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

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