided by the weighted average number of Ordinary Shares in issue over the same period.
Assets under management	AUM	External funds managed by the Group on behalf of investors, including banks and other capital providers.
Basic earnings per share	Basic EPS	Profit or loss after tax for the period divided by the weighted average number of Ordinary Shares in issue over the same period.
Blind pool		An investment into an unseeded investment vehicle (e.g. a fund with no loans at the date of investment).
Committed loans		The total amount (in £ sterling) of a loan facility to a borrower.
Diluted number of Ordinary Shares		The weighted average number of Ordinary Shares in issue, adjusted to assume conversion of all dilutive potential Ordinary Shares. These arise from awards made under share-based incentive schemes. Share awards with performance conditions attaching to them are not considered to be dilutive if the share price on their exercise is above market price.
Diluted earnings per share	Diluted EPS	Profit or loss after tax for the period, divided by the diluted weighted average number of Ordinary Shares in issue over the same period.
Exceptional items		Income or expenses which are one-off, non-recurring and exceptional in nature or size.
Fair value		Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's-length transaction at the measurement date.
Gross development value	GDV	Gross development value is the aggregate of the capital receipts from the sale of all the units in a development on the special assumption that the proposed development has been completed and 100% sold at today's date at current day values (whereby 'today's date' / 'current day' is the date of valuation).
House Price Index	HPI	The UK House Price Index (UK HPI) captures changes in the value of residential properties.
International Financial Reporting Standards	IFRS	International Financial Reporting Standards as adopted by the EU.
Internal rate of return	IRR	The internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows from a particular project equal to zero; this is typically based on an annualised period.
Key Performance Indicators	KPI	A business metric used to evaluate factors that are key to the success of the Group and its key business components.
Loan-to-value	LTV	The amount of the loan expressed as a percentage of the gross development value of the asset.
Loan-on-loan line		A leverage facility providing finance backed on an underlying loan as collateral.
London Interbank Offered Rate	LIBOR	The basic rate of interest used in lending between banks on the London interbank market and also used as a reference for setting the interest rate on other loans.
Minimum Income Clause	MIC	A clause in a loan agreement which entitles the lender to a guaranteed minimum level of income.
Money multiple	MM	Money multiple is the expression of the return multiple relative to the amount invested, e.g. for a return of £20 on £100 invested, the MM would equate to 1.2 x.
Net Asset Value	NAV	Total equity shareholders' funds (equivalent to the value of the Group's net assets).
Net asset value per share	NAVPS	Net asset value as defined, divided by the closing number of Ordinary Shares in issue (adjusted for treasury shares).
Performance fees		Performance fees are the Group's remaining share of income once it has returned the cost of the investment and agreed preferred returns to investors and capital providers.
Projected aggregate income	PAI	Total projected income including interest and other connected income streams after return of initial investment, estimated to be earned over the life of the loan.

Glossary continued

Term	Short term	Definition
Return on equity	ROE	Profit attributable to Ordinary Shareholders in a period, divided by the average ordinary shareholders' equity over the same period.
Right-of-use asset		A right-of-use asset refers to a leased asset where the lease confers the right to obtain substantially all the economic benefits from the use of an identifiable asset, and gives the right to direct the use of that asset.
Teaming		Teaming is a dynamic activity, not a bounded, static entity as defined by 'team'. Professor Amy Edmondson of Harvard Business School coined the term which calls for developing both affective (feeling) and cognitive (thinking) skills and is enabled by distributed leadership. The purpose of teaming is to expand knowledge and expertise so that organisations and their customers can capture the value.
Total shareholder return	TSR	The growth in capital from purchasing a share in the Company assuming that the dividends are reinvested each time they are paid.
Underlying Earnings per Share		The same as adjusted earnings per share.
Unlevered		Unlevered means excluding the cost of debt, i.e. before taking interest payments into account.
Weighted average	WA	A weighted average is a type of average in which each observation in the data set is multiplied by a predetermined weight before the average is calculated. In calculating a simple average (arithmetic mean) all observations are treated equally and assigned equal weight. A weighted average assigns weights that determine the relative importance of each data point. Weightings are the equivalent of having that many like items with the same value involved in the average.

Directors and advisors of Urban Exposure Plc

DIRECTORS	ROLE
William Arthur McKee, CBE	Non-Executive Chairman
Randeesh Singh Sandhu	Chief Executive Officer
Trevor Keith DaCosta	Finance Director
Rabinder Singh Takhar	Chief Risk Officer
Andrew Martin Baddeley	Non-Executive Director
Nigel Peter Greenaway	Non-Executive Director

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