A specialist real estate financier

Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2019

Business Highlights

- £97.5m of new committed loans as at 9 September 2019 (£54.3m of new committed loans as at H1 2019) (H1 2018: £0.3m).
- Continued focus on high loan credit quality with WA LTGDV of 66% (FY 2018: 67%).
- Progressed loan pipeline of £1,013.1m of which £666.3m is in legal due diligence.
- Current committed loan book has pre-sales, backed by buyer deposits, which reduces the WA LTGDV to an effective rate of 45%. Zero credit losses to date.
- Several asset management strategies well advanced including c. £500m of funding in legal due diligence as at 9 September 2019.

New committed loans:
£54.3m (H1 2018: £0.3m, FY 2018: £524.5m)

Projected aggregate income (the Group share, on loan book over life of loans):
£1.0m (H1 2018: £0.0m, FY 2018: £26.9m)

Weighted Average LTGDV:
66% (H1 2018: *n/a*, FY 2018: 67%)

WA IRR (unlevered):
11% (H1 2018: *n/a*, FY 2018: 10%)

WA Money Multiple (annualised and unlevered):
1.14x (H1 2018: *n/a*, FY 2018: 1.15x)

Financial Highlights

- The Group achieved a small profit before exceptional items for the Period and the total loss for the Period was £0.2m, including exceptional costs of £0.3m and share-based expenses of £0.1m:
  - revenue of £5.3m
  - operating costs of £(5.3)m, representing 0.82% of total loans and assets under management

- Interim dividend of 1.67 pence per share approved payable to all shareholders on the Register of Members on 27 September 2019 will be paid on 18 October 2019.

Basic loss per share:	(0.16)p
Basic profit per share adjusted for exceptional costs	0.003p
Net tangible asset value[1]	£135.2m
Net tangible asset value per share:	85p
Cash and cash equivalents per share:	29p
Loans receivable per share:	53p

[1] Calculated as Net Asset Value of £147.7m less Intangible Assets of £12.5m

Chief Executive's Review

Since the Group listed on AIM I have focussed on ensuring that the business has the right platform in place to achieve its potential and deliver good returns for our shareholders. The most important aspect of delivering long term shareholder value is to ensure that we have the best quality loan book and funding structures, which together provide the Group with the best risk adjusted returns in the market. I am pleased with the performance of both these aspects to date as well as the opportunities for growth going forward.

Key performance indicators

£m	30 June 2019	30 June 2018	31 December 2018
New committed loans	54.3	0.3	524.5
Projected aggregate income (PAI)	1.0	0.0	26.9
Minimum income (MI)	0.6	*n/a*	15.0
Weighted average loan to gross development value (WALTGDV)	66%	*n/a*	67%
Operational costs as a percentage of total committed loan book	0.82%	*n/a*	0.81%
Basic loss per share (EPS)	(0.16)p	(1.33)p	(1.18)p
Adjusted earnings/(loss) per share adjusted for exceptional costs	0.003p	(0.75)p	(0.58)p

Financial Review

Overall revenue of £5.3m is predominantly derived from fair value gains on loans deployed on balance sheet. Our goal is to use our balance sheet as efficiently as possible while also providing us with capacity to execute loans quickly, before these are subsequently transferred into our asset management business. To date asset management income has been modest but as we grow our AUM, and more loans are deployed, this higher quality stream of earnings should generate a greater proportion of our revenue.

Total operating costs, excluding exceptional items, of £5.3m in H1 2019 (H1 2018: £1.0m) reflect the increased investment in the business that we detailed in our 2018 preliminary announcement. There will be an increase in run rate costs in the second half of the year as we make the necessary investment needed to capitalise on the opportunities presented to us. We remain comfortable with our full year cost guidance of £12.5m.

The Group achieved a small profit before exceptional items at H1 2019 (H1 2018: loss of £1.0m). Exceptional items of £(0.3)m were in relation to the costs of a proposed retail bond that was due to be issued at the start of August. The retail bond was one part of our asset management strategy to raise discretionary capital. Due to adverse market conditions at the time of the issue we decided not to go ahead with the bond. Although we have incurred costs associated with this, we now have FCA approval and a published prospectus that would allow us to re-enter the market very quickly when conditions are more favourable.

New Committed Loans and Pipeline

The nature of our business, the size of the loans we manage, and our unrelenting focus on credit quality inevitably means that there will be some variability in the amount of new committed loans we complete during the year. The real estate development finance industry is also seasonal with a greater weighting to deals being completed in the last quarter of the year (in the last two months of 2018, we executed £291.1m of loans).

As a result of these factors the Group completed £54.3m of new committed loans at H1 2019 (H1 2018: £0.3m) and further loans of £43.2m as at 9 September 2019. This £54.3m of new committed loans will translate into £4.4m of projected aggregate income (of which the share for the Group is £1.0m) which will eventually be recognised in earnings over the life of the loans. In total, funding of £564.9 million has been committed (£648.0 million including legacy loans) over 17 loans since our IPO in May 2018, as at the end of H1 2019.

The Group set a target of £700-£900m of loans this year and despite the slow start I expect the business to be within this range by the end of the year. The business has a very strong pipeline of £1,013.1m of loans, of which £666.3m are currently in the advanced stages of legal due diligence where heads of terms have been signed and the Group has exclusivity (the remaining pipeline balance represents deals where heads of terms have been issued) . The process of legal due diligence is important as at this point the borrower is committing legal expenses to ensure the loan is eligible for completion. Historically we have converted a high proportion of these loans.

Loan Credit Quality

The credit quality of the loans we underwrite is fundamental to our business model and our reputation as a leading real estate development finance provider. We employ robust credit guidelines, rigorous deal appraisal and stringent policies and procedures to mitigate market risk in our lending and operations. Our overall approach to risk management ensures that we are well diversified across projects and geographical locations so that we mitigate concentration risk.

This approach is reflected in one of our main KPIs, the weighted average loan to gross development value (WA LTGDV), which was 66% at H1 2019 (FY 2018: 67%). This is conservative and below our stated guidelines of a maximum WALTGDV of 75%. However, this KPI does not fully reflect the underlying level of security against the Group's loans, due to the stringent pre-sale requirements the Group negotiates as part of any loan agreement. These requirements state that typically a borrower must have at least 20% of the development units pre-sold (with a 10% exchange deposit) before the borrower can draw down the loan. As the development progresses, we will set sales targets so that pre-sales, which are backed by deposits, add extra security to the loan.

Of the £564.9m of committed loans underwritten to date our borrowers have managed to achieve pre-sales of £181.0m. These pre-sales effectively de-risk a significant portion of our loan book, which, in practice, effectively reduces the WA LTGDV. Taking these pre-sales into account therefore provides an effective WA LTGDV of 45%, which is a more accurate reflection of the quality of the loan book.

It is within this context the Group's WA IRR of 11% (FY 2018: 10%) and WA Money Multiple of 1.14x (FY 2018: 1.15x) should be viewed together, demonstrating the extremely attractive risk adjusted returns we can provide to our shareholders and investors. This is due to the stringent quality of our credit processes and our selective approach to new committed loans.

Capital

We are currently in advanced discussions with capital providers as well as extending existing facilities and joint venture partnerships. As at 9 September 2019 we have c. £500m of capital in legal due diligence which we expect to complete by the end of the year.

The key for the Group, as always, is not just the quantum of capital raised, but the quality. Due to structural and technical factors, not all capital is suited to development finance; hence why we place so much emphasis on the form of the capital we raise as well as the terms.

UK Housing Market

Our view remains that despite the uncertainties associated with the UK's exit from the European Union the medium-term outlook for the UK property industry remains positive. There continues to be a fundamental supply and demand gap within the residential property market, and real earnings growth coupled with mortgage affordability and availability both underpin future demand.

Outlook

In line with our strategy, we continue to focus on the 'ramp up' of our AUM and loan book and have invested significantly in our team to support this phase.

While current market sentiment remains subdued, the underlying demand for development finance has continued unabated and we have a strong progressed loan pipeline of over £1 billion. As the business enters into the traditionally busier second half of its calendar year, we therefore remain confident of meeting market expectations.

Financial Review

The nature of development finance means that there will be a delay in the recognition of earnings as it takes time for development loans to be drawn down to meet the needs of the borrower. As a result, it will take two to three years before the Income Statement hits 'run rate'. Despite this the business reported a small profit before exceptional items at the half year.

The headline financial results for the six-month period ended 30 June 2019 and the comparatives for the period from incorporation on 10 April 2018 to 30 June 2018 are presented below:

Income

£'m	Six-month period to 30 June 2019	Period from incorporation to 30 June 2018
Income	5.3	0.0
Operating costs	(5.3)	(1.0)
Operating profit / (loss) before exceptional items	**0.0**	**(1.0)**
Exceptional items	(0.3)	(0.6)
Finance costs	(0.0)	0.0
Loss before taxation	**(0.3)**	**(1.6)**
Taxation	0.1	0.2
Loss after taxation	**(0.2)**	**(1.4)**
Basic EPS	(0.16p)	(1.33p)
Diluted EPS	(0.16p)	(1.33p)
Dividend per share	1.67p	0.00p

Capital

£'m	30 June 2019	30 June 2018
Committed loan capital	564.9	0.3
Funds raised	371.0	0.0
Cash and cash equivalents	46.4	142.9
Tangible net assets	135.2	144.2
Tangible NAV per share - pence	85p	87p
Number of shares in issue (millions)	165.0	165.0
Number of shares in issue (excluding treasury shares) (millions)	158.5	165.0

Revenue

Revenue was £5.3m at H1 2019 with £5.0m relating to fair value income from loan receivables on balance sheet. The remaining income of £0.3m is split between revenue earned from asset management £0.2m and revenue earned on legacy contract assets of £0.1m. As loans draw down, particularly within the KKR partnership, the revenue from asset management should become a greater proportion of income in future years.

At our 2018 preliminary results we set out the recognition profile of PAI for 2018 of £26.9m. We initially expected that PAI would be recognised in the income statement on the following basis: 2018: 12%, 2019: 25%, 2020: 25%, 2021: 25%, 2022: 13%. The recognition profile for the 2018 PAI is now expected to be as follows: 2018: 12%, 2019: 35%, 2020: 25%, 2021: 20%, 2022: 8%. There has been an acceleration in the recognition profile of 2018 PAI as loans have drawn down quicker than expected. The expected recognition profile for 2019 remains in line with our initial guidance, which is: 2019: 5%, 2020: 20%, 2021: 30%, 2022: 20%, 2023: 25%.

Operating expenses

In line with the Group's strategy the business has invested significantly in its operations so that it has the capabilities to meet the growing demand for real estate development finance over the medium term. At H1 2019 total operating costs excluding exceptional items were £5.3m (H1 2018: £1.0m) of which £3.6m represented staff costs and share based payments. As a percentage of the total committed loan book (including contract assets) this is 0.82%, which is below our stated target of 1% (FY 2019: 0.81%). At 2018 full year results the Group provided guidance of £12.5m of operating costs, which remains the expectation.

Exceptional items

Exceptional items of £(0.3)m relate to costs incurred in relation to the postponed retail bond.

Earnings per share

The adjusted basic profit per share for the period is 0.003p. The basic loss per share (after exceptional items) is (0.16)p and the diluted loss per share is (0.16)p, based on a weighted average number of shares of 158,494,130.

Dividends

In accordance with our dividend policy:

- the Board approved an interim dividend for the Period ended 30 June 2019 of 1.67p per ordinary share payable to all shareholders on the Register of Members on 27 September 2019 and will be paid on 18 October 2019.
- the stated policy is to pay 5.0p per Ordinary Share as a dividend for 2019

Balance sheet

£'m	30 June 2019	30 June 2018
Non-current asset	21.2	12.8
Fair value of loans	83.6	0.3
Contract assets	3.0	2.5
Cash and cash equivalents	46.4	142.9
Other assets and liabilities	(6.5)	(1.5)
Net assets	**147.7**	**157.0**

Cash flow

£'m	Six-month period to 30 June 2019	Period from incorporation to 30 June 2018
Operating cash flows before movement in working capital	(4.8)	(1.5)
Change in working capital	8.6	1.1
Net cash inflow/ (outflow) from operating activities	**3.8**	**(0.4)**
Capital Expenditure	(0.1)	0.0
Net cash outflow from investing activities	**(0.1)**	**0.0**
Proceeds from issue of share capital	0.0	150.0
Share issue expenses	0.0	(6.7)
Lease liabilities	(0.1)	0.0
Dividends paid	(4.0)	0.0
Net cash (outflow) / inflow from financing activities	**(4.1)**	**143.3**
Net (decrease) / increase in cash and cash equivalents	**(0.4)**	**142.9**

Investments

During the Period our investment in the partnership with Kohlberg Kravis Roberts increased to £4.4m from £1.9m at FY 2018. This represents Urban Exposure's 9.1% share of £48.4m total invested by the partners to fund loan drawdowns.

Loans receivable

The fair value of loans as at H1 2019 was £83.6m. 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 flows before movement in working capital of £(4.8)m reflects the loss for the period after adjustment for non-cash items. The change in working capital reflects the reduction in the loan receivable balance offset by the investment in the KKR partnership. Other notable cash movements include the payment of the interim and final dividend for 2018 of 2.5p equating to £4.0m.

INDEPENDENT REVIEW REPORT TO URBAN EXPOSURE PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the unaudited consolidated statement of comprehensive income, the unaudited consolidated statement of financial position, the unaudited consolidated statement of changes in equity, the unaudited consolidated cash flow statement and the related notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Company's annual accounts having regard to the accounting standards applicable to such annual accounts.

As disclosed in note 1, the annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The condensed financial statements included in this interim report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standards 34, as adopted by the European Union, and the rules of the London Stock Exchange for companies trading securities on AIM.

Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

BDO LLP
Chartered Accountants
London, UK

Date

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS TO 30 JUNE 2019

	Note	Six-month period to 30 June 2019 Unaudited £'000	Period from incorporation to 30 June 2018 Unaudited £'000	Period from incorporation to 31 December 2018 Audited £'000
Income	3	**5,305**	**5**	**3,903**
Administrative Expenses - before exceptional items		(5,248)	(990)	(5,011)
Administrative Expenses - Exceptional items	6	(312)	(613)	(869)
Administrative Expenses - Total	5	**(5,560)**	**(1,603)**	**(5,880)**
Operating loss	4	**(255)**	**(1,598)**	**(1,977)**
Finance costs		(51)	-	(12)
Loss before taxation for period		**(306)**	**(1,598)**	**(1,989)**
Taxation		58	193	273
Loss after taxation for the period and total comprehensive income		**(248)**	**(1,405)**	**(1,716)**
EARNINGS PER SHARE				
Basic EPS	7	(0.16p)	(1.33p)	(1.18p)
Diluted EPS	7	(0.16p)	(1.33p)	(1.18p)

The comparatives are for the period from incorporation 10 April 2018 to 30 June 2018 and for the period from incorporation on 10 April 2018 to 31 December 2018.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	30 June 2019 Unaudited £'000	30 June 2018 Unaudited £'000	31 December 2018 Audited £'000
Non-current assets				
Intangible assets	9	12,582	12,769	12,674
Tangible assets		4,166	-	4,276
Investments	10	4,416	-	1,949
Total non-current assets		**21,164**	**12,769**	**18,899**
Current Assets				
Loans receivable	11	83,617	293	89,544
Trade and other receivables		3,996	2,655	3,693
Cash and cash equivalents	12	46,365	142,872	46,806
Total current assets		**133,978**	**145,820**	**140,043**
Total assets		**155,142**	**158,589**	**158,942**
Current liabilities				
Trade and other payables		3,657	1,446	3,217
Lease liabilities		216	-	229
Dividends payable	8	-	-	1,316
Total current liabilities		**3,873**	**1,446**	**4,762**
Total Assets less Current liabilities		**151,269**	**157,143**	**154,180**
Non-current liabilities				
Lease liabilities		3,502	-	3,576
Deferred tax		25	164	83
Total non-current liabilities		**3,527**	**164**	**3,659**
Net assets		**147,742**	**156,979**	**150,521**
Equity and reserves				
Share capital	13	1,700	1,700	1,700
Share premium	14	-	156,578	-
Retained earnings		146,042	(1,299)	148,821
Total equity and reserves		**147,742**	**156,979**	**150,521**

The comparatives are for the period from incorporation 10 April 2018 to 30 June 2018 and for the period from incorporation on 10 April 2018 to 31 December 2018.

These Financial Statements were approved and authorised for issue by the Board of Directors on 9 September 2019 and were signed on its behalf by:

Randeesh Sandhu
Chief Executive Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD TO 30 JUNE 2019

Six-month period to 30 June 2019	Note	Share capital Unaudited £'000	Share premium Unaudited £'000	Retained earnings Unaudited £'000	Total equity Unaudited £'000
Balance brought forward 1 January 2019		1,700	-	148,821	150,521
Loss for the period		-	-	(248)	(248)
Share-based payments		-	-	116	116
Final dividends paid	8	-	-	(2,647)	(2,647)
Balance at 30 June 2019		**1,700**	**-**	**146,042**	**147,742**

Period from incorporation to 30 June 2018	Note	Share capital Unaudited £'000	Share premium Unaudited £'000	Retained earnings Unaudited £'000	Total equity Unaudited £'000
Balance brought forward 10 April 2018		-	-	-	-
Loss for the period		-	-	(1,405)	(1,405)
Share-based payments		-	-	106	106
Issue of share capital	13	1,700	163,300	-	165,000
IPO costs related to equity issue	14	-	(6,722)	-	(6,722)
Balance at 30 June 2018		**1,700**	**156,578**	**(1,299)**	**156,979**

Period from incorporation to 31 December 2018	Note	Share capital Audited £'000	Share premium Audited £'000	Retained earnings Audited £'000	Total equity Audited £'000
Loss for the period		-	-	(1,716)	(1,716)
Share-based payments		-	-	480	480
Dividends payable	8	-	-	(1,316)	(1,316)
Issue of share capital	13	1,700	163,300	-	165,000
IPO costs related to equity issue	14	-	(6,722)	-	(6,722)
Capital reduction	14	-	(156,578)	156,578	-
Share buy back		-	-	(5,205)	(5,205)
Balance at 31 December 2018		**1,700**	**-**	**148,821**	**150,521**

CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX-MONTH PERIOD TO 30 JUNE 2019

	Note	Six-month period to 30 June 2019 Unaudited £'000	Period from incorporation to 30 June 18 Unaudited £'000	Period from incorporation to 31 Dec 18 Audited £'000
Cash flows from operating activities				
Loss for the period after taxation		(248)	(1,405)	(1,716)
Adjustments for non-cash items:				
Amortisation of intangible assets	4	93	27	122
Depreciation of tangible assets	4	220	-	-
Share-based payments		116	106	480
Finance costs		51	-	12
Fair value movements	3	(4,935)	(5)	(3,219)
Deferred tax credit for Period		(58)	(193)	(273)
		(4,761)	(1,470)	(4,594)
Changes in working capital				
Increase in payables		440	463	2,160
Increase trade investments	10	(2,519)	-	(1,949)
Increase in receivables		10,610	601	(86,474)
Net cash inflow / (outflow) from operating activities		**3,770**	**(406)**	**(90,857)**
Cash flows from investing activities				
Payments for purchase of tangible assets		(110)	-	(410)
Net cash outflow from investing activities		**(110)**	**-**	**(410)**
Cash flows from financing activities				
Proceeds from the issue of share capital	13	-	150,000	150,000
Share issue expenses	14	-	(6,722)	(6,722)
Share buyback		-	-	(5,205)
Payments of lease liabilities		(138)	-	-
Dividends paid	8	(3,963)	-	-
Net cash (outflow) / inflow from financing activities		**(4,101)**	**143,278**	**138,073**
Net (decrease)/increase in cash and cash equivalents		**(441)**	**142,872**	**46,806**
Cash and cash equivalents brought forward		46,806	-	-
Cash and cash equivalents at 30 June 2019	**12**	**46,365**	**142,872**	**46,806**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD TO 30 JUNE 2019

1. GENERAL INFORMATION AND BASIS OF PREPARATION

General information

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 1 January 2019 to 30 June 2019. The comparatives are for the period from incorporation at 10 April 2018 to 30 June 2018 and for the period from incorporation 10 April 2018 to 31 December 2018.

Basis of preparation

The interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's financial statements for the period ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards adopted by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Committee ("IFRIC") of the IASB (together "IFRS") as adopted by the European Union.

The information relating to the six months ended 30 June 2019 and the comparative information for the period from incorporation at 10 April 2018 to 30 June 2018 is unaudited and does not constitute statutory financial statements within the meaning of section 434 of the Companies Act 2006. The Group's statutory financial statements to 31 December 2018 are audited and have been delivered to the Register of Companies. The report of the auditor was unqualified and did not draw attention to any matters by way of emphasis or contain a statement under section 498(2) or (3) of the Companies Act 2006.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's financial statements for the period to 31 December 2018.

2. 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.

2. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

(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

£'000	At 30 June 2019		
	Fair value through profit or loss	Amortised cost	Total
	Unaudited	Unaudited	Unaudited
Financial assets			
Investments	4,416	-	4,416
Loan receivables	83,617	-	83,617
Trade and other receivables	-	3,996	3,996
Cash and cash equivalents	-	46,365	46,365
Total financial assets	**88,033**	**50,361**	**138,394**
Financial liabilities			
Trade and other payables	-	3,657	3,657
Total financial liabilities	**-**	**3,657**	**3,657**

£'000	At 30 June 2018		
	Fair value through profit or loss	Amortised cost	Total
	Unaudited	Unaudited	Unaudited
Financial assets			
Investments	-		-
Loan receivables	293	-	293
Trade and other receivables	-	2,769	2,769
Cash and cash equivalents	-	142,872	142,872
Total financial assets	**293**	**145,641**	**145,934**
Financial liabilities			
Trade and other payables	-	1,446	1,446
Total financial liabilities	**-**	**1,446**	**1,446**

£'000	At 31 December 2018		
	Fair value through profit or loss Audited	Amortised cost Audited	Total Audited
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**	**50,668**	**142,161**
Financial liabilities			
Trade and other payables	-	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. There was no impairment recognised in respect of contract assets as there has been no change in the expected cash flows. 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:

	At 30 June 2019	At 30 June 2018	At 31 December 2018
	Fair value	Fair value	Fair value
£'000	Level 3	Level 3	Level 3
Financial assets			
Investments	4,416	-	1,949
Loan receivables	83,617	293	89,544
Total financial assets	**88,033**	**293**	**91,493**

2. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

(v) Financial instruments measured at fair value

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	Valuation techniques used	Significant unobservable inputs (Level 3 only)	Inter-relationship between key unobservable inputs and fair value (Level 3 only)	At 30 June 2019	At 30 June 2018	At 31 December 2018
				£'000	£'000	£'000
Loan receivables	Initial transaction costs plus pro rata share of fees plus accrued interest adjusted for changes in credit risks or market movements.	Profile and timing of loan drawdowns. Assumption that loans can be syndicated to third parties at the fair value.	The earlier the timing of the drawdowns and the higher the values of the drawdown the higher the fair value of the loan receivables	83,617	293	89,544
Equity investments	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 return on investment.	The earlier the timing of the drawdowns and the higher the values of the drawdowns, the higher the fair value of the investment.	4,416	-	1,949
			Total financial assets	**88,033**	**293**	**91,493**

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 interest rates are 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	83,617	83,817	83,416
Investments	4,416	4,474	4,358
Balance at 30 June 2019	**88,033**	**88,291**	**87,774**

2. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

(vi) Financial instruments measured at fair value

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

	Movement to 30 June 2019	
Reconciliation of fair value balances - Level 3	**Loan receivables Unaudited £'000**	**Investments Unaudited £'000**
Balance at 1 January 2019	89,544	1,949
New loans/Investments advanced during period	7,358	2,519
Loan Repayments	(18,272)	-
Loan Sold to Asset Management structures	-	-
Fair value through profit or loss	4,987	(52)
Transfers out of level 3	-	-
Balance at 30 June 2019	**83,617**	**4,416**

	Movement to 30 June 2018	
Reconciliation of fair value balances - Level 3	**Loan receivables Unaudited £'000**	**Investments Unaudited £'000**
Balance at 10 April 2018	-	-
New loans advanced during period	288	-
Loan Repayments	-	-
Loan Sold to Asset Management structures	-	-
Fair value through profit or loss	5	-
Transfers out of level 3	-	-
Balance at 30 June 2018	**293**	**-**

	Movement to 31 December 2018	
Reconciliation of fair value balances - Level 3	**Loan receivables Audited £'000**	**Investments Audited £'000**
Balance at 10 April 2018	-	-
New loans advanced during period	104,823	1,949
Loan Repayments	(7,010)	-
Loan Sold to Asset Management structures	(11,488)	-
Fair value through profit or loss	3,219	-
Transfers out of level 3	-	-
Balance at 31 December 2018	**89,544**	**1,949**

3. INCOME

The Group income for the Period was derived as follows:

	For the six months to 30 June 2019 Unaudited £'000	From incorporation to 30 June 2018 Unaudited £'000	From incorporation to 31 December 2018 Audited £'000
Fair value income from loan receivables	4,987	5	3,219
Fair value decrease on investments	(52)	-	-
Income from contract assets	115	-	679
Management Fees	220	-	5
Other income	35	-	-
Total Fees Income	**5,305**	**5**	**3,903**

4. LOSS FOR THE PERIOD

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

	For the six months to 30 June 2019 Unaudited £'000	From incorporation to 30 June 2018 Unaudited £'000	From incorporation to 31 December 2018 Audited £'000
Amortisation of intangible assets	93	27	122
Depreciation of right-of-use leasehold	220	-	-
Exceptional items (note 6)	312	613	869

5. OPERATING COSTS

The Group's operating costs are stated after charging:

	Before Exceptional items Unaudited £'000	Exceptional items Unaudited £'000	Total Unaudited £'000
Staff costs	3,514	-	3,514
Share based payments	116	-	116
Rent, rates and office costs	163	-	163
Marketing	249	-	249
Audit & Accountancy	72	-	72
Legal & Professional Fees	293	312	605
IPO costs	-	-	-
Other overheads	841	-	841
	5,248	**312**	**5,560**

	Period from incorporation to 30 June 2018		
	Before Exceptional items Unaudited £'000	Exceptional items Unaudited £'000	Total Unaudited £'000
Staff costs	678	-	678
Share based payments	106	-	106
Rent, rates and office costs	20	-	20
Marketing	14	-	14
Audit & Accountancy	46	-	46
Legal & Professional Fees	60	-	60
IPO costs	-	613	613
Other overheads	66	-	66
	990	**613**	**1,603**

	Period from incorporation to 31 December 2018		
	Before Exceptional items Audited £'000	Exceptional items Audited £'000	Total Audited £'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**

6. EXCEPTIONAL ITEMS

The following costs were identified as exceptional items during the Period:

	For the six months to 30 June 2019 Unaudited £'000	From incorporation to 30 June 2018 Unaudited £'000	From incorporation to 31 December 2018 Audited £'000
Bond issue costs	312	-	-
IPO costs	-	613	613
Exceptional legal and professional costs related to investments and syndication of loans	-	-	256
Exceptional items before taxation	**312**	**613**	**869**
Taxation impact of exceptional items	(59)	-	-
Exceptional items after taxation	**253**	**613**	**869**

In June 2019, costs of £312,000 relating to a cancelled proposed bond issue were expensed as a one-off non-recurring cost.

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

For the period ended 31 December 2018, legal and professional costs of £256,000 were 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.

7. 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 2,783,333 (June 2018 - 3,150,000 and December 2018 – 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 six months to 30 June 2019 Unaudited £'000	For the period to 30 June 2018 Unaudited £'000	From incorporation to 31 December 2018 Audited £'000
Loss for the Period	**(248)**	**(1,405)**	**(1,716)**
Profit/(loss) for the Period excluding adjusting items	**5**	**(792)**	**(847)**

	Number of shares	Number of shares	Number of shares
Weighted average number of shares for basic EPS	158,494,130	105,940,124	145,793,865
Dilutive effect of share options	-	-	-
Weighted average number of shares for diluted EPS	**158,494,130**	**105,940,124**	**145,793,865**

	For the six months to 30 June 2019 Unaudited Pence	From incorporation to 30 June 2018 Unaudited Pence	From incorporation to 31 December 2018 Audited Pence
Basic loss per share	(0.16)p	(1.33)p	(1.18)p
Diluted loss per share	(0.16)p	(1.33)p	(1.18)p
Adjusted basic profit/(loss) per share	0.003p	(0.75)p	(0.58)p
Adjusted diluted profit/(loss) per share	0.003p	(0.75)p	(0.58)p

8. DIVIDENDS

	For the six months to 30 June 2019 Unaudited £'000	From incorporation to 30 June 2018 Unaudited £'000	Period from incorporation to 31 December 2018 Audited £'000
Interim dividend for the Period ended 31 December 2018	-	-	1,316
Final dividend for the Period ended 31 December 2018	2,647	-	-

The Board approved an interim dividend of 0.83p per share on 28 December 2018 which was paid 21 January 2019. This was recognised as a liability at 31 December 2018.

A final dividend of 1.67p per share was proposed as payable to all shareholders on the Register of Members on 12 April 2019, approved at the Annual General Meeting of 2 May 2019 and paid 7 May 2019.

An interim dividend of £1.67 per share (£2,647,000) was proposed and approved by the Board on 9 September 2019. The interim dividend is payable to all shareholders on the Register of Members on 27 September 2019 and will be paid on 18 October 2019.

9. INTANGIBLE ASSETS

	Six-month period to 30 June 2019		
	Goodwill	Brand	Total
	£'000	£'000	£'000
Cost			
At 1 January 2019	10,922	1,874	12,796
Acquired during the period	-	-	-
Cost at 30 June 2019	**10,922**	**1,874**	**12,796**
Amortisation			
At 1 January 2019	-	122	122
Charge for the period	-	92	92
Amortisation at 30 June 2019	**-**	**214**	**214**
Net Book value at 30 June 2019	**10,922**	**1,660**	**12,582**

	Period from incorporation to 30 June 2018		
	Goodwill	Brand	Total
	£'000	£'000	£'000
Cost			
At 10 April 2018	-	-	-
Acquired during the period	10,922	1,874	12,796
Cost at 30 June 2018	**10,922**	**1,874**	**12,796**
Amortisation			
At 10 April 2018	-	-	-
Charge for the period	-	27	27
Amortisation at 30 June 2018	**-**	**27**	**27**
Net Book value at 30 June 2018	**10,922**	**1,847**	**12,769**

	Period from incorporation to 31 December 2018		
	Goodwill	Brand	Total
	£'000	£'000	£'000
Cost			
At 10 April 2018	-	-	-
Acquired during the period	10,922	1,874	12,796
Cost at 31 December 2018	**10,922**	**1,874**	**12,796**
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	**10,922**	**1,752**	**12,674**

The Group acquired the goodwill and the brand on acquisition of the business of Urban Exposure Investment Management LLP on the 9 May 2018 as detailed in the note 27 of the Annual Report for period ended 31 December 2018.

During the measurement period following the acquisition, following a review of the tax basis for the contract assets acquired, information was obtained which has resulted in an adjustment of £255,000 to the provisional amounts recognised, with a corresponding increase in goodwill. Accordingly, the comparative information for the period ended 30 June 2018 and 31 December 2018 has been revised as shown in this note.

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

10. INVESTMENTS

	£'000
Valuation	
At 10 April 2018	-
Acquired during the Period	-
Valuation at 30 June 2018 (Unaudited)	**-**

	£'000
Valuation	
At 1 July 2018	-
Investment in the Period	1,949
Valuation at 31 December 2018 (Audited)	**1,949**

	£'000
Valuation	
At 1 January 2019	1,949
Investment in the Period	2,519
Fair value adjustment during the Period	(52)
Valuation at 30 June 2019 (Unaudited)	**4,416**

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 mix 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. The Group invested £4.5m to date (June 2018 £Nil as before agreement, December 2018 £1.9m).

The investments are classified as a trade investment and accordingly, they are financial assets measured at FVTPL. See note 2 for further disclosures.

11. LOAN RECEIVABLES

	At 30 June 2019 Unaudited £'000	At 30 June 2018 Unaudited £'000	At 31 December 2018 Audited £'000
Loan receivables	**83,617**	**293**	**89,544**

See note 2 for further disclosures relating to financial assets.

12. CASH AND CASH EQUIVALENTS

	At 30 June 2019 Unaudited £'000	At 30 June 2018 Unaudited £'000	At 31 December 2018 Audited £'000
Cash and cash equivalents - unrestricted	**46,365**	**142,872**	**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.

13. SHARE CAPITAL

Share capital for the Period has been issued as follows:

	Number Unaudited	Value per share £	Ordinary Shares Unaudited £'000	Deferred Shares Unaudited £'000	Total Unaudited £'000
Issued at 10 April 18 on incorporation	1	1.00	-	-	-
Issued at 16 April 2018	49,999	1.00	50	-	50
Shares as at 30th 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 at 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 9 May 2018	150,000,000	0.01	1,500	-	1,500
Balance at 30 June 2018	**169,950,000**		**1,650**	**50**	**1,700**
Movement to 31 December 2018	-		-	-	-
Balance at 31 December 2018	**169,950,000**		**1,650**	**50**	**1,700**
Movement to 30 June 2019	-		-	-	-
Balance at 30 June 2019	**169,950,000**		**1,650**	**50**	**1,700**

13. SHARE CAPITAL (continued)

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

	Ordinary Shares Unaudited Number	Deferred Shares Unaudited Number	Treasury Shares Unaudited Number	Total Unaudited Number
Issued 10 April 18 on incorporation	1	-	-	1
Issued at 16 April 2018	49,999	-	-	49,999
Shares as at 30 April 2018	50,000	-	-	50,000
Subdivision 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 9 May 2018	14,950,000	-	-	14,950,000
Issued at IPO 9 May 2018	150,000,000	-	-	150,000,000
Balance at 30 June 2018	**165,000,000**	**4,950,000**	**-**	**169,950,000**
Shares re-purchased as Treasury shares 14 November 2018	(6,505,870)	-	6,505,870	-
Balance at 31 December 2018	**158,494,130**	**4,950,000**	**6,505,870**	**169,950,000**
Movement to 30 June 2019	-	-	-	-
Balance at 30 June 2019	**158,494,130**	**4,950,000**	**6,505,870**	**169,950,000**

There was no movement in the number of shares issued in the six-month period ended 30 June 2019.
The details of the movement in the number of shares in issue to the 31 December 2018 are shown in the last audited financial statements.

14. SHARE PREMIUM

	Share premium Unaudited £'000
Balance at 10 April 2018	-
Share premium arising on Ordinary Shares issued	163,300
Share issue costs	(6,722)
Balance at 30 June 2018	**156,578**
Transfer to retained earnings	(156,578)
Balance at 31 December 2018	**-**
Movement to 30 June 2019	-
Balance at 30 June 2019	**-**

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 judgement 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.

15. RELATED PARTY TRANSACTIONS

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

	For the six months to 30 June 2019			
	Purchases - Charges for payroll costs Unaudited £'000	Purchases - Charges for other costs Unaudited £'000	Total Purchases Unaudited £'000	Amounts due to related parties at 30 June 2019 Unaudited £'000
UE Finco Limited	-	26	26	32
Urban Exposure Limited	-	226	226	14
Urban Exposure Investment Management LLP	-	-	-	63
Urban Exposure Philanthropy Limited	-	-	-	(5)
	-	**252**	**252**	**104**

	From incorporation to 30 June 2018			
	Purchases - Charges for payroll costs	**Purchases - Charges for other costs**	**Total Purchases**	**Amounts due to related parties at 30 June 2018**
	Unaudited £'000	**Unaudited £'000**	**Unaudited £'000**	**Unaudited £'000**
UE Finco Limited	-	-	-	-
Urban Exposure Limited	93	-	93	-
Urban Exposure Investment Management LLP	63	-	63	63
	156	**-**	**156**	**63**

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

Payroll costs and other operating costs were paid on behalf of Urban Exposure Group and re-charged at cost by the above related companies.

There were loan balances outstanding from the Directors at the Period end of £nil (June 2018 £40,000, December 2018 £6,000).

Dividends of £73,000 and £147,000 were paid to the Directors and key managers of Urban Exposure Plc in respect of the interim dividend and final dividend for the period ended 31 December 2018 in January 2019 and May 2019 respectively.

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

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

On the 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 the 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.

16. FINANCIAL COMMITMENTS

The Group has £220.8m (June 2018 £nil, December 2018 £324.3m) 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 enter into co-lending arrangements with institutional investors.

The Group has entered into a partnership agreement with KKR with a commitment of up to £15.0 million and has made payments of £4.5m (June 2018 prior to agreement, December 2018 £1.9m) under this agreement during the Period. This leaves an outstanding financial commitment relating to the agreement of £10.5m (June 2018 prior to agreement, December 2018 £13.1m).

17. POST BALANCE SHEET EVENTS

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

Urban Exposure Plc
6 Duke Street St James's
London
SW1Y 6BN

www.urbanexosureplc.com